



RE-407

***Approach Paper:
Country Program Evaluation
Mexico 2007-2011***

Office of Evaluation and Oversight (OVE)

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ABBREVIATIONS

BCS-ME	The Bank's country strategy with Mexico
CCLIP	Conditional credit line for investment projects
CONEVAL	Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Social Development Policy Evaluation Council]
CPE	Country program evaluation
EIU	Economist Intelligence Unit
IDB-9	Ninth General Increase in the Resources of the Inter-American Development Bank
NSG	Non-sovereign guaranteed
OECD-DAC	Organization for Economic Cooperation and Development, Development Assistance Committee
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
SG	Sovereign guaranteed
UNODC	United Nations Office on Drugs and Crime
WHO	World Health Organization

I. INTRODUCTION

- 1.1 Country program evaluations (CPEs) serve the dual purpose of informing the Board of Executive Directors of the outcomes achieved through the Bank's assistance to a particular country during a given period and providing Management with a learning tool to support constructive dialogue between the Bank and the respective country authorities (document RE-348-3). This CPE evaluates the Bank's assistance to Mexico during the five-year period 2007-2011, and is expected to serve as input for preparation of the Bank's country strategy with Mexico for the period 2013-2018.
- 1.2 It should be borne in mind in this particular evaluation that the period under review does not correspond to the original term of the country strategy, as is usually the case. During the first four years of the period under review (i.e., 2007-2010), the Bank was operating in Mexico under the update to the strategy document approved for the period 2001-2006.¹ The final 13 months of the period were governed by the Bank's country strategy with Mexico (BCS-ME)² approved on 3 December 2010 (document GN-2595-1), which was intended to guide the Bank's work during the last two years of President Felipe Calderón's administration and serve as a transition to the new BCS-ME the Bank would prepare for the administration that would take office in early December 2012.
- 1.3 The Bank's Management has clarified that the strategic objectives pursued during the period are those described in the strategy documents (document GN-2191-1 and its strategy updates, and document GN-2595-1). The Office of Evaluation and Oversight (OVE) will analyze the consistency between the strategic objectives formally stated in the various strategy documents, following the sequence described in the previous paragraph, and those inferred from the program actually implemented.
- 1.4 The Bank's activities during the period focused on four main areas:³ (i) social; (ii) productivity; (iii) public finance; and (iv) climate change. These are essentially the same areas of focus included in the 2001-2006 strategy document and its subsequent updates, with certain differences: (i) the focus on promoting regional integration contemplated in the 2001-2006 document becomes less important during the period under review;⁴ and (ii) the previous focus on modernization of the State and decentralization shifted almost exclusively to strengthening of the fiscal capacity of states and municipios, moving away from the subobjectives related to improved management of public services, the justice system, the regulatory framework governing privatization and decentralization, and strengthened

¹ "Report of the 2008 and 2007 lending programs and the lending programs updates" (document GN-2477) and the "Country strategy updates" for 2009-2010 (document GN-2570).

² It is important to distinguish between the Bank's strategy with the country and the document that presents it. This document refers to the former simply as the strategy or the Bank's country strategy, and the second as the strategy document or BCS-ME.

³ Document GN-2595-1 contains details of the strategic objectives for the end of the period.

⁴ During the period under study, only one operation was approved for US\$50 million, and no technical cooperation operations.

- protection for property rights. However, technical cooperation activity in this area is considerable (US\$10.5 million) and addresses a range of issues (e.g., transparency and anticorruption, results-based management, municipal strengthening, and citizen security).
- 1.5 During the period 2007-2011, the Bank approved a total of 43 operations for US\$9.602 billion, more than twice the amount approved in the preceding period. Of this total, 27 were sovereign guaranteed (SG) operations for US\$8.666 billion (i.e., 90.3% of the total) and 16 were non-sovereign guaranteed (NSG) operations for US\$936 million (i.e., 9.7% of the total). Of the total dollar amount approved, 50.6% used lines of credit (i.e., CCLIPs), and 20.8% used policy-based loans (PBLs). In terms of sector distribution, 25.1% was directed to the social sector, 43.2% to productivity, 17.8% to public finance, 13.4% to climate change, and 0.5% to integration. There were no loans directed to modernization of the state, apart from the municipal strengthening operations included in the public finance area. The Annex provides a breakdown of approvals for the period by sector and type of instrument.
 - 1.6 The number of technical cooperation operations approved during 2007-2011 increased 71% relative to the preceding period (i.e., from 75 operations during 2002-2006 to 128 during 2007-2011), and the total amount of technical assistance increased from US\$54.3 million to US\$84.8 million).
 - 1.7 The following factors should be considered in evaluating this period: (i) the structural challenges faced by Mexico; (ii) the important events occurring during the period; and (iii) any other special features or factors in the relationship between Mexico and the Bank that might affect performance. These should be considered in applying the evaluation methodology explained in the following section and in selecting the respective evaluation questions.
 - 1.8 **Structural challenges.** In recent decades, Mexico has made great progress in managing its economy and reducing poverty.⁵ However, it continues to face medium- and long-term challenges, including the following:⁶ (i) fiscal pressure, resulting from factors including the decline in petroleum revenue as a percentage of GDP,⁷ expenditures associated with an aging population (i.e., pensions and medical insurance),⁸ weak revenue collection capacity, inefficient subsidies, and the

⁵ “Poverty of capacities” (a measure of the population without enough income to buy a basic basket of food items and make necessary expenditures for health and education) has declined from 47% of the population in 1996 to 25.3% in 2008, but rose to 26.7% in 2010 as a result of the financial crisis (CONEVAL, www.coneval.gob.mx).

⁶ EIU (2000-2011); OCDE (2011); IMF (2011), IDB (2010c).

⁷ Oil revenues are currently around 8% of GDP and represent one-third of total revenue, but there is a risk that they will fall to 4% of GDP by 2030 (IMF 2011).

⁸ OECD 2011.

financial crisis; (ii) low productivity,⁹ due in large part to the inability to approve second-generation structural reforms given Mexico's legislative context at the time (EIU 2010, p. 4); (iii) poverty and inequality;¹⁰ (iv) close integration with the United States economy;¹¹ and (v) climate change, which will cost the Mexican economy a total of 4% to 15% of GDP by 2050, according to a recent study (Galindo 2009).

- 1.9 **Important events during 2007-2011.** During this period: (i) the 2008 financial crisis erupted, causing the worst recession in 15 years; (ii) oil production fell; (iii) the A/H1N1 influenza epidemic struck; and (iv) violence escalated dramatically, apparently as a result of the fight against drug trafficking.¹² The Bank also completed a realignment process. Accordingly, the CPE will evaluate how the Bank responded to those events and, with respect to the realignment, whether it served to improve the efficiency or effectiveness of the Bank's actions in Mexico.
- 1.10 **Special features of the relationship between Mexico and the Bank.** Mexico is a paradigm case for understanding the Bank's relationship with upper middle income countries¹³ like Mexico that are financially and economically sound, technically sophisticated, and access (or have accessed) market financing on the same or better terms than offered by multilateral institutions like the IDB or World Bank, but face significant challenges.
- 1.11 The Bank's financial contribution to Mexico is quite small, with approvals representing less than 0.3% of GDP¹⁴ and, under normal conditions (e.g., in the absence of a financial crisis), could easily be replaced by capital markets.¹⁵ In addition, Mexico had begun to drastically curtail its demand for IDB financing

⁹ Mexico's growth over the 20 years preceding the crisis averaged 3.25%, below its potential and that of competitors such as China. An IDB report (2010c) analyzes some of the factors underlying the low productivity.

¹⁰ The most recent GINI index available for Mexico (2008) is 0.52, and the rate of extreme poverty (persons living on less than US\$2 per day) is 8.56%, with substantial regional disparities.

¹¹ Eighty percent of Mexico's nonoil exports are to the United States, and the contemporaneous correlation of U.S. and Mexican industrial production for the period 2006-2010 was 0.9 (OECD 2011).

¹² Note that the explosion of violence as a phenomenon began in 2007 (Escalante 2011). However, it is important to recognize that the problems of violence and drug trafficking in Mexico have been many years in the making.

¹³ It is not OVE's intention to establish a definition of "upper middle income countries" (e.g., income between US\$3,976 and US\$12,275, according to the World Bank classification), but to emphasize that countries like Mexico that possess certain features like those described in paragraph 1.10, speaking uncategorically, pose difficulties for the Bank separate and distinct from those posed by countries without those features. The evaluation will identify what features make Mexico unique, although this document may mention some features tentatively identified by OVE during preparation.

¹⁴ See Annex, Figure 2.

¹⁵ Department of Finance authorities informed us that Mexico may borrow on the domestic market at more favorable interest rates than the Bank's.

- before the 2008 crisis¹⁶ and repay its outstanding debt.¹⁷ In contrast, the Bank's disbursements to Mexico represent 14.67% of the Bank's total disbursements.
- 1.12 In addition, Mexico's budgetary rules eliminate incentives for the central government agencies to obtain additional funding by contracting loans with the Bank. The federal budget sets a cap on financing for government agencies, irrespective of the source (e.g., tax revenue, loans from multilateral institutions, etc.), to cover the cost of preestablished federal programs. In other words, partial financing of a federal program by the Bank does not represent an increase in the resources allocated to the respective agency (i.e., it provides no budgetary additionality).¹⁸
- 1.13 Against this backdrop, the Bank has been testing a new positioning in 2007-2011 that combines partnership building with financial intermediaries to access new markets (i.e., development banks such as Nacional Financiera and Sociedad Hipotecaria), work with subnational governments,¹⁹ and better use of technical assistance to make the Bank's role more attractive and support the government in areas where the Bank's experience and knowledge can be useful. This evaluation will give special attention to the progress of this new positioning and how it fits with the realities of Mexico.

II. METHODOLOGY AND EVALUATION QUESTIONS

- 2.1 In conducting CPEs, the IDB applies the standard criteria of relevance, efficiency, and effectiveness²⁰ (OECD 1991). These criteria provide sufficient flexibility to clearly organize the evaluation questions required for this work.
- a. Relevance**
- 2.2 Relevance measures the degree of consistency between the design and objectives of the Bank's strategy and its implementation (i.e., the specific operations program

¹⁶ Sovereign guaranteed loans approved for Mexico totaled US\$1.255 billion in 2000, and US\$250 million in 2007, just before the crisis (see Annex, Figure 1).

¹⁷ A number of past and present Department of Finance authorities interviewed for the preparation of this document indicated that the crisis made them realize the value of remaining actively involved in the Bank as insurance for times of crisis, and renewed their appreciation of other advantages such as technical assistance, support to subnational governments, and the Bank's role as an impartial third party with technical credibility in domestic disputes.

¹⁸ However, there is financial additionality with respect to Bank lending to financial intermediaries and resources that reach subnational entities. Apart from financial additionality, based on OVE's preliminary research, the Bank delivers technical additionality, a quality seal, and other positives identified and analyzed in this evaluation.

¹⁹ The analysis of work with subnational governments will also require review of the Bank's progress with BANOBRAS, which is the financial intermediary that, by Mexican law, acts as intermediary between the multilateral banks and subnational governments.

²⁰ The OECD standards also include the criterion of "sustainability." This dimension will be addressed as part of the analysis of effectiveness, although given the intrinsic difficulties the analysis will be based only on the outcomes of the main interventions, and when data is available, on a case-by-case basis.

- and type of instrument used) with: (i) the government's development plans; (ii) the challenges facing the country;²¹ and (iii) the country's financing requirements.
- 2.3 Without detriment to the conventional relevance assessment, this CPE will pay special attention to analyzing the Bank's new positioning in Mexico in regard to the use of financial intermediaries, work with subnational entities, and strategic use of technical cooperation (see paragraph 1.13).
- 2.4 In this section, the CPE will address the following questions:
- 2.4.a.1 How consistent was the program actually implemented by the Bank during the period 2007-2010 with the country strategy 2001-2006 and its subsequent updates? How consistent was the program actually implemented by the Bank during 2011 with the country strategy 2010-2012? How consistent were the two instruments with one another? How useful was the country strategy document to the relationship between the Bank and Mexico? What effect did the Bank's realignment have on its relevance for the country?
 - 2.4.a.2 How consistent was the program actually implemented and the instruments used by the Bank with: (i) the government's development plans; (ii) the structural challenges facing the country; and (iii) important events occurring during the period?
 - 2.4.a.3 How effective is the Bank's new positioning (see paragraph 1.13) to address the difficulties identified in paragraphs 1.10 to 1.12?
 - 2.4.a.4 What other type of additionality, apart from financial, does the Bank deliver to Mexico?
- 2.5 To answer the questions posed in section 2.4.a.1, the evaluation will compare the strategic objectives set for the period 2007-2010 with the actual programming and examine the consistency of indicators for specific operations with those established in the 2001-2006 strategy documents and updates. The evaluation will also compare the objectives set in the strategy document approved in 2010 with the programs approved during 2011. To do so, the responsible government and Bank staff will be interviewed to determine the reasons for any substantial deviation. The interviews with government and Bank staff will also address the usefulness of the BCS-ME and of the realignment (particularly with respect to the matrix structure, decentralization, and delegation of authority) in contributing to the relationship between the Bank and the country.
- 2.6 To answer question 2.4.a.2, the evaluation will compare the objectives of the actual programming with those of the government's development plans. Expert literature will also be reviewed to determine how closely the Bank's interventions are aligned with expert prescriptions. Interviews will also be conducted with experts and with responsible government and Bank staff to determine the reasons for any deviations,

²¹ Structural challenges (see paragraph 1.8) and challenges arising during the period (see paragraph 1.9 *supra*).

taking account of the restrictions identified in Section I. Special attention will be given to the suitability of the instruments used, given the needs of the country and of each intervention, especially NSG lending, and the competitiveness of the Bank's financing along various dimensions (e.g., pricing, maturities, amount, etc.).

- 2.7 To answer question 2.4.a.3, the evaluation will review the nature of activities and progress in the promotion of partnerships with financial intermediaries and work with subnational entities, and whether strategic use was made of technical assistance to improve the Bank's positioning in Mexico.²²
- 2.8 To answer question 2.4.a.4, interviews will be conducted with representatives of the government, the executing agencies and beneficiaries of loans and technical cooperation operations, and civil society, as well as Bank staff. The findings of a specific survey will also be used.²³

b. Efficiency

- 2.9 Efficiency measures the cost-effectiveness of the program design and execution. In this section, the CPE will answer the following questions:
- 2.9.a.1 Was the program executed efficiently?
- 2.9.a.2 To what extent did the Bank's realignment impact the efficiency of program execution?
- 2.10 To answer question 2.9.a.1, the study will examine: (i) the preparation and execution times, comparing them to the prior period, the Bank average, and the average for Group A countries; (ii) the cost of preparation and execution, including the costs associated with the technical assistance used for project preparation; and (iii) problems encountered in project execution and the indicators provided in the Bank's monitoring systems (i.e., the former PPMR and current PMR).
- 2.11 To answer question 2.9.a.2, government and Bank staff will be interviewed and a perception survey will be conducted focusing on the different aspects of the realignment, with particular emphasis on the process of decentralization, delegation of authority, and the matrix structure.

c. Effectiveness

- 2.12 Effectiveness measures the extent to which the program (loans and technical cooperation) achieved the proposed objectives. In addition, the Bank's effectiveness in implementation of the Paris Declaration principles and civil society dialogue will be assessed. In this section, the CPE will answer the following questions:
- 2.12.a.1 What progress was made on implementation of the Paris Declaration principles, with special attention to the use of country systems and

²² The "Effectiveness" section will provide a sector-by-sector breakdown of the effectiveness of technical assistance. A survey will also be conducted to measure the perceived impact and usefulness of the technical assistance.

²³ *Ibid.*

- coordination with other donors? How has the civil society dialogue progressed?
- 2.12.a.2 What is the degree of ex ante and ex post evaluability of the program operations?
- 2.12.a.3 What progress and results were achieved in relation to the expected outcomes, with special emphasis on the principal sector interventions (e.g., PROCAMPO, Oportunidades)?
- 2.12.a.4 To what extent did the Bank's realignment impact the projects' effectiveness?
- 2.13 To answer question 2.12.a.1, interviews will be conducted with representatives of the government, other international agencies, and civil society, as well as Bank staff, to determine what progress was made on implementation of the Paris Declaration principles, with special attention to the use of country systems and coordination with other donors, especially the World Bank, and on civil society dialogue.
- 2.14 To answer question 2.12.a.2, the evaluation will examine the vertical logic of the programs, the quality of the outcome indicators, and the availability of baselines and targets. It will also analyze the indicators used in the PCR and PRM to determine ex post evaluability.
- 2.15 To answer question 2.12.a.3, the evaluation will examine, in addition to Bank sources and the documents requested by OVE from executing agencies, evaluations conducted by independent entities with the Consejo Nacional de Evaluación de la Política de Desarrollo Social [National Social Development Policy Evaluation Council] (CONEVAL)²⁴ and other relevant studies. Field visits will also be conducted to verify impacts in situ and interview beneficiaries.
- 2.16 To answer question 2.12.a.4, the evaluation will interview government and Bank staff and conduct a perception survey on the effects of the realignment and the achievement of the projects' objectives. This survey will be conducted in conjunction with the survey described in paragraph 2.11.
- 2.17 The information used to prepare this CPE will be gathered from three main sources: (i) perceptions of government and Bank staff and users; (ii) an analysis of available empirical data; and (iii) an analysis of literature and CONEVAL studies. A consistency test will be performed using a triangulation process (see Table 1).
- 2.18 To determine the effectiveness of the technical assistance, the available records and data will be reviewed, interviews will be conducted with Bank staff, and a survey will be conducted to measure the perceived usefulness and impact of the technical assistance.

²⁴ <http://web.coneval.gob.mx/Paginas/principal.aspx>

III. TIMELINE AND STAFFING

- 3.1 The CPE will be prepared in accordance with following timeline by the staff identified in paragraph 3.2.

Activity	Date
AP sent to Management	March 1
AP sent to SEC	March 21
OVE internal review of CPE	July 3
Draft CPE sent to Management	July 27
Management comments on CPE	August 31
CPE sent to SEC	September 25
Board of Executive Directors meeting	October

- 3.2 The team will have eight members: (i) four staff (S. Raw, D. Beuermann, H. Conroy, and P. Alonso), (ii) one Young Professional (C. Fevre), and (iii) three consultants (J. Sembler, C. Pecha, and M. Velarde).

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