FOOD AND AGRICULTURE SECTOR RESTRUCTURING PROGRAM

(ME-0185)

EXECUTIVE SUMMARY

BORROWER:	Nacional Financiera, S.N.C. (NAFIN)
GUARANTOR:	United Mexican States
EXECUTING AGENCIES:	Ministry of Finance (SHCP) and Ministry of Agriculture and Rural Development (SAGAR).
AMOUNT AND SOURCE:	IDB: Ordinary capital US$400 million
MODALITY:	Fast-disbursing sector loan, two tranches.

FINANCIAL TERMS
AND CONDITIONS:

Amortization period:	15 years
Disbursement period:	2 years
Grace period:	5 years
Interest rate:	Variable
Inspection and supervision:	1%
Credit fee:	0.75%

OBJECTIVES:

To improve the efficiency and competitiveness of the food and agriculture sector, to support the restructuring of the sector's production system, and to facilitate the adjustment of low-income producers and consumers. The operation is also aimed at improving the targeting of

fiscal spending for food and agriculture and
reversing the negative effects of price
distortions on the preservation of Mexico's
natural resources.

DESCRIPTION:

On the basis of these objectives, the
operation focuses on support for: (i) the
lifting of price controls on food and
agricultural products, particularly basic
grains and their by-products; (ii) the
consolidation and/or development of direct
food- and/or income-support mechanisms to
reach over five million low-income producers
and consumers and their families; (iii) the
divestiture of the State-controlled grain
storage infrastructure (11 million tons of
installed capacity), with a view to
encouraging the transfer of bulking
warehouses to farmers' alliances; and
(iv) the development of private farm-
commodity markets and private instruments
for financing inventories and risk
management.

ENVIRONMENTAL
CLASSIFICATION:

The Environment Committee, at its meeting of
October 4, 1995, classified this as a
Category II operation.

BENEFITS:

The program will help to establish a
sustainable foundation for Mexico's
participation in the North American Free
Trade Agreement (NAFTA) by encouraging the
reallocation of resources on a competitive
basis and maximizing the contribution of the
food and agriculture sector to the national
economy. Implementation of the policy
supported by this operation will ease the
pressure on fiscal spending for food and
agriculture, increase its transparency,

enhance the degree of certainty concerning its execution, and promote its social targeting while gradually eliminating generalized price subsidies in order to strengthen the subsidies aimed at the poorest segments of the population. Finally, the elimination of price distortions and sector incentives will discourage expansion of the agricultural frontier into fragile environments, thus helping preserve the country's natural resources. This balance between social and production-related aspects is a distinctive and instrumental feature of this program.

RISKS:

The risks of the operation are related to: (i) implementation of the government's macroeconomic program; and (ii) possible opposition from private or political interest groups to the implementation of the proposed measures. The macroeconomic recovery program has strong government support, and its progress is followed very closely by the International Monetary Fund. With regard to point (ii), all of the proposed actions for the first tranche have already been implemented by the government. Implementation of the pending actions (second and final tranche) will be bolstered by the action plans and technical support activities, which are aimed at strengthening the executing agencies for implementation of the remaining policy measures.

THE BANK'S COUNTRY AND SECTOR STRATEGY:

The proposed operation is part of a coordinated effort by the international community to support the economic stabilization and recovery program of the Government of Mexico. The program is compatible with the strategy outlined in the country paper for Mexico, which seeks to

promote sustainable economic growth through programs aimed at improving agricultural productivity and easing the social impact of the recent economic crisis.