ICR Review
Operations Evaluation Department

Report Number : ICRR11987

1. Project Data:		Date Posted :	01/05/2005	
PROJ ID :	P007711		Appraisal	Actual
Project Name :	Rural Development In Marginal Areas Project	Project Costs (US$M)	63.0	48.9
Country:	Mexico	Loan/Credit (US$M)	47.0	21.5
Sector(s):	Board: RDV - General agriculture fishing and forestry sector (64%), Agricultural extension and research (15%), Other social services (15%), General public administration sector (6%)	Cofinancing (US$M)	15.8	5.9
L/C Number:	L4276			
		Board Approval (FY)		98
Partners involved :	State governments	Closing Date	06/30/2003	06/30/2003

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2. Project Objectives and Components

a. Objectives

"The Rural Development in Marginal Areas Program, of which this project is the first phase, seeks to improve the well-being and the income of smallholders in about 24 targeted marginal areas, which are among the poorest of the country, through sustainable increases in productivity and better food security . The program seeks to improve the productive capacity of participating farmers through a community -based approach by: (i) facilitating the introduction of sustainable agricultural production systems and diversification through improved access to financial resources and agricultural services; (ii) fostering community socio-economic development, organization, and participation; (iii) enhancing the provision of effective technical support services and training to farmers and producers [sic] organizations; and (iv) promoting an effective decentralized decision -making system fostering institutional coordination. The program would cover a total population of about 10 million people of which about 2 million would benefit directly from program support". (Project Appraisal Document)

b. Components

(i) **Productive Investments** (Expected cost, US$40 million; Actual Cost, US$30.5 million). Comprises: improvements to existing, basic grain, farming systems and home garden production; promotion of higher -margin crop cultivation (including coffee, sugar cane, citrus fruits); natural resource management and agroforestry; small enterprise development; and revolving funds .

(ii) **Community Development** (Expected, US$6.0 million; Actual, US$4.0 million). Includes preparation of community-based natural resource management plans and small -scale comunity investments .

(iii) **Technical Support** (Expected, US$13.0 million; Actual, US$11.4 million). Comprises extension services and training of farmers and producer organizations .

(iv) **Institutional Strengthening and Project Management** (Expected, US$4.0 million.; Actual, US$3.0 million). Includes establishment and operation of the technical support teams for each Regional Sustainable Development Council.

c. Comments on Project Cost, Financing and Dates

This was an Adaptable Program Loan . In Section 1 above "Co-financing" refers to counterpart funds subscribed by beneficiaries. The project was integrated with the government's Alianza para el Campo program . This posed problems because, while it represented only a small line of financing compared to the government's overall resource commitment, owing to the Bank's procedures, the project's execution relative to the rest of the program required a disproportionate expenditure of time and resources by federal and state officials, and involved additional transactions for beneficiaries.

3. Achievement of Relevant Objectives:

(i) Introducing sustainable agricultural production systems *(Achieved)*. By project end producers who adopted the new technology boosted staple (*milpa*) crop yields by 50 percent and yields of fruit, coffee and livestock by 70 percent, compared to appraisal targets of 30 percent and 40 percent respectively. Seventy percent of farmers who received technical assistance on new technologies chose to adopt; and of those who adopted, 87 percent were still using these technologies by project end. Over a large part of the area covered by the project, producers steadily increased their demand for investments in practices conducive to soil and water conservation, these subprojects ultimately representing 10 percent of all spending on productive subprojects.

(ii) Fostering community development *(Achieved)*. Participatory rural assessments and plans for community-based natural resources management were carried out in 100 percent of participating communities and about 75 percent of investment targets were met in community development subprojects.

(iii) Enhancing technical support services *(Achieved)*. The target of locating extension agents on a ratio of one agent per four communities assisted was reached. A large sample survey co-ordinated by FAO found that 93 percent of the farmers interviewed said that they benefited from the skilled field technicians fielded by the project.

(iv) Promoting decentralized decision making *(Partially Achieved)*. A series of regional councils were set up and proved to be a useful forum in which communities could discuss their needs and identify solutions to common problems. But the Sustainable Rural Development Law (2001) introduced a new structure that was not compatible with the regional councils that had been created, reducing the project's long-term institutional development impact.

4. Significant Outcomes/Impacts:

- The project successfully convinced government to scale up, without external financial assistance, a poverty-targeted program for sustainable rural development;
- Owing to the demand-driven nature of the project--which meant that it was impossible to identify in advance what subprojects would be financed--no economic rate of return was projected at appraisal. The actual economic rate of return was 13 percent, indicating that the project had a positive impact on most of the targeted beneficiaries. The financial rate of return was 51 percent.
- The project was a valuable learning experience for both federal and state governments, enabling them to experiment with the instruments and organizations needed for decentralized, participatory and demand-driven approaches to productive agricultural investment.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Only half of the estimated 40,000 beneficiaries were reached, although the total investment was 76 percent of the appraisal estimate; costs per beneficiary were much higher than expected.
- Only 17 percent of beneficiaries experienced income increases of more than 30 percent; it had been intended that one-quarter of beneficiaries would experience this level of increase.
- Fewer producers than expected shifted from basic grains to higher-margin crops, partly because the lack of competition between middlemen inflated marketing margins, lowering the price received by farmers.
- Participatory rural assessments and plans of community-based natural resources management were mostly carried out to comply with the Norms and Operative manual and were not really owned by the community: they were rarely revisited once the financing of subprojects had been secured.
- There is no data on what percentage of the projects are still operating two years after the financing of the investment although this was identified as a key performance indicator at appraisal (the target was 70 percent).
- Farmers did not have the skills needed to implement the more sophisticated technologies (e.g. integrated pest management).
- The project made only a limited contribution to improving working and planning arrangements involving the Ministry of Agriculture, on the one hand, and the state governments, on the other.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments

Outcome:	Satisfactory	Satisfactory	Although 50 percent of the loan was canceled the project met most of its appraisal targets and the project concept--involving specialized support to marginal areas--had a modest influence on the design of the government's broader rural development program.
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	The Quality Assurance Group gave the project a "Satisfactory" Quality at Supervision Rating.
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- In countries such as Mexico where external loans flow directly to the Finance Ministry with no one -for-one throughput to the agencies executing the project, it may be difficult to mobilize support for project objectives and loan disbursements may be very slow. In this project, the executing agencies (the Ministry of Agriculture and the state governments) had no incentive to bear the incremental transaction costs associated with the Bank's financial management, procurement and disbursement requirements because, with or without Bank financing, they would have access to the same amount of resources from the national budget . (Slow disbursement is the main reason why 50 percent of the loan funds were canceled).
- "Adaptable Program Loans" may not be sufficiently adaptable when a project is successful in convincing policymakers that it merits replication and expansion. When the pace of change is such that the originally conceived program grows much faster than envisaged, the APL framework may inhibit adaptation; a series of sector investment loans might work better.
- Projects that finance small, demand-driven community subprojects through decentralized implementation must develop a system for monitoring outputs and outcomes and, in the light of this information, identify best practice approaches that can be incorporated by project management.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The report gives a very frank and full account of the project's strengths and weaknesses, with sound economic analysis and an annotated Annex 1 which provides fuller information than is usual, making it easier to interpret the performance indicators. But the report is more than twice the length recommended by the ICR Guidelines; were it not for this it would be rated "Exemplary".