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Report No. P-6287-ME

MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
IN THE AMOUNT EQUIVALENT TO US\$368 MILLION
TO
BANCO NACIONAL DE OBRAS Y SERVICIOS PUBLICOS
WITH THE GUARANTEE OF THE UNITED MEXICAN STATES
FOR THE
NORTHERN BORDER ENVIRONMENT PROJECT

MAY 11, 1994

MICROGRAPHICS

Report No: P- 6287 MX
Type: MOP

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CURRENCY EQUIVALENT

Currency Unit	=	Peso (Mex\$)
US\$1.00	=	3.3 Pesos (May 1994)

FISCAL YEAR
January 1 to December 31

UNITS OF WEIGHTS AND MEASURES

<u>Metric</u>		<u>US Equivalent</u>
1 kilometer (km)	=	0.62 mile (mi)
1 meter (m)	=	3.28 feet (ft)
1 gram (g)	=	0.0022 pound (lb)
1 kilogram (kg)	=	2.20 pounds (lb)
1 ton	=	2,205 pounds
1 cubic meter (M ³)	=	6.29 barrel (bbl)
1 cubic meter (M ³)	=	35.32 cubic feet (ft ³ or cu.ft)
1 cubic meter (M ³)	=	264 U.S. gallons (gal.)

ABBREVIATIONS AND ACRONYMS

BANOBRAS	Banco Nacional de Obras y Servicios Públicos SNC (National Bank of Publics Works and Services)
CETES	Certificado de la Tesorería de la Federación (Treasury Bill, Mexico)
CNA	Comisión Nacional del Agua (National Water Commission)
CONAPO	Consejo Nacional de Población (National Population Committee)
ECU	Executive Coordination Unit
GIRA	General Interest Rate Agreement
INE	Instituto Nacional de Ecología (National Ecological Institute)
NAFTA	The North American Free Trade Agreement
PFPA	Procuraduría Federal de Protección al Ambiente (Attorney General for Environmental Protection)
PI	Poverty Index
PM-10	Particulate matter less than ten micrometers in size.
PRONASOL	Programa Nacional de Solidaridad (National Solidarity Program)
SEDESOL	Secretaría de Desarrollo Social (Ministry of Social Development)
SHCP	Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit)

MEXICO

NORTHERN BORDER ENVIRONMENT PROJECT

LOAN AND PROJECT SUMMARY

Borrower:	Banco Nacional de Obras y Servicios Públicos (BANOBRAS)
Guarantor:	United Mexican States
Executing Agencies:	BANOBRAS, Secretaría de Desarrollo Social (SEDESOL), Instituto Nacional de Ecología (INE), Procuraduría Federal de Protección al Ambiente (PFPA); and Comisión Nacional del Agua (CNA).
Beneficiaries:	PFPA, the Government States of Baja California, Chihuahua, Coahuila, Nuevo Leon, Sonora and Tamaulipas, participating border municipalities, and private small and medium industries (SMIs).
Amount:	US\$368 million equivalent.
Terms:	Repayment in 15 years, including five years of grace, with interest at the Bank's standard variable rate.

Financing Plan

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	-----US\$ Million-----		
IBRD	134.2	233.8	368.0
Government of Mexico	394.0	--	394.0
Total	<u>528.2</u>	<u>233.8</u>	<u>762.0</u>
(% total)	(69.3)	(30.7)	(100.0)

Economic Rate of Return	:	12% minimum for investment subprojects in the water, sanitation and urban transport sectors.
Staff Appraisal Report	:	Report No. 12603-ME
Map	:	IBRD No. 25240R
Poverty Category	:	Not applicable. However, the project impacts on poverty in two different ways: (i) improvement in the quality and coverage of environmental services in poor areas in border cities; and (ii) improvement of living conditions in low income neighborhoods through the road paving component.

**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN TO BANCO NACIONAL DE OBRAS Y
SERVICIOS PUBLICOS
FOR THE NORTHER BORDER ENVIRONMENT PROJECT**

1. The following memorandum and recommendation on a proposed loan to Banco Nacional de Obras y Servicios Públicos (BANOBRAS) for US\$368.0 million equivalent is submitted for approval. The proposed loan, which would be guaranteed by the United Mexican States, would be repayable over 15 years, including five years of grace, at the Bank's variable interest rate and charges.

Background

2. Mexico's extensive environmental problems are a major concern both nationally and globally. The Government is acutely aware of these problems, and, in a clear break from prior decades of neglect, is strongly committed to solving them. Mexico now has a much improved legal, regulatory, and institutional framework. This is reflected in: new legislation and regulations (especially the General Ecology Law); major institutional and administrative reforms; and national action plans (*Plan Nacional de Desarrollo: 1989-94* and *Programa Nacional para la Protección del Medio Ambiente*). These initiatives articulate a development strategy that recognizes the essential linkage between economic growth and environmental protection.

3. Other initiatives are now in process or being planned to address environmental issues in the various parts of the country. The needs of southern states are the focus of new efforts connected with regional development and poverty alleviation. The requirements of other regions, and urban and rural areas with special problems, are being emphasized in other initiatives. Government authorities and the Bank are collaborating in developing and implementing many of these new strategies and actions. New projects, supported by the Bank, are targeting improvements in key environmental sectors nationwide, including water supply and sanitation, solid waste management, and air quality and urban transport. The proposed project has been designed to coordinate with these sector operations and reinforce them in the northern border region, as described below.

4. The north, and particularly the border region with the U.S., has a number of urgent environmental priorities, including mitigation of some very serious environmental degradation. These problems stem in large part from the combination of fragile climatological conditions (very dry) and rapid, largely unplanned economic and urban growth involving the boom of the *maquiladora* industries. **Water treatment and sanitation** have been grossly insufficient, resulting in massive discharges of untreated wastewater into the region's ecosystems and causing economic losses and threats to human health. **Solid waste management** is so deficient that, of the estimated 3,000 tons of garbage generated daily, only about 16% is disposed of properly. **Hazardous waste** problems are notorious, with many firms dumping dangerous substances improperly. **Air pollution** is a serious concern due to heavy vehicle traffic and dust from the many unpaved roads, especially in unplanned, fast-growing settlements. **Enforcement of environmental regulations** is improving, but still weak.

5. Since 1988, Mexico and the United States have been working together to implement the initial phase of a Border Environment Plan. The second stage, planned for 1995-97, calls for extensive further steps by both countries. Given the magnitude and complexity of this challenge, the Government has requested Bank assistance.

Rationale for Bank Involvement

6. The proposed operation is consistent with the Bank's Country Assistance Strategy which accompanies this MOP. The strategy aims at assisting Mexico to keep its economic restructuring process firmly on track, while supporting programs that contribute to poverty reduction, improved environmental management, and long-term sustainable economic growth and development, particularly through investments in human resources, infrastructure and natural resource management. The strategy also aims to push the reform process downward to the subnational (state and municipal) level and to support devolution of expenditure and revenue responsibilities to these local governments. Given the high priority the Government has assigned to addressing environmental issues, both in general and on the Border in particular, and given its commitment to the Border Environment Plan (and interest in having the Bank's help in meeting that commitment), the Government sees this project, and the Bank's involvement, as a vital part of its strategy to strengthen its environmental efforts. Also, the experience the Bank has in the sectors involved is important, and is perceived as such by the Mexicans. Other institutions, such as the IDB and Japan's EximBank, would also be supporting environmental improvements at the border, and the Bank's contribution would complement their initiatives.

Project Objectives

7. The main objective of the project would be to improve environmental quality along the Border by assisting municipal, state, and federal authorities to (i) strengthen their environmental planning, management, and enforcement capabilities; and (ii) carry out priority investments and action plans efficiently -- all with a view to helping preserve the environment, reversing past degradation, reducing health risks, protecting biodiversity, and promoting key environmental policy objectives.

8. Addressing the principal border environmental issues in one operation rather than through a piecemeal approach is expected to have a number of important advantages, reflecting the underlying synergies among the issues involved and within the border region. **First**, strengthening municipal, state, and federal capabilities simultaneously is more effective than when each is taken separately. Government agencies need to develop broader understanding and heightened awareness of environmental problems, options, costs, and tradeoffs, particularly at the municipal level, and need to interact more constructively both with one another and with interests within their jurisdictions. **Second**, actions taken on one environmental problem often directly affect another. Experience has shown that when more stringent controls or fees are introduced for one medium (water, solid, or toxic waste), polluters divert more of their effluent to other media. For example, the maquiladora industries on the border include polluters with highly toxic wastes that are easily diverted from one method of disposal to another. **Third**, the border cities share common environmental, economic, and social experiences due to factors such as a shared river system, proximity to border cities on the U.S. side, and a history of rapid industrial growth around older urban centers. Helping them work together more effectively to pool information and knowledge would accelerate progress throughout the region. **Fourth**, the

border region and the environmental issues it faces are different from those faced elsewhere in Mexico. For instance, wastewater treatment uses different standards, to be consistent with the U.S. side; air, water, and toxic discharges have cross-border impacts that have to be addressed; pollution of the Rio Bravo/Rio Grande is a major issue; and transport-related pollution associated with border-crossing traffic and an inhospitable climate (with high levels of dust in dry seasons and mud in wet seasons) creates added problems.

Project Description

9. The proposed project would have two main components. The first, **institutional strengthening** (para. 7), would consist mainly of studies and technical assistance. The second, **environmental services** (para. 8), would support about fifteen investment subprojects in five or six border cities in the areas of (i) water treatment and sanitation, (ii) solid waste management, and (iii) air quality and urban transport. Based on master plans analyzing environmental needs and priorities (within and across subsectors), cities would present investment proposals for financing under the project. They would be required to meet eligibility criteria concerning their financial soundness, implementation arrangements, technical appropriateness, and environmental goals. These criteria would be derived directly from, and thus be entirely consistent with, the extensive analytical and preparation work done in the three subsectors, each of which has a country-wide sectoral operation that would be closely linked with the proposed project. Much of the effort that the cities need to do in planning and specifying subprojects is already well advanced.

10. **Institutional Strengthening (US\$202 million in total project cost)**. This component would fund technical assistance and related activities to: (i) improve the capabilities of federal, state, and municipal authorities for effective environmental management; and (ii) accelerate progress in certain key areas (hazardous waste management, protection of biodiversity and endangered species, and planning and preparation of future steps).

Federal Level Strengthening (US\$124 million). The chief environmental enforcement agency (the Procuraduría Federal de Protección al Ambiente -- PFPA) would be extensively strengthened, through, *inter alia*, improvements in its existing environmental audit program, hazardous waste tracking system, and capacity to identify and analyze contaminated sites. Recruitment of new staff, which would almost triple the number of inspectors and environmental lawyers (from 353 to 1,230 during 1994-97 at an estimated additional cost of \$38.5 million), would be financed by the government.

State and Municipal Level Strengthening (US\$43 million). The environmental authorities of all the border states as well as ten major border municipalities would be strengthened, through improving staff capabilities, equipment for assessing and controlling environmental pollution, and strategy development. One subcomponent (*Environmental Management - US\$24.5 million*) would strengthen the newly created environmental departments in the border states and municipalities. Another (*Finance and Administration - US\$18.5 million*) would address performance-related issues in municipal finance through measures to enhance revenue, improve cost control, and strengthen financial management. In all, ten border municipalities would be assisted, using model programs already developed for three.

Hazardous Waste Management (US\$15 million). Support would be provided for: (i) development of a nationwide hazardous waste policy and implementation strategy, based on agreed principles; (ii) a treatment needs analysis, to identify the border area's requirements for off-site hazardous waste treatment, recycling, and disposal facilities through the year 2005; (iii) expansion of the environmental audit program through promotion of the program to eligible firms, technical assistance to firms in implementing audit results and preparing documentation to qualify for a commercial bank loan, and limited financial assistance, on a trial basis, for covering a portion of the costs of the audits in the case of firms too small to bear the cost entirely on their own; and (iv) a pilot program for mobile treatment of hazardous waste, under which specially equipped trucks would treat some wastes on site (in cases where off-site treatment is less economic or unavailable, or where wastes would otherwise be dumped improperly).

Protection of Biodiversity and Endangered Species (US\$15 million). Support would be provided for (i) development and implementation of management plans for the protection of three ecologically important areas in Mexico which are contiguous with national parks and protected areas on the US side (Alto Golfo and El Pinacate, Sierra del Carmen and Maderas del Carmen, and Laguna Madre de Tamaulipas); (ii) studies to identify the needs and options for protection of endangered species in the Border area; and (iii) training in protected area management.

Analysis and Coordination (US\$5 million). Support would be provided to SEDESOL, BANOBRAS and INE to strengthen their capabilities to implement the project and for development of the next phase of the border improvement effort, since the actions covered under this proposed project will meet only a fraction of the total needs.

11. **Environmental Services Improvement (US\$560 million).** This component would consist of an unsubsidized line of credit available for subprojects in five or six qualifying border cities to finance their most urgent environmental infrastructure needs.

Water Supply and Sanitation (US\$176 million). The sub-component would provide funds to support water supply, sewerage, and wastewater treatment investments in compliance with agreed eligibility criteria within the framework of master plans prepared by the water utilities (WUs) with the assistance of the *Comision Nacional del Agua* (CNA). The sub-component would also include assistance to develop and implement a system to control wastewater discharges to the sewer system and to collect pollution fees. All these activities will be consistent with sectoral policies and agreements reached under the Second Water Supply and Sanitation sector project.

International Waterways. The northern border area of Mexico shares international waterways with the United States. International waterways as defined in OD 7.50 include not only rivers or other bodies of waters that form a boundary between countries, but also rivers or bodies of surface waters that flow through two or more states and tributaries or other bodies of surface water that are a part or a component of any such waterways. The proposed project's investment component for improvements in water supply treatment and sanitation could affect Mexico's international waterways shared with the United States. While both the Mexican authorities and the Bank believe that, because of the nature of the project, these improvements would only have beneficial effects, if any, on the US, it is too

early to determine the possible impacts on the US until the actual investments have been identified and appraised. After discussion on this matter with Mexico, and at the request of Mexico, it was agreed that the Bank would inform the US of the proposed project, which was done.

In its official response to such information conveyed by the Bank, the United States encouraged the Bank to continue with the preparation of the project and stated that it would review the project at the time of its presentation to the Executive Directors. In light of this statement, no special provisions for subprojects that may affect international waterways with the United States have been included in the project documents (A copy of the response of the United States is attached as Annex I to the MOP).

Solid Waste (US\$40 million). The component would help municipalities finance consulting services and investments in accordance with the sectoral policies and agreements followed in the Second Solid Waste Management project. The component will also support the development of social safety net programs for scavengers displaced by the investments.

Air Quality, Urban Transport, and Paving (US\$344 million). Support would be provided for investment to reduce air pollution caused by inadequate urban transport infrastructure and services. The key air quality issue in the border cities is excessive dust. Many of the highest concentrations are from unpaved roads. The subcomponent would finance, *inter alia*, traffic management, road maintenance and rehabilitation, paving in poor neighborhoods, environmental assessment and pollution control measures, including vehicle inspection and maintenance in accordance with sectoral policies and agreements followed in the Medium-Size Cities Urban Transport Project (MSCUTP) (Ln. 3559-ME).

Project Cost and Financing

12. Total project cost is estimated at US\$762 million. The Bank loan of US\$368 million would finance about 48% of total project costs. Federal, state and municipal contributions would cover the balance. Financing of investments would be on the same terms and conditions as in the related parallel sectoral projects. Thus, for **water supply and sanitation investments**, localities with a population above 80,000 would receive Bank funds as loans for investments in water supply and primary wastewater treatment plants; sewerage systems would be funded through federal and state grants. For localities with less than 80,000 inhabitants, federal, state grant funds and WU's internal cash generation would be combined with Bank loan funds according to the poverty index (PI)¹ developed by CONAPO (*Comité Nacional de Población*), the National Population Committee, for all water investments (water supply and wastewater treatment as well as sewerage systems). For **solid waste**, the financing arrangements would also be based on SEDESOL's matching funds system and CONAPO's poverty index. In the border zone, municipalities with more than 80,000 inhabitants (the target group of the proposed Solid Waste Management II project and this project) have PIs that place them in the "very low

1. The Poverty Index (*indice de marginacion*) is an weighted average of nine indicators, five of which are related to the availability of public infrastructure in a municipality, and the remaining two to income. The relative measure of poverty of a given municipality is based on the degree of "marginality" ranging from high marginality (poor) to low marginality (wealthy).

marginality" category, except for one which is in the "low marginality" category. The municipalities in the low marginality category are eligible for a financing formula with: 50% credit (to be funded by the Bank loan); 25% fiscal grant; and 25% municipalities' own funds. The municipality in the medium marginality category receives the following mix: 50% credit; 35% fiscal grant; and 15% own resources. For air pollution and urban transport, Bank funds would be provided to states and municipalities as loans and would finance about 50% of the investment costs. Subloans would be channeled through BANOBRAS and made available to the states and municipalities in Mexican pesos at a variable interest rate not lower than the Government Treasury bill (CETES) or CPP (*costo promedio porcentaje*) rate plus two percentage points, with repayment up to 15 years, including grace periods of up to three years. Financing for the paving subcomponent would follow the PRONASOL (*Programa Nacional de Solidaridad* - National Solidarity Program) system under which up to 90% are grants from the federal government and the remainder contributions (cash and self help) from the beneficiaries. Funds for the strengthening of PFPA and of states and municipalities in environmental management would be passed on to the beneficiary institutions as grants, while those for the strengthening of states and municipalities in financial management would be passed as loans at the interest rate of CETES plus one percentage point. The Mexican Government would bear the foreign exchange and interest risk on the Bank loan. BANOBRAS, SEDESOL and CNA's capacity will be strengthened under the parallel Water Supply and Sanitation Sector II and Solid Waste Management II projects.

13. Up to 10% of the loan (US\$36 million) would be eligible for retroactive financing to avoid any possible delay in getting the project underway. Retroactive financing would be used for the preparation of (i) master plans or integrated transport plans for investments in water supply and sanitation, solid waste management, and air quality and urban transport; (ii) studies for the diagnostic and design of strengthening programs for states and border municipalities in environmental management and finance and administration; and (iii) decrees, management and operating plans for the protected areas to be supported by the project. Retroactive financing would also be used for the first batch of machinery, equipment, construction materials, and civil works for subprojects initiated in 1994. All retroactive financing would be in accordance with Bank guidelines and would cover all eligible expenditures incurred for any of the project's components after February 10, 1994.

Project Organization and Management

14. BANOBRAS, the borrower, would be the executing agency responsible for overall coordination of the project's activities and for review and approval of the investment sub-loans and technical assistance/training proposals. BANOBRAS would also be the implementing agency for the states and municipalities' financial management strengthening sub-component. Four technical implementing agencies would help implement the project in their respective areas of responsibility: CNA (water), SEDESOL (solid waste, urban transport and paving); PFPA (hazardous waste management and PFPA strengthening), and INE (protected areas, strengthening of states and municipalities in environmental management, studies and hazardous waste policy).

15. To monitor progress of the project as a whole and to coordinate the activities of the agencies involved in the implementation of the project, a Project Analysis and Monitoring Office (*Oficina de Análisis y Seguimiento del Proyecto, OASP*) would be set up in SEDESOL and located in the General Directorate of Infrastructure and Equipment (*Dirección General de*

Infraestructura y Equipamiento). OASP would be responsible for overall coordination with BANOBRAS and with the implementing agencies within SEDESOL.

16. OASP would liaise with project units in SEDESOL, INE, PFPA, and BANOBRAS's Directorates in charge of solid waste management and of the Executive Coordination Units (ECUs) for the Medium Size Cities Urban Transport and Water Supply and Sanitation projects, alerting them in a timely manner to implementing and coordination problems it identifies. The process would be facilitated by a Management Information System which is being developed and expected to be in place by September 1994. The system would be based on impact/performance, physical and financial progress indicators. It would be designed to be consistent with existing sectoral MIS systems and would present the information gathered in a form suitable for analysis of project impact and the production of semi-annual reports.

17. A formal review of project implementation would be held in May and November of each year (to coincide with annual reviews of the parallel sector projects). The agenda for the review would include, *inter alia*, (i) agreement on the federal budget submission and assessment of state and municipal budgets planned for the coming year; (ii) an evaluation of proposed targets for the agreed indicators for the demand driven components in which plans have been approved during that period; (iii) review of progress in the institutional strengthening programs, priority investments and action plans at the municipal, state and federal levels; and (iv) compliance with on-lending conditions. A mid-term review will take place during May 1997 semi-annual review and will provide an opportunity for a more comprehensive review of the project's achievements to date, and of the prospects for its successful completion.

Project Sustainability

18. By improving the sectoral frameworks for water resources, solid waste and urban transport management, as well as the local institutions that deliver these environmental services, the project is expected to contribute to a sustainable development process. Project sustainability is further enhanced by the strengthening of the federal and local regulatory and enforcement agencies, the adoption of adequate tariff structure and other cost recovery measures, and the technical assistance to the states and municipalities, and (through the sectoral projects) CNA, SEDESOL, and BANOBRAS. The strong commitment of the Mexican Government to the project provides a more fundamental assurance of sustainability.

Lessons Learned from Previous Bank Involvement

19. The Bank has been supporting environmental initiatives in Mexico since the early 1970s, but the sector has begun to be prominent in Bank strategy and lending in recent years. Projects addressing environmental issues include: (i) the completed *Industrial Pollution Control Project* (Ln. 2154-ME; FY82); (ii) the on-going *Municipal Strengthening Project* (Ln. 2666-ME; FY86); (iii) the pilot *Solid Waste Project* (Ln. 2659-ME; FY86); (iv) the six *Water Supply and Sanitation Projects*, with the last one approved in FY91; (v) the free-standing *Mexico Environmental Project* (Ln. 3461-ME; FY92); and (vi) the *Transport Air Quality Management Project for the Mexico City Metropolitan Area* (Ln. 3543-ME; FY93).

20. The lessons derived from this experience have been taken into account in preparing the proposed project.

- (a) **A stable economic environment is essential to making progress in environmental protection.** This was underscored by the failure of the FY82 Industrial Pollution Control Project, which was overtaken by the economic crisis of the 1980s. Good policies are now in place and the Government is committed to improving environmental conditions, particularly at the border with the U.S.
- (b) **Importance of adequate legal, regulatory, and institutional framework.** The proposed project strongly emphasizes institutional strengthening. It includes an important component to improve the environmental management capabilities of federal, state, and municipal authorities.
- (c) **Reliance on strong agencies to deliver environmental infrastructure services.** Eligibility criteria have been established to ensure that only well-managed and financially strong agencies have access to funds for infrastructure investments under the project.
- (d) **Competing sources of financing should be avoided.** This is evidenced by the difficulties encountered by the FY86 Municipal Strengthening Project which did not follow the federal matching fund system and had to compete with cheaper sources of finance. This project will follow the existing matching fund system and has the same terms and conditions as the sectoral projects under preparation.

Actions Agreed

21. At negotiations, agreement was reached on the following: (a) ***PFPA strengthening***: (i) arrangement for establishing a coordination function in *Procuraduría de Verificación Normativa* to monitor PFPA's project activities; and (ii) agreement on its terms of reference; (b) ***State and Municipal Strengthening***: (i) appointment of responsible staff in INE/DGPE to help implement the Environmental Management Sub-component and a Task Manager in BANOBRAS/DAPPAT to manage the Finance and Administration Sub-component; (ii) implementation of the component in six phases, with the Bank approving the operations manuals for the two sub-components, all the technical assistance packages under the Environmental Management sub-component; the first two strengthening programs and all the strengthening programs for cities with 250,000 inhabitants or more for the Finance and Administration sub-component; (iii) agreement that funds to states and municipalities would be passed on as grants for environmental management strengthening and as loans for finance and administration strengthening; (c) ***Hazardous Waste***: (i) agreement to help SMIs pay a portion of the cost of environmental audits and that of technical assistance needed to implement the resulting action plan; and (ii) agreement to buy the truck-mounted treatment units and to decide on operating arrangements based on the results of an implementation study to be carried out in mid-1994; (d) ***Protected Areas*** (i) timetable for the preparation of decrees and management plans for all the protected areas under the project; (ii) eligibility criteria for financing of studies on species; and (iii) terms of reference for studies on prioritization of natural areas at the border and financial sustainability of protected area management; (e) ***Environmental urban services (Water Supply and Sanitation; Solid Waste;***

and Air Quality and Urban Transport: Agreement that the terms and conditions of these components are identical to those of the sectoral projects; and (f) **Paving in Colonias Populares:** (i) eligibility of criteria for streets to be paved under the component; (ii) Bank to partly finance a 7 meter running strip, plus additional roadway up to a maximum width of 11 meters and SEDESOL to recommend to the relevant municipality that the additional paved width be delineated for parking; (iii) SEDESOL to encourage Solidarity Committees to pave, stabilize or treat the areas between the curbs and the property lines on both sides in order to minimize dust; (iv) SEDESOL to ensure that the out-turn pattern of paved streets be considered at annual reviews to determine the extent to which the clustering of paved streets is being achieved; (v) SEDESOL to encourage sweeping of streets paved under the component; and (vi) preparation of a study to monitor dust levels (PM-10). **For All Components:** (i) implementation arrangements; (ii) procurement, disbursement, and auditing requirements; (iii) reporting requirements; and (iv) timing and agendas of the annual and mid-term review of project progress and issues.

22. The following are **Conditions of Effectiveness:** (i) presentation to the Bank of satisfactory signed and legally binding contractual arrangements between BANOBRAS and the Guarantor plus presentation of pertinent legal opinions; and (ii) establishment of OASP in SEDESOL under terms of reference agreed with the Bank.

23. **Disbursement** for specific components are subject to, *inter alia*, the following conditions: (a) **Protected areas:** Prior to disbursements on expenditures covered by an emergency plan, management plan, or operating plan, the following conditions would be fulfilled: (i) existence of emergency plans, management plans, or operating plans satisfactory to the Bank; (ii) the ecological area covered by such emergency, management, or operating plan meets the eligibility criteria referred to in Annex F of the Implementation Letter; and (iii) for management and operating plans, satisfactory administrative arrangements of the protected area are in place. (b) **State and Municipal Strengthening:** (1) **Finance and Administration subcomponent:** (i) appointment of a task manager responsible for the subcomponent in BANOBRAS; and (ii) existence of an operational manual satisfactory to the Bank. (2) **Environmental Management:** (i) establishment and equipment of the unit responsible for implementing the subcomponent in INE and appointment of the responsible staff; and (ii) existence of an operational manual satisfactory to the Bank.

Environmental Aspects

24. The proposed project would result in substantial environmental improvements through both the institutional strengthening and the investments in water, solid waste, and urban transport improvements. Environmental impact assessments would be prepared for major investments in water and solid waste. The project is rated A because of the risk of leachates from landfills to be built under the solid waste subcomponent and because of the possible need to relocate scavengers living in or near open dumps which will need to be closed. In early February 1994, the Mexican Government prepared three site specific EIAs and a sectoral EIA for solid waste investments. The Government also prepared a Resettlement Manual containing policies and practices to be applied if scavenger relocation is required. Plans for three other border cities (San-Luis Rio Colorado, Juarez, and Ensanada) are near completion. An Executive Summary was sent to the Board of Directors prior to appraisal.

25. The majority of investments in the water sector will consist of expansion of existing water supply systems or institutional strengthening sub-projects. A limited number of sub-projects will require an EIA as they will involve construction of wastewater treatment plants. All sub-projects will be based on a Master Plan, including a preliminary assessment of the environmental impacts of the proposed investments. With regard to air quality and urban transport investments, an EIA for Juarez has been completed. Furthermore, consistent with the Medium-Size Cities Project (Ln. 3559-ME), Integrated Transport Plans, including EIAs, will have to be prepared before a subproject could be approved.

Program Objective Category

26. The project impacts on poverty in two different ways: (i) the quality and coverage of environmental services in poor areas, which are sizable in border cities, would improve; and (ii) the road paving component is expected to substantially improve living conditions in low income neighborhoods.

Benefits and Risks

27. The project would address problems that are presently the source of serious levels of contamination of water, air, and soil; threats to public health; loss of environmental quality; and, where toxic wastes are concerned, danger of calamities such as the 1992 tragedy in Guadalajara. **The project's benefits would include:** (i) significant reductions in environmental risks for an estimated 3 million people living in the border cities, resulting in better health and productivity; and (ii) stronger federal, state, and municipal capabilities and improved institutional framework for environmental protection.

28. The technology involved in the investments for wastewater treatment, solid waste management, and urban transport is standard and does not present any particular risk. **The main risk of the project is institutional** and relates to increased pressures that the project will exert on (a) the technical implementing agencies (SEDESOL, CNA, INE, and PFFA) to carry out their responsibilities, given their limited staff; and (b) local authorities to sustain the investments they would be making. This risk is being addressed by measures to strengthen the implementing agencies in the parallel sectoral projects and in the MEP and by the provision of technical assistance in the project to improve the border cities' capabilities to manage environmental infrastructure investments. Reinforcing these specific measures are the strong commitment of the Mexican Government and the broad consensus within Mexico on the need to improve environmental conditions and strengthen environmental quality in the northern border area.

Recommendation

29. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve it.

Attachment
Washington, D.C.
May 11, 1994

Lewis T. Preston
President

MEXICO

NORTHERN BORDER ENVIRONMENT PROJECT

Summary Project Cost
(US \$ Million)

	LOCAL	FOREIGN	TOTAL
I. Institutional Strengthening and Hazardous Waste Management	<u>125.2</u>	<u>49.0</u>	<u>174.2</u>
(a) PFPA Strengthening	89.0	24.0	113.0
(b) State and Municipal Strengthening:	20.5	13.3	33.8
- Environmental Management	(11.7)	(7.8)	(19.5)
- Finance and Administration	(8.8)	(5.5)	(14.3)
(c) Hazardous Waste Management	4.3	7.4	11.7
(d) Protected Areas	9.9	1.7	11.6
(e) Coordination and Studies	1.5	2.6	4.1
II. Environmental Services Improvement	<u>282.1</u>	<u>159.3</u>	<u>441.4</u>
(a) Water Supply/Sanitation	80.0	80.0	160.0
(b) Solid Waste	28.8	2.2	31.0
(c) Air Quality/Urban Transport/Paving	173.3	77.1	250.4
- Urban Transport	(119.8)	(70.3)	(190.1)
- Paving	(37.9)	(6.8)	(44.7)
- Land Acquisition	(15.6)	(-)	(-)
TOTAL BASE COST ESTIMATES	<u>407.3</u>	<u>208.3</u>	<u>615.6</u>
Physical Contingencies	29.2	14.0	43.2
Price Contingencies	26.4	11.5	37.9
Duties and Taxes	(65.3)	(-)	(65.3)
TOTAL PROJECT COSTS	<u>528.2</u>	<u>233.8</u>	<u>762.0</u>

Financing Plan
(US\$ Million)

	LOCAL	FOREIGN	TOTAL
IBRD	134.2	233.8	368.0
Mexico	394.0	-	394.0
- Federal Government	(270.0)	-	(270.0)
- State Governments	(35.0)	-	(35.0)
- Municipalities and WUs			
Internal Cash Generation	(89.0)	-	(89.0)
Total	<u>528.2</u> (69.3)	<u>233.8</u> (30.7)	<u>762.0</u> (100.0)

Note: The mix of federal, state and municipalities/WUs financing is indicative. It is based on assumptions regarding the size of the cities participating in the project and the type of subprojects being financed.

MEXICO
NORTHERN BORDER ENVIRONMENT PROJECT

Procurement Arrangements
(US\$ Million)

	Procurement Method			NBF	TOTAL COST
	ICB	LCB	OTHER		
Civil works	162.4 (135.8)	225.1 (55.7)	40.0 (16.3)	--	427.5 (207.8)
Goods	82.7 (50.6)	28.0 (15.7)	26.8 (20.6)	--	137.5 (86.9)
Consulting	--	--	96.2	--	96.2
Services	--	--	(73.3)	--	(73.3)
Recurrent Expenditures	--	--	--	100.8	100.8
TOTAL	245.1 (186.4)	253.1 (71.4)	163.0 (110.2)	100.8 (-)	762.0 (368.0)

Note: NBF = Non Bank Financing
Estimated World Bank financing in parenthesis.

MEXICO

NORTHERN BORDER ENVIRONMENT PROJECT

Initial Allocation of Loan Proceeds
(US\$ Millions)

Category	Amount Allocated	% Total Expenditures to be Financed
Environmental Infrastructure		
Consulting Services	22.0	100 %
Equipment	48.8	90 %
Civil Works	128.1	50 %
Unallocated	26.1	—
Total	225.0	
PFPA Strengthening		
Consulting Services	24.8	100 %
Equipment	26.2	90 %
Total	51.0	
State and Municipal Strengthening		
Environmental Management (INE)		
Consulting Services	6.8	100 %
Equipment	10.2	90 %
Total	17.0	
Finance and Administration		
Consulting Services	8.7	100 %
Equipment	5.8	90 %
Total	14.5	
Hazardous Waste		
INE		
Consulting Services	1.0	100 %
PFPA		
Consulting Services	10.0	100 %
Equipment	4.0	90 %
Total	14.0	
Protected Areas		
Consulting Services	5.0	100 %
Equipment	1.5	90 %
Civil Works	1.0	50 %
Total	7.5	
Paving		
Consulting Services	1.7	100 %
Civil Works	33.3	90 %
Total	35.0	

Category	Amount Allocated	% Total Expenditures to be Financed
Analysis, Coordination and Studies		
Banobras		
Consulting Services	0.5	100%
INE		
Consulting Services	0.2	100%
Equipment	0.1	90%
Total	0.3	
OASP		
Consulting Services	1.7	100%
Equipment	0.5	90%
Total	2.2	
Grand Total	368.0	

**Estimated Bank Disbursement
(US\$ million)**

Bank FY	1994	1995	1996	1997	1998	1999	2000	2001	2002
Annual	40.2 ^{a/}	81.4	81.1	74.7	42.7	19.0	18.6	6.9	3.4
Cumulative	40.2	121.6	202.7	277.4	320.1	339.1	357.7	364.6	368.0

a/ A special account would be opened in the Central Bank with an initial deposit of up to US\$16 million equivalent. Retroactive financing of up to US\$36 million is proposed for eligible expenditures incurred after February 10, 1994.

MEXICO

NORTHERN BORDER ENVIRONMENT PROJECT

Timetable of Key Project Processing Events

- (a) Time taken to prepare : 11 months
- (b) Prepared by : SEDESOL, INE, PFPA, and CNA with the assistance of the Consultants financed by Japan's PHRD Fund and Bank missions.
- (c) First Bank Mission : March, 1993
- (d) Appraisal Mission Departure : February 7, 1994
- (e) Negotiations : March, 1994
- (f) Planned Date of Effectiveness : July, 1994
- (g) List of Relevant PCRs and PPARs

Loan No.	Project	PCR Date	Report No.
909-ME	Mexico City Water Supply Project	June, 1983	4623
1186-ME 1913-ME 2281-ME	First, Second and Third Medium Cities Water Supply and Sewerage Project	December, 1993	11448
2154-ME	Industrial Pollution Control Project	April 12, 1991	9495
3101-ME	Water, Women and Development	June, 1992	10819

STATUS OF BANK GROUP OPERATIONS IN MEXICO

A. STATEMENT OF BANK LOANS
(As of March 31, 1994)

Credit/ Loan No.	Fiscal Year	Borrower	Purpose	Amount in US\$ Million (less cancellation)		
				Bank	IDA	Undisbursed
107 loans fully disbursed				13,414.72		
Of which SECALs, SALs, Program Loans, and Interest Support a >						
Ln. 1929-ME	1981	BANOBRAS	Railway IV	149.88		
Ln. 2331-ME	1983	BANCOMEXT	Export Development	349.33		
Ln. 2882-ME	1988	BANCOMEXT	Trade Policy Loan II	500.00		
Ln. 2918-ME	1988	NAFIN	Agricultural Sector Loan	300.00		
Ln. 3159-ME	1990	BANCOMEXT	Interest Support Loan	1,280.00		
Ln. 3207-ME	1990	BANOBRAS	Road Transport & Telecom.	380.00		
Ln. 3087-ME	1989	NAFIN	Industrial Sector Policy	497.51		
Ln. 2745-ME	1987	BANCOMEXT	Trade Policy Loan I	498.83		
Ln. 3086-ME	1989	NAFIN	Public Enterprise Reform	499.39		
Ln. 2777-ME	1987	BANCOMEXT	Export Development II	248.37		
Ln. 2919-ME	1988	NAFIN	Fertilizer Sector	240.20		
Ln. 3309-ME	1991	BANCOMEXT	Export Sector	25.00		
Ln. 3357-ME	1991	NAFIN	Agricultural Sector Adj. II	400.00		
Subtotal				5,346.31		
Ln. 2528-ME	1985	NAFIN	Chiapas Agricultural Dev.	58.00		3.22
Ln. 2575-ME	1985	BANOBRAS	Railways V	300.00		3.28
Ln. 2858-ME	1988	NAFIN	Agricultural Dev. Proderith II	88.30		39.38
Ln. 2888-ME	1988	BANOBRAS	Municipal Strengthening	40.00		17.34
Ln. 2869-ME	1988	BANOBRAS	Solid Waste Management Pilot	25.00		10.91
Ln. 2824-ME	1987	BANOBRAS	Urban Transport	90.98		24.49
Ln. 2858-ME	1987	NAFIN	Small/Medium-Scale Industry IV	100.00		20.14
Ln. 2875-ME	1987	BANOBRAS	Highway Maintenance	135.00		2.78
Ln. 2918-ME	1988	NAFIN	Steel Sector Restructuring	321.01		69.27
Ln. 2948-ME	1988	BANOBRAS	Ports Rehabilitation	50.00		4.17
Ln. 3047-ME	1989	NAFIN	Industrial Restructuring	250.00		33.51
Ln. 3083-ME	1989	NAFIN	Hydroelectric Development	480.00		89.95
Ln. 3085-ME*	1989	BANCOMEXT	Financial Sector Adjustment	487.14		0.73
Ln. 3115-ME	1990	NAFIN	Forestry Development	45.50		35.98
Ln. 3140-ME	1990	BANOBRAS	Low-income Housing II	350.00		40.13
Ln. 3141-ME	1990	NAFIN	Agricultural Marketing II	100.00		0.49
Ln. 3189-ME	1990	NAFIN	Transmission & Distribution	450.00		108.65
Ln. 3208-ME	1990	BANOBRAS	Telecomm. Technical Assistance	22.00		3.50
Ln. 3271-ME	1991	BANOBRAS	Water Supply & Sanitation	300.00		21.27
Ln. 3272-ME	1991	NAFIN	Basic Health Care	180.00		94.18
Ln. 3310-ME	1991	NAFIN	Decentralization & Regional Develop.	350.00		111.09
Ln. 3358-ME	1991	NAFIN	Technical Training III	152.00		101.42
Ln. 3359-ME	1991	NAFIN	Mining Sector Restructuring	200.00		114.39
Ln. 3407-ME	1992	NAFIN	Primary Education	250.00		148.29
Ln. 3419-ME	1992	NAFIN	Irrigation & Drainage Sector	400.00		234.84
Ln. 3461-ME	1992	BANOBRAS	Environments/Natural Resources	50.00		37.84
Ln. 3485-ME	1992	NAFIN	Agricultural Technology	150.00		141.21
Ln. 3475-ME	1992	NAFIN	Science & Technology Infrastructure	189.00		167.42
Ln. 3497-ME	1992	BANOBRAS	Housing Market Development	450.00		231.13
Ln. 3518-ME	1993	NAFIN	Initial Education	80.00		71.98
Ln. 3542-ME	1993	NAFIN	Labor Market & Prod. Enhancement	174.00		145.76
Ln. 3543-ME b >	1993	NAFIN	Transport Air Pollution Control	220.00		220.00
Ln. 3559-ME	1993	BANOBRAS	Medium Cities Transport	200.00		188.01
Ln. 3628-ME	1993	BANOBRAS	Highway Rehab. & Traffic Safety	480.00		405.65
Ln. 3704-ME b >	1994	NAFIN	On-Farm & Minor Irrigation Network	200.00		200.00
Ln. 3722-ME b >	1994	NAFIN	Primary Education	412.00		412.00
Total				21,224.65		3,554.40
Of Which has been repaid				6,480.43		
Total now held by the Bank				14,734.22		
Amount sold	:	92.34				
Of which has been repaid:		92.34				
Total Undisbursed				3,554.40		3,554.40

a > Approved during or after FY20 and fully disbursed.
*SAL, SECAL, or Program Loan under implementation.
b > Not yet effective

MEXICO
SUMMARY OF IFC INVESTMENTS

as of March 31, 1994
(US\$ Millions)

Schedule D
Page 2 of 3

Fiscal Year Committed	Company	Type of Business	Original Gross Commitments				Held by IFC	Held by Partici- pants	Undisbursed (Including Participants)
			IFC Loan	IFC Equity	Partici- pants	Total			
1958/59	Industrias Perfect Circle S.A. /a	Industrial Equipment	0.80	-	-	0.80	-	-	-
1958	Bristol de Mexico S.A. /a	Aircraft Engine Overhaul	0.52	-	-	0.52	-	-	-
1961	Aceros Solar S.A. /a	Twist Drills	-	-	0.28	0.28	-	-	-
1962/5/6/8	Fundidora Monterrey S.A. /a	Steel	2.30	21.44	-	23.74	-	-	-
1963	Tubos de Acero de Mexico	Stainless Steel Pipes	0.71	0.10	0.19	1.00	-	-	-
1963	Quimica del Rey S.A. /a	Sodium Sulphate	0.07	-	0.68	0.75	-	-	-
1964/66	Industria del Hierro S.A.	Construction Equipment	-	1.98	-	1.98	-	-	-
1970	Minera del Norte /a	Iron Ore Mining	0.75	-	0.75	1.50	-	-	-
1971	Celanese Mexicana S.A. /a	Textiles	8.00	-	4.00	12.00	-	-	-
1972	Promotora Papel Periodico SACV /a	Pulp & Paper /b	-	0.03	-	0.03	-	-	-
1973/79	Cementos Veracruz S.A. /a	Cement	11.35	-	4.50	15.85	-	-	-
1974/81	Cancun Aristos Hotel /a	Tourism	1.00	0.30	-	1.30	-	-	-
1975/78	Mexinox S.A. /a	Stainless Steel	12.00	3.18	-	15.18	-	-	-
1978/81/84	Papeles Ponderosa S.A. /a	Pulp & Paper	6.16	5.00	4.50	15.66	-	-	-
1978	Tereftalatos Mexicanos, S.A. /a	Petrochemicals	19.00	-	-	19.00	-	-	-
1979/81/87	Hotel Camino Real Ixtapa, S.A.	Tourism	-	4.20	-	4.20	4.20	-	-
1979/84	Empresas Totteca, S.A. /a	Cement	30.00	7.95	138.00	175.95	-	-	-
1979	Conductores Monterrey, S.A.	Electrical Wire & Cable	8.41	-	13.00	21.41	2.35	-	-
1980	Industrias Resistol, S.A. /a	Particle Board	8.00	-	17.00	25.00	-	-	-
1980	Vidrio Plano de Mexico, S.A. a/	Flat Glass	15.00	-	99.90	114.90	-	-	-
1980	Minera Real de Angeles, S.A. /a	Mining	30.00	-	80.00	110.00	-	-	-
1981/86	Celulosicos Centauro, S.A. /a	Pulp & Paper	15.50	-	44.00	59.50	-	-	-
1981	Corporacion Agroindustrial, S.A.	Agribusiness	6.30	3.00	5.00	14.30	-	-	-
1984	Capital Goods Facility /a	Capital Goods Financing	34.00	-	66.00	100.00	-	-	-
1984/88	Metalsa, S.A.	Auto Chassis	8.00	1.40	-	9.40	1.88	-	-
1985	Proteison, S.A. de C.V. /a	Agribusiness	2.00	0.77	-	2.77	-	-	-
1985	Prom. Industriales Mexicanas, S.A.	Petrochemicals	32.00	-	4.40	36.40	16.10	-	-
1986/88	Celulosa Y Papel de Durango, S.A. CV	Pulp & Paper	10.00	3.07	-	13.07	13.06	-	-
1987	Agromex (AES) /a	Veg. & Fruit Processing	1.50	0.50	-	2.00	-	-	-
1989	Cicasa Constr. Guar. Fac /a	Const'l Guarantee Facility	20.00	-	-	20.00	-	-	-
1987	Industrias Sulfamex, S.A. DE C.V. a/	Chemicals & Petrochemicals	2.00	0.50	-	2.50	-	-	-
1988	Sealed Power de Mexico	Auto Assembly	9.00	-	-	9.00	2.25	-	-
1988	Crescent Market Aggregates	Construction Materials	73.00	-	-	73.00	46.82	-	-
1988	Apasco, S.A. de C.V.	Cement & Const. Materials	46.00	-	-	46.00	20.08	-	-
1991/92/93	Apasco, S.A. de C.V. /c	Cement & Const. Materials	49.91	-	-	49.91	10.00	-	-
1994	Apasco, S.A. de C.V. /c	Cement & Const. Materials	10.00	-	40.00	50.00	10.00	40.00	40.00
1988	Sigma Alimentos, S.A. de C.V. (Salum)	Food & Food Processing	20.98	2.00	-	22.98	5.00	-	-
1989/92	Polimar (ABS), S.A. de C.V.	Petrochemicals	19.10	-	-	19.10	12.48	-	-
1989	Grupo Femsa/Visa	Consumer Goods Conglomerate	80.00	27.60	-	107.60	69.59	-	-
1989	Banca Serfin	Development Finance	60.00	-	-	60.00	56.00	-	-
1989	Cementos Mexicanos	Cement & Const. Mat	60.00	-	8.00	68.00	14.29	-	-
1990/91	Condumex, S.P. de C.V. /c	Electromanufacturing	35.00	9.54	18.00	62.54	28.44	12.60	-
1990	Indalpro, S.A. de C.V.	Petrochemicals	31.00	-	3.00	34.00	29.42	1.88	-
1990	Banco Nacional de Mexico	Development Finance	60.00	-	-	60.00	44.82	7.50	2.40
1990	Bancomer Credit Line	Development Finance	20.00	-	-	20.00	-	-	-
1991	Mexico Fund /a	Money & Capital Markets	-	-	6.57	6.57	-	-	-
1991	Petrocel, S.A.	Chemicals & Petrochemicals	32.00	-	-	32.00	32.00	-	-
1991	Vitro Flotado S.A. de C.V.	Glass & Related Manufacturing	25.00	-	101.00	126.00	25.00	88.38	-
1991	Vitro, S.A.	Glass & Related Manufacturing	-	10.17	8.04	18.21	10.17	-	-
1992	Celular de Telefonos, S.A. de C.V.	Telecommunications	15.00	1.00	37.00	53.00	16.00	37.00	4.00
1992	Grupo Industrial Bimbo, S.A. de C.V.	Bakery	25.00	-	75.00	100.00	25.00	75.00	-
1992	Aislatas Leon S.A. de C.V.	Battery Manufacturing	10.00	7.03	-	17.03	10.00	-	-
1992/93	Grupo Posadas S.A. de C.V.	Tourism	20.00	-	37.22	57.22	20.00	33.50	-
1992	Grupo Financiera Proburza S.A. de CV	Development Finance	-	7.50	-	7.50	7.50	-	-

MEXICO
SUMMARY OF IFC INVESTMENTS

as of March 31, 1994
(US\$ Millions)

Fiscal Year Committed	Company	Type of Business	Original Gross Commitments				Held by IFC	Held by Participants	Undisbursed (Including Participants)
			IFC Loan	IFC Equity	Participants	Total			
1992	Banco Mercantil del Norte, S.N.C.	Development Finance	20.00	-	-	20.00	20.00	-	10.30
1992	Mexico City Toluca Toll Road	Transport & Storage	13.75	-	-	13.75	9.78	-	-
1993	Masterpak S.A. de C.V.	Textiles/Packaging	12.00	-	28.00	40.00	12.00	25.93	2.00
1993	Celulosas y Derivados S.A. de C.V.	Textiles/Packaging	11.00	-	26.00	37.00	11.00	24.07	1.00
1993/94	Grupo Operador de Terminales Maritimas S.A. (GOTM)	Industrial Services	4.00	2.00	0.00	12.00	6.00	-	2.24
1994	Gidasa	Chemicals & Petrochemicals	15.00	8.00	42.50	65.50	23.00	42.50	57.50
1994	Aurum Heller	Financial Services	-	0.98	-	0.98	0.98	-	-
Total Gross Commitments: /d			1,062.09	129.21	918.52	2,109.82			
Less: Cancellations, Terminations, Repayment, & Sales			501.42	74.71	530.17	1,106.30			
Net Commitments Now Held e/			560.67	54.50	388.35	1,003.52	615.17	328.35	119.44
Pending Commitments:									
	Indelpro, S.A. de C.V. III	Chemicals & Petrochemicals	-	-	6.00	6.00			
	Kapta	Development Finance	-	9.85	-	9.85			
	Bancomer Mgt.	Development Finance	-	0.15	-	0.15			
	Metalsa III	Auto Chassis	18.00	6.00	24.00	48.00			
	CTAPV	Infrastructure	5.00	2.00	-	7.00			
	Interceramic	Ceramic Tiles	21.00	-	17.50	38.50			
Total Commitment Held and Pending Commitments:			604.67	72.50	435.85	1,113.02			
Total Undisbursed Commitments			29.58	0.00	43.86	73.44			

a/ Investments which have been fully cancelled, terminated, written-off, sold, redeemed, or repaid.

b/ US\$25,000.

c/ Excludes placements of \$30.0 million (Apasco), \$20.0 million (Vitro), and \$19.8 million (Conduxem)

d/ Consists of approved and signed projects (including underwriting, but excluding swap transactions i.e., Banca Serfin US\$5 million, Indelpro \$6.0 million, Banamex \$40.0 million and Grupo Posadas II \$6.5 million).

e/ Held Commitments consist of disbursed and undisbursed investments.



DEPARTMENT OF THE TREASURY
WASHINGTON

April 25, 1994

Mr. Ediberto L. Segura
Director, Country Department II
Latin America and the Caribbean Region
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Segura:

This is to acknowledge receipt of your letter of March 16, 1994. This letter notifies the United States of the two proposed World Bank loans to Mexico which could have an impact on waterways along the U.S.-Mexico border or flowing from Mexico into the United States.

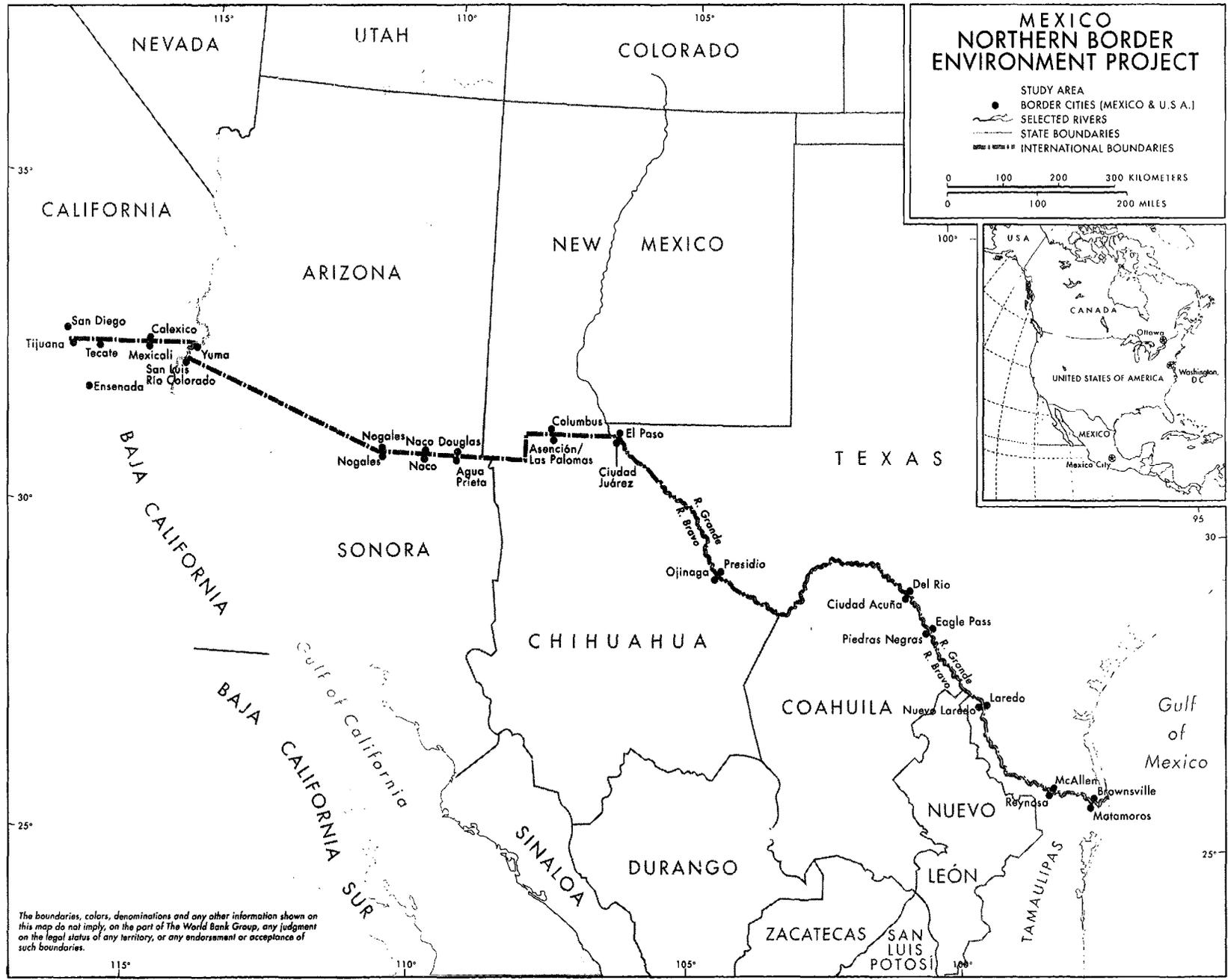
I appreciate the information that you provided and encourage the Bank to proceed with its project preparation. The United States looks forward to reviewing these projects when they come before the Board of Directors.

Sincerely,

A handwritten signature in black ink, appearing to read "Susan B. Levine".

Susan B. Levine
Deputy Assistant Secretary
International Development, Debt and
Environment Policy

cc: Nancy Katz, OUSED/IBRD



The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.