Office of Evaluation and Oversight

Country Program Evaluation

Mexico

2007-2011

Inter-American Development Bank

January 2013

Abstract

This country program evaluation (CPE) covers the 2007-2011 period. During the first four years, the Bank worked with updates of the strategy document for the 2001-2006 period. In late 2010, Management approved a new version of the Bank's country strategy with Mexico covering the final 13 months of the period under review.

To evaluate the program, this CPE uses standard relevance, efficiency, and effectiveness criteria. In particular, it examines the relevance of the Bank's program to Mexico's structural development challenges and the specific challenges of the period, as well as three areas of the position that the Bank has been developing during the period in an effort to become more relevant in Mexico: work with the private sector, work with subnational governments, and strategic use of technical assistance.

The Bank did more business with the country during the period under review than in the previous period, and the downward trend observed at the end of the last period and at the beginning of the present period has reversed. In addition, the Bank has revitalized its role as interlocutor in the social policy dialogue, demonstrating that if the legal hurdles are resolved, it could expand its heretofore limited but important role in strengthening subnational governments. Although the Bank has been losing relevance in relative terms, it continues to provide financial, technical, and operational benefits to Mexico.

The country program has been relevant to Mexico's structural challenges and to one of three challenges of the period (i.e., the financial crisis), as well as partially relevant to the other two challenges (i.e., influenza A (H1N1) and rising violence). With regard to the foregoing three areas of the Bank's position, the CPE finds that: (i) although the Bank's volume of business in the private sector has nearly quadrupled compared with the previous period and has had an appreciable countercyclical effect, it has not been possible to clearly identify the criteria used to organize or prioritize work in the sector, or to select the various windows vis-à-vis the Bank's comparative advantage, the country's market conditions, and the applicable strategy documents; (ii) the Bank and the Mexican government, despite major efforts during the period to resolve the legal impediments to working directly with subnational governments, have not yet found an efficient and effective mechanism to support them, as illustrated by the fact that in five years only two operations for US$660 million were approved; and (iii) while the use of technical assistance has been well received and has enabled the Bank to revitalize its role as interlocutor in the social policy dialogue, there is ample room for improving the strategic focus of such assistance.

It should be noted that there has been a record high level of approvals and that portfolio efficiency, in terms of preparation and execution times and cost, has improved with respect to the preceding period and to other countries.

The program's evaluability has generally improved over the course of the period, but the evaluability of private sector and technical assistance operations is low.

The Office of Evaluation and Oversight (OVE) recommends that the Bank should consider some specific options for enhancing the program's strategic consistency, improving the Bank's work in the private sector, reducing transaction costs to remain competitive as well as to engage more intensively with subnational governments, and enhancing the strategic focus of technical assistance.

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Country Program Evaluation

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OFFICE OF EVALUATION AND OVERSIGHT, OVE

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Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

Contents

Acronyms

BANOBRAS	*Banco Nacional de Obras y Servicios Públicos*
bps	Basis points
CCLIP	Conditional credit line for investment projects
COMPRANET	Government procurement system
CONEVAL	*Consejo Nacional de Evaluación* [National Evaluation Council]
CPE	Country program evaluation
DEF	Development Effectiveness Framework
DEM	Development Effectiveness Matrix
FORTEM	*Programa de Inversiones y Fortalecimiento de Estados y Municipios* [Program for Investment and Strengthening of States and Municipios]
GCM	Grants and Co-financing Management Unit
GDP	Gross domestic product
INE	*Instituto Nacional de Ecología* [National Ecology Institute]
INEGI	*Instituto Nacional de Estadística y Geografía* [National Statistics and Geography Institute]
MIF	Multilateral Investment Fund
NAFIN	Nacional Financiera
NSG	Non-sovereign guaranteed
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PAC	*Programa de Apoyo a la Capacitación* [Training Support Program]
PACE	*Programa de Apoyo para la Capacitación y el Empleo* [Training and Employment Support Program]
PAE	*Programa de Apoyo al Empleo* [Employment Support Program]
PASHEB	*Programa de Agua, Saneamiento e Higiene en Educación Básica* [Water, Sanitation, and Hygiene Program in Basic Education]
PBL	Policy-based loan
PCR	Project completion report
PEACC	*Programas Estatales de Acción frente al Cambio Climático* [State Climate Change Action Plans]
PECC	*Programa Especial de Cambio Climático* [Special Climate Change Program]
PEMEX	*Petróleos Mexicanos*
PROCAMPO	*Programa de Apoyos Directos al Campo* [Direct Farm Support Program]
PRODEV	Program to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness
PROFORHCOM	Skills-based Human Resources Development Program
PROSSAPYS	Program for the Sustainability of Water Supply and Sanitation Services in Rural Communities
RBB	Results-based budgeting
SEMARNAT	Ministry of the Environment and Natural Resources
SEP	Ministry of Public Education
SFP	Ministry of Civil Service
SHCP	Ministry of Finance
SHF	*Sociedad Hipotecaria Federal*
SMEs	Small and medium-sized enterprises
SSP	Ministry of Public Safety

Acronyms

STPS	Ministry of Labor and Social Welfare
TIIE	Interbank interest rate
VPS	Vice Presidency for Sectors and Knowledge

Acknowledgements

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Although the IDB has been losing financial and technical relevance in Mexico, a higher-middle-income country with a solid macroeconomic framework and institutional and technical sophistication, the country continues to find beneficial their relationship with the Bank with respect to the financial conditions, technical assistance and other benefits derived from Bank support.
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Executive Summary

This country program evaluation (CPE) covers the 2007-2011 period. During the first four years, the Bank worked with updates of the strategy document for the 2001-2006 period. In late 2010, Management approved a new version of the Bank's country strategy with Mexico covering the final 13 months of the period under review.

This CPE uses standard relevance, efficiency, and effectiveness criteria. In particular, it examines the relevance of the Bank's program to Mexico's structural development challenges and the specific challenges of the period, as well as the aforementioned three areas of the position that the Bank has adopted in Mexico to become more relevant, namely, work with the private sector, work with subnational governments, and strategic use of technical assistance.

As expected in a middle-high income country with a solid macroeconomic framework and technical and institutional sophistication, the Bank has been losing financial and technical relevance. Nevertheless, a relationship with the Bank continues to be beneficial for Mexico, since the Bank offers competitive financial terms, technical assistance, and other advantages stemming from the Bank's support of its operations, although the general view is that the Bank could be more effective with Mexico if it adjusted its processes, instruments, and organization to the specific needs of the country. For example, the authorities feel that the Bank's decision-making process is overly centralized, which, in their opinion, produces delays and inefficiencies. The Office of Evaluation and Oversight (OVE) is analyzing these issues in greater depth in its evaluations of fulfillment of the commitments assumed under the IDB-9 and realignment, which will be presented to the Board of Executive Directors on a future date.

It should be noted, first, that the Bank did more business with the country during the period under review than in the previous period, and the downward trend observed at the end of the last period and at the beginning of the present period has reversed. In addition, the Bank has revitalized its role as interlocutor in the social policy dialogue, demonstrating that if the legal hurdles are resolved, it could expand its heretofore limited but important role in strengthening subnational governments.

Considering that the Bank's financial contribution (i.e., disbursements) to Mexico during the period was approximately equivalent to 0.2% of the country's GDP, its contribution to addressing structural challenges is necessarily limited and cannot encompass all such challenges lest it become irrelevant. In addition, due to the size and technical development of Mexico's economy and the demand-driven nature of the program, the Bank acts more in response to the government's needs than on its own initiative. Despite these limitations, the Bank's program over the period has generally been consistent with the country's structural development challenges, such as boosting economic growth and competitiveness, reducing inequality, bolstering the fiscal framework, strengthening security, and mitigating the effects of climate change.

Of the three challenges of the period (i.e., the financial crisis, the influenza A (H1N1) epidemic, and rising insecurity), the Bank responded primarily to the financial crisis and partially to the other two challenges. By substantially increasing its disbursements, the Bank made a significant effort to provide liquidity to the Mexican economy during the financial crisis. Total disbursements equaled 22.8%, 21.3%, and 19% of the Bank's total disbursements for 2009, 2010, and 2011, respectively. Moreover, the disbursements covered 28% of Mexico's total financing needs in 2009, just when the crisis hit. In addition, private sector loans had an appreciable countercyclical effect.

With regard to the aforementioned three areas of the Bank's position, this CPE finds:

- Without prejudice to the countercyclical value of the Bank's portfolio with the private sector or to the fact that the Bank's lending volume this period nearly quadrupled over the previous period, it has not been possible to identify the criteria used to organize or prioritize work in the sector, or to select the various windows vis-à-vis the Bank's comparative advantage, the country's market conditions, and the applicable strategy documents;

- The Bank, despite major efforts during the period to resolve the legal impediments to working directly with subnational governments, has not yet found an efficient and effective mechanism to support them, as illustrated by the fact that in five years only two operations for US$610 million were approved;

- Lastly, while the use of technical assistance has been well received and the Bank has revitalized its role as interlocutor in the social policy dialogue, there are some factors limiting its effectiveness, such as the prevalence of its use as a mechanism for generating business rather than knowledge, limited strategic planning in the prioritization of technical assistance operations, and their high execution costs.

It should be noted that there has been a record high level of approvals, and portfolio efficiency, in terms of preparation, execution, and costs, has improved with respect to the preceding period and to other countries.

The evaluability of the sovereign guaranteed portion of the program has generally improved over the course of the period, but the evaluability of private sector and technical assistance operations is low, which has made it impossible to evaluate their impact. This CPE reports the achievements attained by specific operations for which information is available.

There has been a significant improvement in the use of country systems. The Bank fully utilizes the country's financial management system and has made strides in harmonizing procurement modalities. With IDB and World Bank support, the Mexican government is in the process of updating its public procurement system (COMPRANET).

With regard to coordination with other donors, there is generally a division of roles in the donor community defined by the Mexican government. Nevertheless, there has been a certain level of coordination in areas of common work.

The Office of Evaluation and Oversight (OVE) recommends that the Bank should consider some specific options for: (i) strengthening the relevance of the future program to the country's structural challenges: (ii) improving the Bank's work in the private sector and monitoring its investments in the sector and ensuring achievement of results and the Bank's value-added; (iii) reducing transaction costs; (iv) exploring effective and efficient ways of increasing the volume of business with subnational governments; and (v) adopting a more strategic approach in developing the technical assistance program.

OVE Recommendations and Management Response

Country Program Evaluation Recommendations	Management Response
Strengthen the relevance of the future program to the country's structural challenges	
1.1 Engage in dialogue with the Mexican government on the possibility of Bank support in the next six-year term to solve the fiscal challenges related to the aging of the population and to promote the integration of Mexican industry into the global economy.	**Agree in part.** In November 2012 the Bank delivered policy notes to the transition team of the newly elected government of Mexico, covering among other topics an analysis of the fiscal issues facing the country and the challenges of integrating Mexico into the global economy. The first point is relevant not only in light of demographic trends in Mexico but also in consideration of declining oil production and inefficiencies in the current taxation system. The second point goes beyond the challenges of linking Mexican firms with global value chains. It also includes the need to develop a strategy for international trade negotiations and to adopt the policies and logistical infrastructure necessary to take advantage of global integration. Management will seek to spell out working agendas in both areas. However, the identification of strategic sectors in the Bank's new country strategy and the technical assistance and financial support program will be subject to the decisions of the new authorities, the government's actual requests, and the Bank's financial capacity to meet them.
Redefine and specify the criteria for the Bank's private sector work and monitor investments in the sector to guarantee results and the Bank's value added	
1.2 In particular, the Bank should consider identifying clear and explicit criteria for private sector intervention. These should ensure consistency with the criteria that justify development bank support for private sector enterprises in Mexico and make it possible to prioritize Bank action in the sector, improving coordinated participation by the various windows in preparing the Bank's country strategy. In addition, for the design of non-sovereign guaranteed (NSG) operations, the Bank should consider developing evaluability criteria clearly associated with explicitly identified market failures, so that the objectives of these operations are clearly associated with development objectives and the country's development strategy.	**Agree.** The Bank's current country strategy for the period 2010-2012 indicates efforts to foster private sector participation, as one of the key themes of the federal government program and the Bank's activities in the country. The operations with the private sector conducted by the Bank over the period under review are aligned with the strategic sectors of the current country strategy and with the country's development objectives, by means of technical assistance and financial support of operations through the different windows: Structured and Corporate Financing Department (SCF), the Multilateral Investment Fund (MIF), and the Opportunities for the Majority Sector (OMJ). Those operations were implemented in various sectors, among which may be mentioned: housing, micro, small, and medium-sized enterprises, water and sanitation, transportation, agriculture, social protection, and climate change. Operations via the private sector windows will continue to focus on improving the population's quality of life and financing the different strategic areas identified in the new country strategy for the period 2013-2018. At present, SCF is developing evaluability criteria associated with market failures in order to address this type of recommendation on a Bank-wide basis.

Country Program Evaluation Recommendations	Management Response
Reduce transaction costs	
1.3 To reduce transaction costs, the Bank should make continued efforts to expand the use of country systems. In the specific case of federal government loans executed with transfers from the executing agency to the delegations or the states, using operating rules of the federal government program, the Bank should consider allowing the supporting documentation for the transfer from the central level to the delegation or state, as applicable, to serve as the expense voucher instead of requesting such documentation from the end beneficiary. In addition, the Bank and the Board of Executive Directors should jointly explore innovative ways of making loans to the private sector in local currency without having to resort to swaps.	**Agree.** Management is taking a number of steps to move forward with the adoption of country systems in Mexico and to help reduce transaction costs. On the procurement front, as an aspect of implementing the Strategy for Strengthening and Use of Country Systems (document GN-2538) and in response to a request from the Government of Mexico, the Guide for Acceptance of the Use of Country Procurement Systems (document GN-2538-6) was applied in the course of 2012. The results were satisfactory, so a recommendation for advanced use of Mexico's country procurement systems will shortly be submitted to the Board of Executive Directors for consideration. In terms of financial administration, there has been further simplification of processes for rendering accounts and preparing financial reports. During 2012, the Ministry of the Public Service (SFP), the World Bank, and the IDB signed a technical memorandum of understanding to formalize use of the country system in the appointment of external auditors eligible to audit projects financed by international financial agencies. With respect to OVE's specific recommendation, Management will implement these changes by including agreements of this kind in the fiduciary agreements and requirements annex to project documents. This simplification will also help reduce the cost of external audits, inasmuch as their scope would be limited to a review of the supporting documentation submitted to the Bank and would not extend to examination of a sample of payments in different states and municipios around the country. Lastly, with respect to the need to explore innovative ways of providing loans in local currency, Management will prepare a proposal for making this product more competitive, exploring different alternatives available to the Bank so as to make this recommendation applicable Bank-wide.

Country Program Evaluation Recommendations	Management Response
Explore effective ways of working with subnational governments	
1.4 In order to effectively support the country's development of its subnational governments, it is suggested that the preparation exercise for the next strategy should be used to further deepen dialogue with the government in order to find and implement alternative ways of working directly with subnational governments without having to resort to financial intermediaries (e.g. creation of a trust), or to otherwise reduce transaction costs related to the intermediation of Banco Nacional de Obras y Servicios Públicos (Banobras) (e.g. elimination of the inspection and supervision fee, duplicate processes, etc.), developing better mechanisms for collaboration between Banobras and the Bank and facilitating the delivery of technical assistance by the Bank to the subnational governments.	**Agree in part.** Management maintains close dialogue with the Government of Mexico in order to continue working, both through federal government programs and directly with subnational governments. However, in the case of loans at the subnational level, there are constitutional constraints that mean that the investment operations required by states and municipios are handled through the national development banking system (in particular BANOBRAS). This poses some challenges to the Bank, in terms of the analysis, design, and implementation of individual operations, and also with respect to management of the financial and transaction costs associated with the operations and their administration. Management has explored various options with the government of Mexico and will continue to examine mechanisms for engaging with the states and municipios in as direct a manner as possible, thereby reducing transaction costs and the duplication of processes. Independent of the mechanisms that may be developed in the near future, Management will seek to meet the needs of subnational governments at three levels: (i) states and municipios that are facing financial problems and lagging behind in terms of development and public management, in order to provide them with technical assistance and financial support so they are able to achieve sustainable debt limits and low or manageable credit risks; (ii) states and municipios that need program support for implementing reforms and financing investment operations in specific areas (e.g., fiscal management, infrastructure, productive development, social investment and poverty reduction, climate change, etc.); and (iii) states and municipios with high potential for market access, for which operations are envisioned that will help them gain access to capital markets under better conditions, by preparing "credit enhancement" operations, lines of credit, and stock market listings, in priority areas and sectors of the country strategy.

Country Program Evaluation Recommendations	Management Response
Adopt a more strategic focus in developing the technical cooperation program	
1.5 To ensure that technical assistance acquires greater strategic relevance and to prioritize increasingly scarce resources, Management should consider engaging in a discussion, during its annual programming exercise, with the Ministry of Finance (SHCP) on the use and destination of technical assistance resources potentially available for Mexico, based on indicative figures and the usage trends of each fund that the Mexican government would provide for such purpose. In addition, it should consider the possibility of requiring that technical assistance operations contain results indicators aligned with the Bank's strategic objectives for the country, with responsibility for monitoring progress to be shifted to the Mexican government.	**Agree.** To date, Management has been successful in finding resources and utilizing them in the strategic sectors identified in the current country strategy, through a regular exercise of prioritizing the proposed programs with the Grants and Co-Financing Management Unit (GCM) in light of their alignment with the country strategy, the request of the Mexican government, the new opportunities for sector dialogue, and the available sources of financing. In any case, as part of the design of the new country strategy for the period 2013-2018, Management will maintain close coordination with the SHCP in order to guarantee priority-setting and efficiency in the use of limited technical assistance resources, and to monitor the results of operations. In this way, Management, together with SHCP, will strengthen the current programming mechanisms in order to guarantee the consistency of technical assistance and its alignment with the strategic areas of the country strategy, as well as improving the supervision and evaluation of these operations, in accordance with existing guidelines governing technical cooperation. As well, and as part of a Bank-wide effort, Management will explore alternative mechanisms for financing technical assistance in order to provide knowledge and advice to the government on issues where the Bank can add technical and specialized value, such as through the establishment of a program of technical and specialized advisory services for the country, under the "fee for services" mechanism.

1

In 2009, just after the crisis began, disbursements amounted to 28% of Mexico's total financing needs.
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1 Introduction

The objective of this country program evaluation (CPE) is to evaluate the Bank's assistance to Mexico during the 2007-2011 period. It is expected to serve as an input for preparation of the Bank's 2013-2018 country strategy with Mexico.

This CPE uses the relevance, efficiency, and effectiveness evaluation criteria of the Organization for Economic Cooperation and Development – Development Cooperation Directorate (OECD-DAC) (OECD, 1991), and in addition to conducting a traditional evaluation of the Bank's program, emphasizes certain areas of the Bank's position that it has been developing to continue to be relevant in a country such as Mexico, which is progressively less in need of assistance from multilateral credit institutions.[1]

In this evaluation, the key areas of the Bank's position in the country are efforts aimed at enhancing the Bank's relevance in the country by working with the private sector and subnational governments and making strategic use of technical assistance operations. While the Bank's position was only made explicit in the December 2010 country strategy, the pattern of approvals and interviews with Mexican government representatives and Bank officials show that Management has been developing some of these elements, particularly the aforementioned three, since the beginning of the period.[2]

It should be noted that the period under review does not in this case coincide with the original period of the country strategy document, as would normally be the case. During the first four years, the Bank operated in Mexico on the basis of the country strategy approved for the 2001-2006 period (document GN-2181-1), as updated. The final 13 months of the period were governed by the version of the Bank's country strategy with Mexico approved on 3 December 2010 (document GN-2595-1). The

Tourism revenue exceeded US$1.3 billion in 2008, a level it had not regained as of end-2011.

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absence of a country strategy for the first four years of the period makes it impossible to examine the relevance of intent and anticipation capacity during this period. However, an analysis of the programming for the period demonstrates that the Bank maintains strategic continuity with Mexico.

This document is divided into six sections. This introductory section establishes the evaluation objectives and identifies less traditional aspects that will be given special attention. Section II describes the context in which the Bank's program was implemented. Specifically, it provides a general contextual overview of Mexico and identifies the most significant challenges to development, the main events of the period, and the factors affecting the Bank's relevance in the country. Section III describes the Bank's program during the period and evaluates the suitability of the Bank's assistance to the structural development needs and the challenges of the country, and the relevance of the Bank's position in the country. Section IV examines

the cost-effectiveness of implementing the Bank's program. Section V assesses the degree of evaluability of Bank operations, the degree of achievement of the expected results of lending operations, and progress made towards using country systems. Lastly, Section VI presents the conclusions and recommendations for Management made by the Office of Evaluation and Oversight (OVE).

2

Mexico faces fiscal pressures resulting from a decline in oil revenues and spending pressures associated with an aging population.
© IDB, 2011

2 Context

Mexico is a country of 114 million inhabitants, with annual per capita GDP of US$14,600, an open economy,[3] and solid macroeconomic management. Despite its growth, trade liberalization, and economic stability over the past decade and more, the country faces challenges requiring deep structural reforms.[4] Yet since 1997, the political system has not produced the legislative majorities needed to enact significant constitutional or economic reforms, with the exception of a partial pension reform, the 2007 fiscal reform, changes in energy legislation, and consumer tax increases between 2008 and 2009 (EIU, 2000-2011).

A. Structural challenges

Various studies[5] concur that Mexico should release its growth potential, reduce inequality, confront the underlying fiscal pressures, reduce insecurity, and mitigate the effects of climate change (Galindo, 2009).[6]

During the two decades preceding the financial crisis, Mexico grew at an average rate of 3.25%, which is below its growth potential (IMF, 2011). Since the entry into force of the North American Free Trade Agreement in 1994, average annual per capita GDP growth has been 1.58%, lower than in Argentina, Brazil, and Chile.[7] There are several reasons for this below-potential growth. They include low productivity, rigidities in the goods, services, and labor markets, limited access to credit generally and particularly for small and medium-sized enterprises (SMEs) and households, low quality education system, and lack of citizen security (IMF, 2011) (IDB, 2002) (OECD, 2011).

The income gap among the economically active population is the second highest of OECD countries. This places Mexico among the world's countries with the greatest inequality.[8]

In addition, Mexico faces fiscal pressures resulting from a decline in oil revenues and spending pressures associated with an aging population.[9] At present, oil revenues account for one third of government income and 8% of GDP, and there is a risk of a further slide to 4% of GDP by 2030 (IMF, 2011).[10] Petróleos Mexicanos (PEMEX) has witnessed seven consecutive years of oil production decline. Since Mexico's production peak in 2004, there has been a cumulative drop of 24%.[11] Tax revenues, particularly for subnational governments, are below average for OECD countries (OECD, 2011).

Mexicans perceive citizen insecurity as one of the country's leading problems (Latinobarómetro, 2012).[12] The sense of insecurity is fueled by an increase in the murder rate. That perception is heightened by the incidence of crimes such as robbery or assault on the street or in public transportation (24.2% of all crimes) and extortion (23.7%) (INEGI, 2011), the high level of impunity,[13] and low confidence in the criminal justice system.[14]

Solutions to these problems require structural reforms. However, these are dependent on legislative consensuses that are hard to achieve in the absence of legislative majorities (EIU, 2000-2011).

B. Main challenges of the period

The 2007-2011 period was marked by the financial crisis, the influenza A (H1N1) epidemic, and a pronounced rise in the rate of drug-related murders.

The 2008-2009 financial crisis led to the steepest drop in Mexico's output since 1932, with the resulting fiscal pressure, the loss of more than 180,000 formal jobs in 2009, and a rise in asset poverty to more than 51% of the population in 2010 (CONEVAL, 2012).[15] Real household income fell particularly in urban areas, accompanied by an increase in the population without access to food.[16]

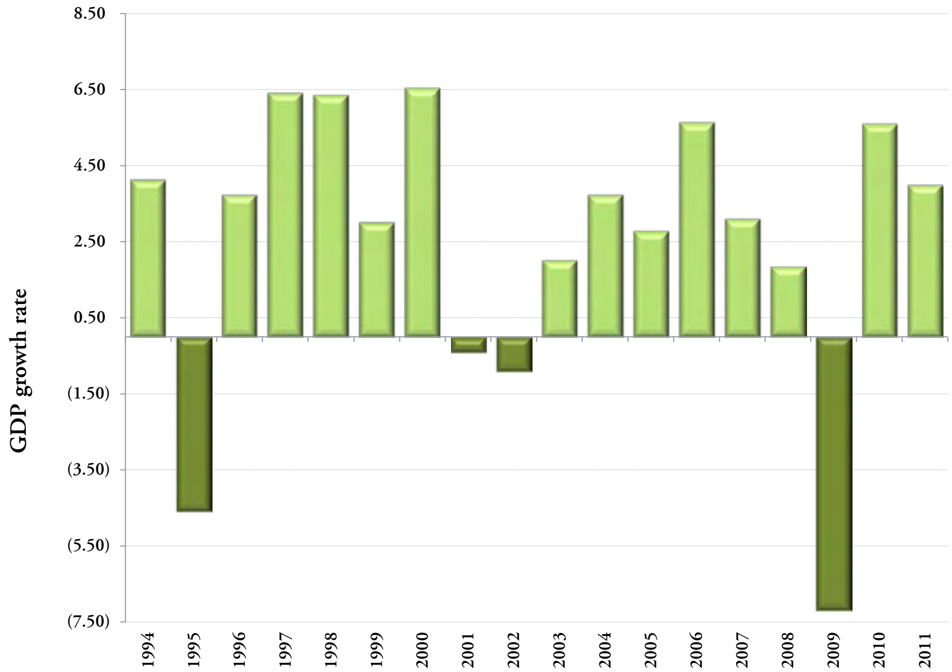


Figure 1A
GDP growth rate[1]

Source: INEGI, Short-term Economic Data. http://www.inegi.org.mx/sistemas/bie/

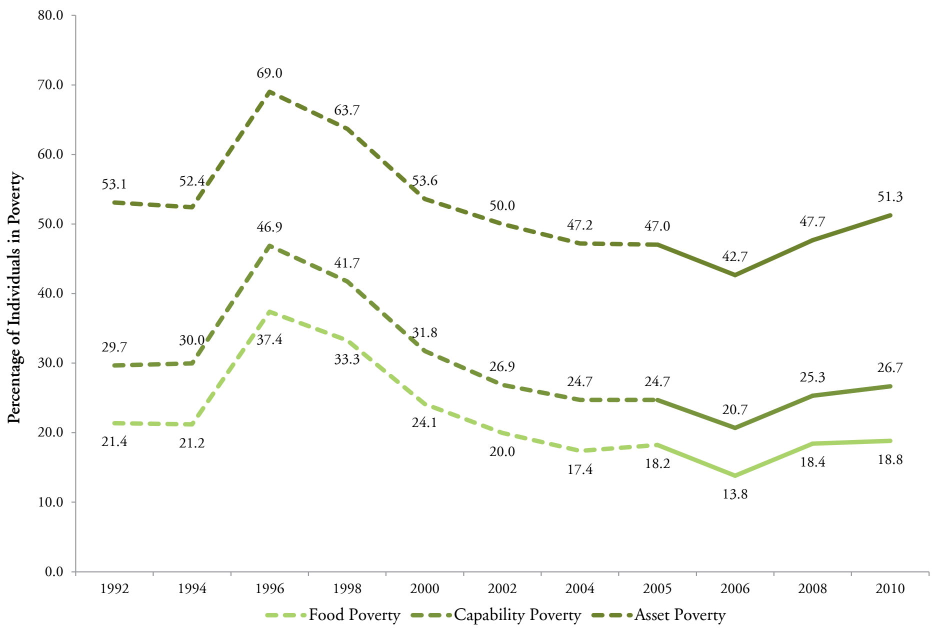


Figure 1B
Evolution of Poverty in % of individuals[17]

Note: The 2006, 2008 and 2010 estimates use the adjusted expansion factors for the final results of the Housing and Population Census 2010, estimated by INEGI.

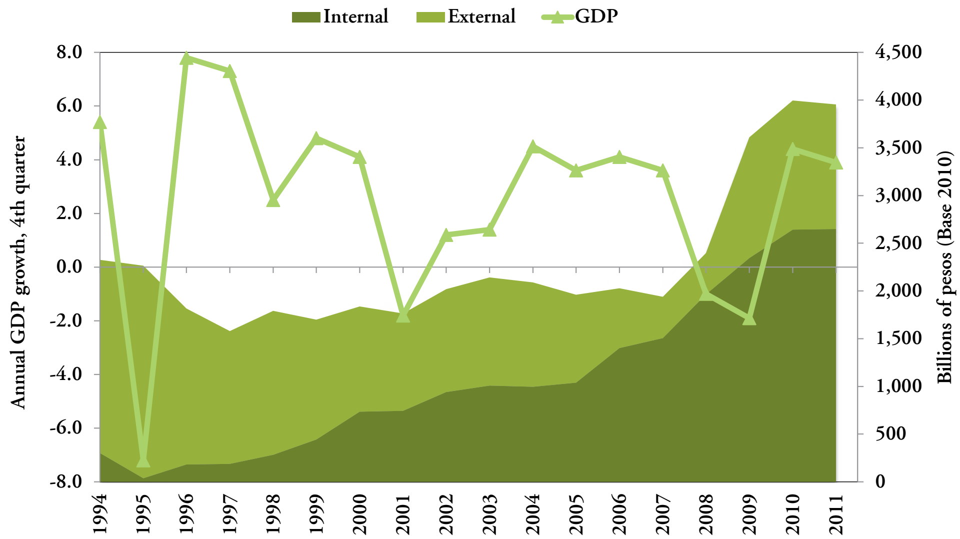
Source: Estimates based on CONEVAL ENIGH 1992-2010

The recession had as severe an effect on the Mexican economy as it did due to several factors. One of them is the link between Mexican industrial activity and the United States manufacturing sector.[18] The sharp decline in U.S. output in 2009 led to a steep drop in external demand in Mexico. In addition, the slowdown in international trade during the period was magnified in Mexico, since two thirds of the country's economy depends on trade with other countries (Office of the President, 2012).

FIGURE 2

Levels and composition of Mexican public debt

Source: Economic Data Bank, INEGI. http://www.inegi.org.mx/sistemas/bie/



The financial crisis affected the composition trend of Mexican public debt. External debt levels began to rise in 2010 (see Figure 2).[19] The repayment process with multilateral organizations was reversed and Mexican authorities turned to these organizations to cover the country's financial needs.[20] In addition, subnational government debt levels with private and development banks rose significantly.

The 2009-2010 influenza A (H1N1) epidemic had a negative impact on tourism, which is one of the country's major foreign currency revenue generators, and on business activity. Mexico's foreign currency revenue from international tourism fell by almost 50% (Banxico, 2012). Figure 1 in Annex II shows that the sector has yet to return to its pre-crisis levels.[21]

The homicide rate rose significantly during the period (INEGI, 2011). There appear to be multiple reasons for this increase.[22] Thus, it is important to improve the analysis of crime information, as well as the effectiveness of crime prevention interventions (Hope, 2012).

C. Factors affecting the Bank's relevance for Mexico

As should be expected in a middle-high income country that has a large economy and easy access to financial markets[23] and is in the process of reducing its external debt (see Annex II, Figure 2), the Bank has been losing financial and technical relevance. Average annual Bank disbursements to Mexico during the 2007-2011 period were equivalent to less than 0.2% of GDP.[24] Nevertheless, a relationship with the Bank continues to be beneficial for Mexico.

Mexico is also recognized as having developed institutional and technical sophistication, as reflected in a solid macroeconomic framework and its position at the forefront of the design of social programs, which tends to reduce the country's need for the Bank's technical assistance (IMF, 2011). Furthermore, Mexico has strengthened its institutions, as demonstrated by various institutional indicators that rank Mexico higher than the regional average.[25]

The federal budget allocates a financing ceiling to government ministries, without regard to the source of financing (e.g., tax revenue, multilateral loans, etc.), to defray the cost of previously identified federal programs. In other words, partial financing of a federal program by the Bank does not involve an increase in the resources allocated to the respective government ministry (i.e., it has no budget additionality), but it does come with transaction costs related to working with the Bank (see Chapter 3).[26]

In this context, the Bank has been developing a business model or position in Mexico that, among other things, is intended to enhance the Bank's relevance by working with the private sector and subnational governments and making better strategic use of technical assistance.[27]

3

The IBD has revitalized its role as interlocutor in the social policy dialogue, demonstrating that if the legal hurdles were resolved, it could expand its heretofore limited but important role in strengthening subnational governments.

3 Relevance

A. The Bank's program

The strategic objectives pursued during the period are as described in the strategy documents (i.e., documents GN-2181-1, as updated, and GN-2595-1). As shown in Table 1 in Annex I, the program actually implemented is a continuation of the Bank's work in Mexico during the preceding period. The Bank did more business with the country during the period under review than in the previous period, and the downward trend observed at the end of the last period and at the beginning of the present period has reversed (see Annex II, Figure 3).

The Bank financed 10% of the Mexican government's annual financing needs during the period.[28] In addition, it has revitalized its role as interlocutor in the social policy dialogue, demonstrating that if the legal hurdles were resolved, it could expand its heretofore limited but important role in strengthening subnational governments.

The Bank's activity during this period falls within four major areas: (i) social; (ii) productive; (iii) public finance; and (iv) climate change. These strategic areas are essentially the same as those included in the 2001-2006 country strategy and its subsequent updates, with some differences: (i) the area related to promoting regional integration, included in the 2001-2006 country strategy, loses relevance during the period under review; and (ii) the area related to modernizing the State and promoting decentralization, included in the 2001-2006 country strategy, now focuses almost exclusively on strengthening the fiscal capacity of states and municipios, and is no longer connected with the sub-objectives of improving public services, the justice system, and the regulatory framework for privatization and decentralization, and strengthening the protection of property rights. However, technical assistance activity in this area is sizeable (US$10.5 million) and encompasses several issues (e.g., transparency and anticorruption, results-based management, accounting harmonization, municipal

strengthening, public investment systems, and citizen security). Tables 2 and 3 in Annex I summarize approvals and undisbursed balances by strategic area and type of borrower and instrument.

During the 2007-2011 period, the Bank approved 43 operations for a total of US$9.602 billion, more than twice as much as in the preceding period. Twenty seven of these were sovereign guaranteed operations totaling US$8.666 billion (i.e., 90.3% of the total), while 16 were non-sovereign guaranteed (NSG) operations totaling US$936 million (i.e., 9.7% of the total). Of the total dollar amount approved, 50.6% was approved under lines of credit (i.e., conditional credit lines for investment projects, or CCLIPs) and 20.8% corresponded to programmatic policy-based loans (PBLs). In targeting terms, 25.1% was directed to the social sector, 43.2% to the productive sector, 17.8% to the public finance sector, 13.4% to climate change, and 0.5% to integration. There were no loans for State modernization other than those relating to municipal strengthening, which were grouped under the public finance area.

During the 2007-2011 period, the Bank increased its approvals of NSG operations in Mexico from US$255 million (during the 2002-2006 strategy period) to US$936 million (during the 2007-2011 period). Of the 16 approved operations, 15 were in three of the focus areas (climate change, productive, and social) of the 2010-2012 country strategy and one corresponded to the sectors identified as strategic in the relevant documents. Tables 4 and 5 in Annex I summarize the Bank's work by type of window, sector focus, and characteristics (e.g., currency and term).

The number of technical assistance operations approved in the 2007-2011 period increased by 71% with respect to the preceding period (i.e., from 75 in the 2002-2006 to 128 in the 2007-2011 period), while the aggregate amount in technical assistance operations rose from US$54.3 million to US$84.8 million, broken down as follows: 88 nonreimbursable technical assistance operations totaling US$40.7 million, 39 nonreimbursable Multilateral Investment Fund (MIF) operations totaling US$44.1 million,[29] and one investment grant in the amount of US$10,000. At the end of 2011, the technical assistance portfolio for Mexico consisted of 48 operations in execution with a balance of US$15.8 million and 41 MIF operations in execution with a balance of US$31.7 million.

B. The program's relevance in relation to structural challenges

Considering that the Bank's financial contribution to Mexico during the period was approximately equivalent to 0.2% of the country's GDP (see Chaper 2), its contribution toward resolving the country's structural challenges is necessarily limited and the Bank cannot respond to all challenges without risking irrelevance. Moreover, due to the size and technical development of Mexico's economy and the demand-driven nature

of the program, the Bank acts more in response to the government's needs than on its own initiative. Despite these limitations, the Bank's program over the period has generally been consistent with the country's structural development challenges, such as boosting economic growth and competitiveness, reducing inequality, bolstering the fiscal framework, strengthening security, and mitigating the effects of climate change. However, the Bank has played a minor role in promoting the integration of Mexico into global markets, in an attempt to attenuate the link between Mexican industrial activity and the United States manufacturing sector (see Chapter 2).

Forty-three percent of the Bank's resources have been aimed at enhancing productivity in order to help Mexico achieve its growth potential (e.g., mortgage market, housing, urban development, agricultural development, etc.). An additional 25% was invested in the social sector with a view to both improving productivity and contributing to more equitable growth (e.g., social protection and education).

The Bank has supported the Mexican government through the fiscal consolidation program (ME-L1090) and has done significant technical assistance work with the states to improve their public finance and expenditure management, which is of key importance given the prospects of declining oil revenues as a percentage of the Mexican government's total revenues (EIU, 2000-2011) (World Bank, 2007) (IDB, 2010) (IMF, 2011) (OECD, 2011). In terms of fiscal framework sustainability, one of the greatest challenges, in the view of experts, are the costs arising from an aging population (see Chapter 2). To date, the Bank's support has been minor.

In the climate change sector, the Bank approved three PBLs for US$1 billion to support the development of a solid legal and institutional framework for capably addressing climate change challenges. In addition, the Bank approved US$7.9 million in technical assistance, including two operations in the amount of US$400,000 to help states implement action plans in response to climate change, and five operations were carried out through the NSG window to finance renewable energy projects.

In order to address the citizen security challenge, the Bank supported the Ministry of Public Safety (SSP) with a technical assistance operation in the amount of US$830,000 and has started to provide support to address the security needs of some states (e.g. Chihuahua) and through the Habitat program (see Chapter 5).[30]

C. The program's relevance in relation to the challenges of the period

Of the three challenges of the period, the Bank responded primarily to the financial crisis and partially to the influenza A (H1N1) epidemic[31] and the rising insecurity. By substantially increasing its disbursements, the Bank made a significant effort to provide liquidity to the Mexican economy (see Annex II, Figure 3) during the financial crisis. Total disbursements equaled 22.8%, 21.3%, and 19% of the Bank's total disbursements for 2009, 2010, and 2011, respectively (see Annex II, Figure 4). In 2009, disbursements amounted to 28% of Mexico's total financing needs. To achieve this, the Bank began to prepare some operations seven months prior to the fall of Lehman Brothers, after the Minister of Finance had expressed great concern for the economy (see Annex I, Table 6, and Annex II, Figure 5), and accelerated preparation and disbursement times of operations.

Lastly, in response to the liquidity crisis resulting from the financial crisis, the Bank responded by increasing loans to the private sector with an appreciable countercyclical effect. Of the total resources directed to this sector, 44.5% (equivalent to 12 of the 16 operations) was approved between 2009 and 2010, and five of these operations were carried out specifically in response to the contraction of the supply of trade financing (see Annex I, Table 5). In addition, the sovereign guaranteed resources that the Bank channeled to the mortgage sector arrived precisely during the period of lowest liquidity in the financial markets.

D. The Bank's relevance as a development institution

While the contention is that Mexico's demand for Bank financing and technical assistance should trend lower (see Chapter 2), the Bank continues to offer financial, technical, and operational advantages that Mexican authorities find attractive. Proof of this is the evolution of the Bank's portfolio during the period, which reversed the downward trend seen in the previous period (see Chapter 3), and the institution's repositioning in the sector policy dialogue. Moreover, the Bank has been positioning itself by working with the private sector and subnational governments and making more strategic use of technical assistance. This section will identify the Bank's financial, technical, and operational advantages, as well as assess the Bank's position.

1. Financial importance

Despite the relatively small role of Bank financing in Mexican public finance, the increasingly easy access that the Mexican government has to the markets, and the fact that domestic debt is replacing external debt (see Chapter 2), the country still finds the Bank's resources attractive. In fact, demand for Bank resources outstrips availability. The financial crisis revealed the Bank's value as a countercyclical lender and

The non-sovereign guaranteed resources that the IDB addressed the mortgage industry came during the lower liquidity period of financial markets, which helped Mexicans obtain financing to purchase their homes.
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encouraged the Mexican government to reconsider its policy to accelerate repayment of Bank debt and reduce its borrowing levels with the Bank (see Annex II, Figure 3). In addition, the rates and terms of the Bank's dollar resources continue to be competitive with those available to Mexico in the financial markets (see Annex II, Figure 6).[32] The amortization periods offered by the Bank allow financial intermediaries such as Banco Nacional de Obras y Servicios Públicos (Banobras), Nacional Financiera (Nafin), and Sociedad Hipotecaria Federal (SHF) to finance in general projects in foreign currency (or in local currency for the private sector)[33] on better financial terms than available in the local market.

However, there are factors that make Bank loans more expensive. The first of these factors are hassle costs, such as the time needed to prepare and disburse loans and respond to letters and no objection requests, and the duplication of procedures due to the need to follow the Bank's guidelines. Despite progress during the period in reducing loan preparation and disbursement times, primarily in relation to greater use of country systems (see Chapter 5), there is still room for improvement. In the case of Bank loans to the Mexican government, the federal budget has two types of transfers: (i) resources that the government ministries transfer to their delegations to execute federal programs; and (ii) federal resources that are transferred to the states or federative entities to execute programs agreed upon annually under coordination agreements indicating projects to be financed. Therefore, the transaction costs related to the expenditure reporting required by the Bank can be high, involving as it does the coordination and consolidation of the expense vouchers (at the beneficiary level) of 32 executing entities—delegations and states—and many more if execution requires coordination with the municipios.[34]

Aside from hassle costs, there are other financial costs, particularly in private sector operations. Typically, in local currency operations, the Bank passes its own funding costs (i.e., TIIE28 minus 60 or 80 bps) through to the borrower, additionally charging a spread[35] plus the typical breakage costs of swap transactions entered into to obtain local currency.[36] Obviously, as market competitiveness improves, it would be normal for private sector borrowers to refuse to accept breakage costs.[37] The private sector has shown an appetite for obtaining local currency loans without resorting to swaps.

2. Technical importance

Mexico has a well-developed capacity to conceptualize and implement large-scale social and economic programs and policies. It should be noted in this context that the Bank's technical assistance to Mexico plays more a supporting than a leading role in the country's policy dialogue and decision-making processes. Nevertheless, during the period under review, the Mexican government has found it beneficial to maintain a technical dialogue with Bank staff on issues of strategic value, such as fiscal matters, results-based management, the Oportunidades program, development of the regulatory framework for public-private partnerships, and the agriculture sector. In general, the Mexican government values the capacity of Bank officials to provide expert and independent second opinions that help to generate a productive dialogue among various Mexican stakeholders that, because of the pressures of daily concerns, would not necessarily take place without the participation of an external entity. In addition to direct support from its staff, the Bank has provided approximately US$17 million per year in technical assistance operations,[38] which the country's authorities value greatly.[39] However, as discussed below, there is room for growth and improvement.

3. Operational importance

Aside from the competitiveness of the Bank's financial terms and the technical value of its assistance, the Mexican government also values certain operational aspects of Bank assistance. Proof of this is that, despite the hassle costs, all of the operations with the federal government except the Oportunidades program were requested by government ministries. In particular, the Mexican government appreciates the quality of Bank operations, especially the emphasis on incorporating results frameworks and evaluation processes.[40] The Mexican government especially values the rigorous nature of Bank evaluations because they help the government to determine whether it should continue to finance federal programs or calibrate them based on the results of the evaluations, as was the case with the Oportunidades program. The Ministry of Finance (SHCP) expressed special interest in having the Bank participate in the Direct Farm Support Program (PROCAMPO), so it could perform an evaluation that would enable the SHCP to calibrate the farm subsidy program and make it more efficient, pro-poor, and equitable. In addition, the seal of quality that comes with Bank operations is appreciated, as in the case of the Fiscal Consolidation Program.[41] However, the general view is that the Bank could be more effective with Mexico if

it adjusted its processes, instruments, and organization to the specific needs of the country. For example, the authorities feel that the Bank's decision- making process is overly centralized, which produces delays and inefficiencies. The Office of Evaluation and Oversight (OVE) is analyzing these issues in greater depth in its evaluations of fulfillment of the commitments assumed under the IDB-9 and realignment, which will be presented to the Board of Executive Directors on a future date.

One of the main virtues of Bank operations is that they help ensure that programs started by one administration can transcend the political cycle. Moreover, the Bank's operations lead to greater coordination between the various levels of government and greater discipline in project execution.

Lastly, subnational governments, in view of their greater institutional needs, also appreciate the institutional strengthening that results from interaction with the Bank, the institution's capacity to make projects a reality, the support it provides during execution, the seal of quality associated with the Bank, which helps to enhance project viability, and the transparency and security of the Bank's fiduciary systems.[42]

4. The Bank's position

Seeking to continue to be relevant in a middle-high income country such as Mexico, the Bank has been boosting its work in the private and subnational sectors, while attempting to make more strategic use of its technical assistance. The work done in these three areas offers several points of contrast. OVE is preparing an evaluation of the Bank's position vis- à-vis middle-high income countries, where these issues are explored in greater depth and detail.

a. Private sector

Through a greater presence in the private sector, the Bank expects to contribute to the country's economic development, helping to resolve existing market failures that affect development and supporting sectors with highly positive externalities. To this end, the recommendation is to bring Bank activities in line with criteria that justify the delivery of direct support by multilateral development banks to the private sector (see Annex I, Table 1), although it is not necessary for private sector projects to meet all cited criteria. In addition, the criteria should be clearly and systematically applied and prioritized, in order to justify the use of scarce resources to finance private entities as well as to ensure that such resources are used in support of clear development objectives. It should be noted that in an environment like Mexico's where the local financial markets are in the process of maturing, there is a risk of crowding out the private financial sector.[43]

During the period under review, the volume of operations rose substantially with respect to the previous period (see Chapter 3), and private sector operations had an appreciable countercyclical effect (see Chapter 3). However, a detailed analysis of private sector projects shows that their connection with the cited criteria is weak (see Annex III). It has not been possible to identify clear criteria for streamlining or prioritizing the private sector portfolio, or using the various windows vis-à-vis the Bank's comparative advantage, the country's market conditions, and the applicable strategy documents. In addition, private sector projects have evaluability problems, so their effectiveness could not be evaluated and the relationship between their objectives and the development targets could not be ascertained.[44] This situation seems representative of what happens with the private sector portfolio in general. OVE is preparing an evaluation on this, as part of its evaluation of fulfillment of the IDB-9 commitments, which will be presented to the Board of Executive Directors in early 2013.

b. Subnational

The Bank's decision to increase its support for subnational governments is consistent with the Mexican government's wishes and some of the most significant structural challenges: strengthening of the fiscal position,[45] growth, poverty,[46] and inequality[47] (World Bank, 2007) (IMF, 2011) (OECD, 2011) (UNDP, 2011) (EIU, 2000-2011) (UNDP, 2011).[48]

The Mexican government recognizes the Bank's competence and experience and would like for it to increase its support of subnational governments. However, the legal framework in place prevents the Bank from lending directly to subnational governments.[49] The Bank has made major strides during the period under review to increase the volume of business it does in the sector and improve its additionality.[50] Specifically, it began to work directly with the states through the use of technical cooperation (PRODEV and the MIF), which is increasingly scarce for Mexico, in order to support the states in areas such as financial management and public investment.[51] Mexico's federal government and the state governments that have received Bank support, particularly the State of Yucatán, have expressed a high degree of satisfaction. However, due to restrictions, the Bank has yet to find an efficient and effective mechanism[52] for substantially increasing its support for subnational governments, as evidenced by the small number of operations approved for the sector during the period (two for US$660 million), which account for 7% of the Bank's total direct lending to Mexico.[53] Therefore, as long as these restrictions persist, it is unlikely that the Bank will be able to increase its lending to the sector.

c. Technical assistance

The Bank believes that, by making a more strategic use of its technical assistance, it can reinforce its relevance and position as a strategic partner of the Mexican government. In general terms, technical assistance has been well received and has enabled the

Bank to regain its supporting role in the policy dialogue (see Chapter 3). However, certain factors limit its effectiveness. These factors include the prevalence of its use as a mechanism for generating business rather than knowledge, limited strategic planning in the prioritization of technical assistance operations, and their high execution costs.

According to the Grants and Co-financing Management Unit (GCM), there is a relative correlation between technical assistance operations and loan operations (IDB, 2012). The Mexican government has indicated that technical assistance would be more advantageous if it could be used without having to be associated with specific projects in areas of strategic value where the Bank is perhaps not financing projects and where greater externalities could be generated.[54]

In addition, certain factors have been identified that have hindered the strategic use of technical assistance during the period under evaluation and that must be viewed primarily from the supply side, such as the limited availability of technical assistance resources and the dearth of suitable technical assistance instruments for meeting Mexico's needs. Specifically, technical assistance programming, rather than explicitly serving as strategic planning, was primarily the result of: (i) bureaucratic incentives internal to the Bank (e.g., the idiosyncrasies of each fund and Bank rules on allocating resources from the funds) that the country is not familiar with; and (ii) an ad-hoc negotiating logic between the divisions of the Bank's Vice Presidency for Sectors and Knowledge (VPS) and the Mexican government ministries, subnational governments, or technical assistance beneficiaries. This situation is partially reflected in the large and diverse number of operations approved during the period (128) and the number of sectors covered (13) (IDB, 2012). Moreover, the Bank's technical assistance lacks proper monitoring mechanisms, which makes it hard to supervise and evaluate them, and to aggregate their results for comparison against the Bank's strategic objectives in Mexico.[55] The Mexican government reported that it did not know the amount or number of technical assistance operations that the Bank was planning on assigning each year, or the areas where the resources could be used.

Lastly, the beneficiary entities prefer for the Bank to directly execute the operations[56] due to the hassle costs.[57] As a result, the country's government ministries did not execute any technical assistance operation under their responsibility in 2010.

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Palacio Nacional, Mexico.
Due to the size and technical development of Mexico's economy and the demand-driven nature of the program, the Bank acts more in response to the government's needs than on its own initiative.
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4 Efficiency

This section assesses the preparation and execution of operations arising from the Bank's programming in Mexico. It presents the portfolio under evaluation and examines how efficiently the operations were prepared and executed.

A. Portfolio under evaluation

The project portfolio in Mexico totals US$11.678 billion, which includes all loans and guarantees approved between 2007 and 2011 (43 projects for US$9.602 billion), as well as projects that were active at the start of the period (16 projects with an undisbursed balance of US$2.076 billion at the beginning of 2007).

It should be noted that this record level of approvals was accompanied by a similar level of disbursements and a low level of cancellations.[58] The total amount pending disbursement went from US$2.7066 billion at the start of 2007 to US$2.9684 billion at the end of 2011. Total loans pending disbursement rose by 10% in the sovereign guaranteed portfolio (from US$1.8841 billion to US2.0695 billion) and by 467% in the non-sovereign guaranteed portfolio (from US$192.5 million to US$898.9 million, of which US$621 million corresponds to active guarantees).[59] At December 2011, 56% of the portfolio pending disbursement is for projects in the productive area.

B. Efficiency of operations

Portfolio efficiency was measured using traditional indicators, such as preparation and execution times and costs during the 2007-2011 period, compared against: (i) the Mexico portfolio during the 2002-2006 period; (ii) the Bank average; and (iii) the average for the other Group A countries (Argentina, Brazil, Venezuela) (see Annex I, Table 7).

There was considerable improvement in project preparation times in comparison with the preceding period and with other countries. Average preparation time for investment projects in Mexico (from pipeline to approval) fell by 50%, from 46.6 months (2002-2006) to 23.1 months (2007-2010), while the Bank average decreased from 39.8 months to26.6 months (-33%). Meanwhile, the average reduction for the other Group A countries was from 39.8 months to 30.1 months (-21%).

In the period under review, despite the fact that the Bank and the other Group A countries cut their preparation costs by almost 40%, in Mexico these costs rose by US$193 for every million dollars disbursed (+28%) with respect to the 2002-2006 average, climbing to US$748. Nevertheless, these costs continue to be considerably lower than the averages for the Bank and the other Group A countries (US$2,191 and US$1,548, respectively).

Mexico continued to perform well in terms of execution times and disbursement levels, with problems mainly limited to specific operations approved prior to 2007. At end-2006, only two projects (18% of the active investment projects) included extensions, with an average of 43 months. During the 2007-2011 period, this situation remained unchanged, with no more than two operations with extensions at the end of each year. At end-2011, there were no projects with extensions, while the average for the rest of the Bank and for the Group A countries was 25%.

During the period, annual disbursements for investment projects increased in proportion to the total amount available for disbursement, suggesting an improvement in execution (see Annex I, Table 7). Between 2007 and 2011, an average of 37% of the available funds for investment loans was disbursed, with a peak of 55% in 2009. Between 2002 and 2006, the equivalent figure was 30%. As a result of the higher level and faster pace of disbursements, the average age of the active investment project portfolio fell from 2.6 years to 0.9 years between 2007 and 2011.[60]

This high disbursement level is in large part related to the active use of conditional credit lines for investment projects (CCLIPs) as investment instruments and the fact that they were rapidly executed. Of the 23 sovereign guaranteed investment loans approved between 2007 and 2011, nine closed during the same period. Of these, seven were CCLIPs (a total of 11 CCLIPs were approved). In addition, these CCLIPs disbursed a total of US$3.875 billion in 2007-2011, that is, 68% of investment loan disbursements and 48% of all sovereign guaranteed operations during the period[61] (see Annex I, Table 8).

Execution costs per million dollars disbursed fell during the period from US$949 to US$703 (-26%). In part, the low preparation and execution costs are related to the large size of the operations, which create economies of scale in Mexico in terms of the fixed costs associated with the approval and execution processes. In the 2007-2011 period, the average investment loan amount approved was US$289.8 million, which exceeded the Bank average of US$87.6 million and the average of US$154.4 million for the other Group A countries.

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Inequality is more pronounced in the indigenous population (79.3%) and in rural areas (64.9%) (CONEVAL, 2012), as well as among women. The gender inequality index (GII) was 0.448 in 2011, placing Mexico in 57th place out of 187 countries.
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5 Effectiveness

This section examines the effectiveness of the Bank's program in Mexico in relation to its objectives. It assesses the evaluability of operations in Mexico in the context of implementation of the new Development Effectiveness Framework, and the main results achieved by Bank-supported programs during the period, with a disbursement rate of over 40% and information that allows for their evaluation. It also analyzes the Bank's progress towards greater use of country systems and coordination with other donors.

In terms of results, it is important to note that the Bank has primarily supported programs initiated and designed by the Mexican government. In addition, the Bank's financial contribution is a fraction of the program's total cost. This makes it difficult to attribute any results of the programs to the Bank's specific contribution. Accordingly, OVE has made efforts to document not only the results and the financial support but also the nonfinancial additionality/value-added provided by the Bank during operation design and execution. The information sources include the Bank's monitoring and evaluation systems (PMRs, PCRs), assessments conducted primarily by the National Evaluation Council (CONEVAL), as well as information collected from the OVE work missions in Mexico.

A. Evaluability

In 2009, the Bank introduced the Development Effectiveness Framework (DEF) with the objective of determining the evaluability level of operations at the time of approval. An analysis of the DEM scores obtained for sovereign guaranteed operations between 2008 and 2011 (92.5% of all operations in Mexico during the evaluation period) indicates improvements in evaluability level over time, matching the trend observed for the Bank as a whole. While a comparison with the preceding period (2002-2006) is not possible, the exercise with the other Group A countries

The IDB continued to support the Oportunidades Human Development Program through loan operations and nonreimbursable technical assistance operation.
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and the Bank during the time the DEM was in effect (2009-2011) points to better overall performance for Mexico (particularly in the program logic and evaluation and monitoring areas) than for the other Group A countries and for the Bank (see Annex I, Table 9).

Six of the seven government-designed programs in which the Bank participated have been rigorously evaluated (PROCAMPO is the exception). A total of twenty-five sovereign guaranteed operations closed during the period, and thirteen of the fourteen that require Project Completion Reports (PCR) have them. Of the eight NSG operations that closed, none has a PCR, and only one of the open operations (ME-L1066) has a Project Supervision Report (PSR), which makes it hard to objectively assess their performance.

B. Effectiveness by sector

1. Social

a. Social protection

During the 2007-2012 period, the Bank continued to support the Oportunidades Human Development Program through three loan operations (ME-L1052, for US$200 million; ME-L1067, for US$600 million; and ME-L1080, for US$800 million) and a nonreimbursable technical assistance operation (ME-T1112, for US$1 million).

The Bank's support was provided both in the form of partial financing to run Oportunidades and technical assistance, supporting the program's evaluation agenda and improving its operation in urban areas. To this end, through technical assistance operation ME-T1112, the Bank financed a series of studies that were used to perform a diagnostic assessment and develop proposals for improving various aspects of Oportunidades. Based on these proposals, operation ME-L1052 launched a pilot program that included six modifications to the program: a new targeting mechanism, a new scholarship system, a new beneficiary care model, a new health care model, a new nutrition strategy, and a new bank- based mechanism to deliver transfers. Operation ME-L1067 financed the evaluation of this pilot.

With regard to the positive outcomes of the pilot, the new scholarship system was implemented without any major delays, and internationally recognized specialists were hired to conduct an impact assessment. The impact assessment showed that the results of the new scholarship system depend on the local context in which it is implemented. Therefore, a decision to change the scholarship system should be made carefully taking into account the specific contexts of each locale. With regard to the new targeting mechanism, the Bank first proposed a multidimensional mechanism that was criticized by the Mexican authorities from a technical standpoint. In view of

this, another proposal was advanced for a linear mechanism solely based on income. This new mechanism proved to be an improvement on the first, since it yielded lower leakage and undercoverage rates.

Other parts of the pilot were not as successful. The new alternative health model, for example, was implemented without sufficient controls. As a result, care was not standardized, and even some members of the control group were treated. In view of this, the impact assessment could not be performed. Meanwhile, on the initiative of the Mexican government, the bank-based system for processing transfers was rapidly expanded.[62] According to an external evaluation of the pilot, this system caused the beneficiaries to incur higher financial and transportation costs in collecting cash transfers (Mir, 2011).

The other two components of the urban pilot program have not yielded clear results. The comprehensive nutrition strategy is still in implementation, and the new Oportunidades personalized care model was expanded more rapidly than planned (due to the expansion of the bank-based transfer system) and before a cost-benefit analysis of its implementation could be made.

Another initiative supported by the Bank during the 2007-2012 period is the 3x1 Program for Migrants. This program seeks to promote infrastructure, service, and economic activity initiatives in the communities of origin of Mexican migrants in the United States, using federal, state, and municipal resources to triple the amounts invested by migrants through clubs in the destination country. The Bank's support during the period consisted of a pilot project (ME-L1012, phase one of a multiphase loan) that was aimed at: (i) financing production-related projects in the communities of origin; and (ii) encouraging effective community participation in the planning and prioritization of infrastructure projects in the communities. This pilot project was in turn supported by a technical assistance operation (ME-T1019).

The financing of production projects faced delays as the migrants contributing resources demanded to have co-ownership of the projects. This had initially not been contemplated since, formally speaking, the funds were coming from the migrants' clubs. The obstacle was overcome, and according to the most recent PMR (March 2011), 19% of the funds executed to date were used to finance these projects. According to individuals who were interviewed, the pilot did not succeed in ensuring that all community investment projects would be planned and prioritized jointly with the beneficiary communities. One reason for this was that these communities and the migrants tend to have divergent interests. While the former prefer basic infrastructure works, such as water and sewer works, the latter are more inclined towards investments consistent with higher levels of consumption, such as asphalting and electric lighting. Furthermore, according to the final evaluation report, the participatory planning model was never formally defined and there were problems in terms of aligning the

interests of many actors—migrants, beneficiary communities, and municipios—short periods for executing works, lack of preparation and experience among beneficiary communities, as well as an array of human resources problems during implementation (González Contreras, 2010).

b. Education

During the period, the Bank continued to support the two education programs that were implemented in the previous period and developed a new one to respond to the needs that were made manifest by current events. In 2010, the Bank approved phase II of the Community Education Program: Social Equity Builders (ME-L1033, US$100 million), which sought to improve the quality of basic education in municipios that lagged far behind in social indicators. The same year, the Bank also approved the second phase of the Skills-based Human Resources Development Program (PROFORHCOM) (ME-L1039, US$100 million), which sought to improve the employability of high school and technical school graduates, and their professional and technical training. In 2009, the outbreak of influenza A (H1N1) highlighted the importance of preventing the spread of disease and the need to improve school infrastructure in terms of water and sanitation. The Education Division and the Water and Sanitation Division jointly designed a new water, sanitation, and hygiene program in basic education which was approved in 2011 (Water, Sanitation, and Hygiene Program in Basic Education (PASHEB) (ME-L1086, US$350 million).

The outcomes of the Community Education Program are reflected in the performance of community schools in the tests for the National Evaluation of Academic Achievement in Schools. CONEVAL indicates that the gap between community schools and other schools narrowed between 2006 and 2010, although community schools continue to have the lowest performance in the Mexican education system. However, these findings should be evaluated in light of the extreme difficulty of retaining young people in remote rural communities. To better understand the outcomes of the Community Education Program, the Bank is supporting a program impact assessment, the results of which are expected in 2013.

With regard to the outcomes of PROFORHCOM, the OVE evaluation (OVE, 2010) compares the employment situation of recent technical school graduates and recent high school graduates. Preliminarily, the findings are that the former have higher rates of employment and higher initial wages than the latter. The evaluation included as part of phase II, to be performed in 2013, will enable further exploration of these findings.

The PASHEB program could not be evaluated because it was only declared eligible in August 2012. This program was designed in a complicated process lasting almost two years that included several consultations with international experts, a technical assistance operation led by the Water and Sanitation Division, and discussions

In terms of technical assistance, the Bank has approved six operations in the education sector for a total amount of US$2.72 million.
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between different departments of the Ministry of Public Education (SEP) and the Ministry of Health. The length of the preparation process and the delays in launching the program were due to matters both internal (difficulty in working between sectors) and external (complex dialogue with the SEP and a change in executing agencies, which led to a contract modification). Nevertheless, this program shows the Bank's proactive approach in responding to Mexico's specific challenges and helping the country develop new operations that go beyond the Bank's support of established government programs.

In terms of technical assistance, the Bank has approved six operations in the education sector for a total amount of US$2.72 million (ME-T1031, ME-T1041, ME-T1176, ME-T1177, ME-T1114, and ME-T1115). Four technical assistance operations were for client support and two for research. In addition, a regional technical assistance operation (RG-T1963, US$510,000) was approved to finance the impact assessment of the second phase of the Community Education Program, while another operation, led by the Water and Sanitation Division (ME-T1151, US$150,000), served to prepare the new PASHEB program. Lastly, a technical assistance operation approved in 2006 (ME-T1021) made it possible to finance a series of specific interventions to maintain the technical dialogue with the SEP during the period. Of these operations, only two have been completed, including the Opportunities for the Majority operation, which supported the loan for access to university education. The other two operations are separate from the education portfolio and are in response to specific interests that have to date not been reflected in public policy.

2. Productive

a. Mortgage market

The Bank supported the development of the mortgage market in Mexico by financing the Sociedad Hipotecaria Federal (SHF) through several loan operations (i.e., ME-L1063, MA-L1065, and ME-L1079, each for US$500 million) and technical assistance operations (i.e., ME-T1127, for US$750,000, and ME-T1183, for US$1 million). The Bank's support to the SHF was consistent with the challenge of expanding access to credit in Mexico, especially in light of the financial crisis, since the resources reached the mortgage sector precisely during the period of least liquidity in the financial markets.

The Bank's intervention (jointly with the World Bank) gave the primary and secondary mortgage markets liquidity and stability. Thanks to the injection of funds, the SHF's long-term liabilities rose from 10% to over 40% of total liabilities. This lowered the ministry's balance sheet risk and allowed it to expand its portfolio (from slightly over MX$65 billion to nearly MX$100 billion) all while maintaining lower capitalization levels. In addition, the general objective of promoting the development of efficient and inclusive mortgage markets in Mexico was partially achieved, since of the total resources invested by the SHF, the amount that actually went to finance mortgage loans was lower than anticipated. However, this lower amount did not affect the proportion of mortgage loans made to low-income households, which was regarded as a target. In other words, to the extent that the SHF resources were used to finance mortgage loans, the objective of the CCLIP ME-X1006 of making the Mexican mortgage market more inclusive was met.

In addition, the Bank has provided technical assistance that has been highly valued by the SHF authorities. This assistance has been delivered in two main areas. Firstly, the Bank has supported the implementation of a methodology for systematic and planned development: comprehensive sustainable urban development (ME-T1127 and ME-T1183). Secondly, the Bank has collaborated (using technical assistance resources from operation ME0137) with the National Program for Modernization of the Public Property Registries, which is aimed at ensuring legal certainty in real estate transactions.

Furthermore, the Bank executed three NSG projects in housing: Su Casita (ME-L1009, approved in 2006); Metrofinanciera (ME-L1011, approved in 2006); and Infonavit Facilidad Financiera (ME-L1112, approved in 2007).

b. Labor market

Job training is another area in which the Bank kept up active collaboration with Mexico. Between 2007 and 2012, the Bank continued its financial support of and technical dialogue with the Ministry of Labor and Social Welfare (STPS), in effect since 1997. Specifically, the Bank financed phase two of a multiphase operation,

Training and Employment Support Program (PACE), in the amount of US$100 million (ME-L1004), and a complementary loan in the amount of US$150 million (ME-L1084).

The PACE program in turn consists of two programs: the Employment Support Program (PAE) and the Training Support Program (PAC). During the 2007-2012 period, the Bank continued to support the financing of the PAE but not the PAC, which it had done in phase one. According to the individuals who were interviewed, the nature of the PAC was such that its impact could never be rigorously assessed (despite the Bank's insistence). In addition, the goals of the first phase of the PAC were not fully met. By contrast, the goals of the PAE were achieved in phase one and the program assessments—including one for the Bécate [Earn a Scholarship] component, prepared by OVE in 2006—showed potential positive impacts on the employment rate. A recent evaluation (Gameren, 2010) found positive impacts on the employment rate and on income, but the findings of a subsequent analysis by Management were divergent and less positive.[63] The expectation is that similar results will continue to be seen, since the program has not been substantially modified.

The Bank's collaboration with the STPS acquired greater relevance during the international financial crisis. In an attempt to contain the increase in unemployment, the Mexican government requested a loan for US$150 million, complementary (ME-L1084) to phase two of the program, to expand various PAE components (Bécate, the Employment Portal, job counseling services, and mixed training services).

In addition, the Bank maintained an extensive technical dialogue with the government through several technical assistance operations, which included to operations to monitor and evaluate the public policies of the STPS (ME-T1037), to promote gender mainstreaming and social inclusion policies under the PACE II (ME-T1039), and to support the public sector in dialogue on labor market and social security policies (ME-T1174). According to government authorities, over the past five years the Bank not only has played a crucial role in the operation of the PAE but also has been a very important partner in developing evaluation capacity inside the STPS and in raising sensitivity and awareness on the employability of women in the Mexican business sector.

c. Urban development

The Bank's greatest contribution to urban development in Mexico has been the support provided to the Habitat program (phases I, II, III). The objective of the program is to help reduce poverty in urban areas primarily through better access to basic services and infrastructure. Phase II (ME-L1019) in the amount of US$150 million and phase III (ME-L1098) in the amount of US$280 million were approved during the period under evaluation. Phase II was completed in 2011, while 26.3% of the Phase III loan had been disbursed by mid-July 2012. In addition, the Bank approved implementation with the private sector of the Mejora tu Calle Program (ME-L1044).

Habitat was evaluated in 2007 by Mathematica Policy Research.[64] In addition, CONEVAL has conducted several performance evaluations and is planning to perform an impact assessment in 2012 to measure the impact attributable to the program in terms of infrastructure services, organization, and community participation in the Habitat Polygons (CONEVAL, 2010). CONEVAL finds the Habitat program satisfactory with respect to the following parameters: all works exist, 95% are in operation, and 99% of beneficiaries believe that the works have some degree of usefulness (68.4% find them to be very useful), with a high degree of satisfaction among users and good monitoring of the work performed. CONEVAL recommended working more closely with the communities in order to ensure the sustainability of the works and services. Phase III of Habitat includes violence prevention pilot initiatives and a procedure for scaling them up to the national level (financed through technical assistance operations) if they prove successful. According to the Ministry of Social Development, the relevance of technical assistance operations has been diminished by delays and insufficient monitoring by the Bank. Aside from this specific problem, the Bank's contribution to the Habitat program is regarded as positive in terms of strengthening of information systems, impact assessments, and support for technical dialogue.

The Bank approved six technical assistance operations in the urban development sector, for a total of US$4.45 million (ME-T1025, ME-T1028, ME-T1127, ME-T1131, ME-T1163, and ME-T1183). All of these were client support operations, except one technical assistance operation that financed violence prevention pilot initiatives for the Habitat program (ME-T1163). The only such operation that was completed during the period under review was ME-T1131, Local and Regional Development of the Southern Border. The final reports for this operation are available.

d. Water and sanitation

The country's needs in this sector have justified the Bank's continued support of the sector during the period under review in the country's rural areas through the Program for the Sustainability of Water Supply and Sanitation Services in Rural Communities (PROSSAPYS).[65] In 2005, the Bank approved phase II (ME0212) of the program in the amount of US$150 million, and at the start of 2007, the entirety of these resources had yet to be disbursed. The objective of this phase was to provide water and sanitation services to rural communities of up to 2,500 inhabitants. Phase III (ME-L1050), approved in 2011 in the amount of US$250 million, seeks to expand coverage of these services to include communities of up to 10,000 inhabitants.

PROSSAPYS II was completed in 2009. It was evaluated by CONEVAL, which reported a positive impact in terms of expanded coverage. Another evaluation, carried out by Tendencias Económicas, concluded that the program's targeting was satisfactory, despite the fact that only 54% of its beneficiaries live in communities classified as highly marginalized. By the end of 2011, PROSSAPYS III (ME-L1050) had disbursed 20% of its resources. The main innovation of PROSSAPYS III in

terms of design was the community organization component, which sought the active participation of beneficiaries during the operating phase in order to ensure greater sustainability of the works and facilities.[66]

With regard to technical assistance, the Bank approved five operations in the water and sanitation sector for a total of US$2.65 million (ME-T1144, ME-T1151, ME-T1167, ME-T1184, and ME-T1188). Two of these were for knowledge and capacity building products, two others were to support project preparation (including one that was canceled), and the last was for client support. Only one technical assistance operation (ME-T1151, support for preparation of the PASHEB program) was completed during the period.

e. Agricultural and rural development

At the start of 2007, the PBL Rural Financial System Consolidation (ME0243, US$300 million), approved in 2003, had 50% of resources pending disbursement. In the period under evaluation, the Bank supported the sector through three loans. In 2009, the Bank approved the Direct Farm Support Program (PROCAMPO, ME-L1041) in the amount of US$750 million (first operation of CCLIP ME-X1009 of up to US$2.5 billion). The Program to Strengthen Rural Public Goods (ME-L1045, for US$190 million) and the Rural Financing in Mexico Program (ME-L1055, for US$20 million) were approved in 2011. As of December 2011, PROCAMPO had disbursed 67% of its resources.

The PBL strengthened the Rural Financial System by supporting the expansion and consolidation of the menu of financial services for rural sectors. The program ended in 2007, and its main actions included measures to improve coordination between the various government programs in the rural sector and the creation of Financiera Rural, a decentralized federal agency that provides credit and technical assistance to rural sectors not typically served by other financial institutions. In 2008, a total of 836,743 people had obtained credit (20,000 in 2003), 96% of borrowers earned less than the minimum wage (80% in 2003), and there were 582 financial intermediaries (75 in 2003).

PROCAMPO was designed in 1994 by the Mexican government to support agricultural producers in the face of trade liberalization and subsidy elimination. The objective of ME-L1041 is to raise the income of beneficiary producers and reduce income fluctuation. The operational improvement component (US$36.5 million), which includes updating the registry of beneficiaries and properties, has had a low execution rate due to budget allocation problems. The direct transfer component (US$709 million) has been almost fully disbursed. Preparation of the baseline for the impact assessment component (US$4.5 million) was scheduled for 2011 but was delayed for budgetary and technical reasons and due to delays in negotiations with the entity in charge of the evaluation. The bidding process is expected to be held in late 2012. In addition, the Bank approved an NSG operation for the agricultural sector: Acción Banamex (ME-L1095).

In the 2007-2011 period, the Bank also approved six technical assistance operations in the amount of US$2 million, aimed primarily at: (i) supporting the PROCAMPO (ME-T1108) and Rural Public Goods (ME-T1122 and ME-T1146) loans; and (ii) conducting studies on rural public spending (ME-T1155) and the distributive effect of reforms (ME-T1029). In 2007, the Bank carried out more than 14 agrarian policy studies, which were very well received by the Mexican government.

f. Business development (SMEs)

In 2006, the Bank approved the Small and Medium-sized Exporters Finance Program (ME0240) (PYMEXS, US$100 million), which at the start of 2007 had only disbursed its revolving fund. During the period under evaluation, the Bank continued to support the SME sector through two operations under the CCLIP ME-X1010 for up to US$1.2 billion: ME-L1051 (US$301 million), approved in 2009, and ME-L1081 (US$50 million), approved in 2011. The Bank also approved four NSG projects: BBVA Bancomer TFFP (ME-L1077), Mi Tienda (ME-L1075), Crédito Real (ME-L1089), and Leasing Operations de México (ME-L1087).

The program for small and medium-sized exporters (ME0240) sought to increase and diversify exports in this segment through: (i) a line of credit through bank and nonbank financial intermediaries to finance working capital and investment; and (ii) technical assistance for Bancomext, the public credit institution in charge of the program. In 2010, the program was canceled at the request of the executing agency, having disbursed only US$9.5 million (9.5% of the proceeds). The reasons for this cancellation included administrative changes at Bancomext and the high costs of placing funds through financial intermediaries, rendered higher by the economic crisis. As a result, the program provided support to 125 small and medium-sized exporters, with the participation of two financial intermediaries, considered below the estimated targets for the program (700 small and medium-sized exporters and 9 financial intermediaries).[67]

The first operation under the CCLIP (ME-L1051) was aimed at supporting small and medium-sized enterprises that participate in the value chain of the oil industry through medium- and long-term financing (US$250 million), and at financing projects designed to reduce greenhouse gas emissions in the oil industry (US$50 million). Only US$100 million was approved and disbursed, so the results matrix is now being reconfigured.[68] The second operation under the CCLIP (ME-L1081) shares the objectives of the first but, in view of the demand observed in the first operation, places greater emphasis on financing renewable energy projects (US$40 million) than on financing small and medium-sized enterprises (US$10 million). The only disbursement has been an advance that was processed in December 2011, so no results have been reported yet.[69]

Mexico's below-potential growth can be explained by low productivity, rigidities in the goods, services, and labor markets, limited access to credit generally and particularly for small and medium-sized enterprises (SMEs) and households, low quality education system, and lack of citizen security. To increase it's competitiveness, Mexico has developed projects that include agave fields.
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3. Public finance

In 2001 and 2006, the Bank approved the Program for Investment and Strengthening of States and Municipios (FORTEM), phase I (ME0231, US$300 million) and phase II (ME0256, US$200 million). However, at the start of 2007, these operations had yet to disburse 49% and 100% of their resources, respectively. During the period under evaluation, the Bank continued to support subnational governments through a US$350 million CCLIP Program for Subnational Credit for Infrastructure, Public Services, and Institution-Strengthening (ME-L1017) approved in 2008 and through ME-L1059, in the amount of US$310 million, approved in 2011.[70] All of these operations closed during the period under review, with the exception of ME-L1059 (subloan to Yucatán), which at end-2011 had disbursed 23% of its resources.[71]

The FORTEM program, executed by Banobras, helped to finance investment plans and introduced improvements in management capacity in the states of Durango, Guanajuato, Jalisco, Nueva León, Oaxaca, Quintana Roo, and Veracruz, as well as in the municipios of Ixtapan, Monterrey, Morelia, Nueva Laredo, Tlalnepantla, and Uruapan. Nevertheless, the operations did not achieve their targets in terms of coverage. Moreover, the pace of program execution slowed, due in part to the program's operating mechanism. Given this context and the need to be able to finance operations in the most marginalized subnational governments, the Bank designed a new, more flexible CCLIP that included a component for financing eligible projects submitted by the subnational governments and a technical assistance component for project design.[72]

The purpose of the first CCLIP operation (ME-L1017) was to contribute to implementation of the Banobras strategic plan and the National Development Plan by: (i) expanding the market for subnational governments and public service

providers; (ii) expanding and diversifying the range of financial instruments offered to subnational governments/public service providers; and (iii) making investments with a high socioeconomic impact. In terms of preliminary results, as of 2010 the program had only fulfilled the objective related to expanding the subnational government portfolio.

In addition, the Bank approved 23 technical assistance operations with subnational entities for a total of US$12.8 million, primarily aimed at enhancing management capacity in subnational governments. These operations primarily include: (i) support for the execution of phase II of FORTEM; (ii) support for the implementation of results-based budgets and public investment systems; (iii) support for the preparation of State Climate Change Action Plans (PEACC); and (iv) support for funds administered by Banobras (Investment Fund for States and Municipalities, National Infrastructure Fund). Furthermore, the MIF approved eight technical assistance operations for subnational entities for a total of US$5.7 million, primarily aimed at helping state governments promote public-private partnerships. All of these operations have been very well received by the beneficiaries, who report that the operations have achieved their objectives.

The Bank also supported public finance at the federal level through two loans. In 2008, it approved the first phase of the Program to Support Results-based Budgeting (RBB) (ME-L1047), for US$45 million, which sought to enhance the efficiency, effectiveness, and quality of public expenditure by implementing RBB in the federal government.[73] In November 2011, the Mexican government decided to cancel US$20.5 million in order to complete the program using own resources, due to the restructuring of that program.[74]

The cancellation of resources and of various activities planned in the original design has led to, among other things, a review of the matrix of outcomes and outputs.[75] With regard to results, as of 2011 the results indicators show progress with respect to the baselines: (i) 47.8% of expenditure allocated to budgetary programs has a matrix of indicators and results (baseline: 9%); (ii) 53.4% of programmable federal budget expenditure was evaluated based on the results achieved by agencies and entities (baseline: 14%); (iii) 63.6% of budget programs were aligned with sector programs and the National Development Plan (baseline: 18%); (iv) 65.5% of programs evaluated in 2011 established commitments for improvement (baseline: 50%); and (v) 100% of Mexican states carried out plan-budget alignment actions and developed evaluation indicators.

In addition, the Bank approved 10 technical assistance operations for a total amount of US$6.8 million to support implementation of RBB at the federal level and state level (Yucatán, Tabasco, Baja California, Michoacán), as well as to support the development of state public investment systems (Yucatán and Tabasco). The beneficiaries report that the objectives are being satisfactorily met.

Furthermore, in 2010 the Bank approved a programmatic PBL to Support the Consolidation of Fiscal Sustainability (ME-L1090), in the amount of US$1 billion, with the aim of consolidating medium-term fiscal sustainability, maintaining countercyclical policies to encourage faster economic recovery, and improving efficiency and effectiveness in fiscal management.[76] In a context of economic crisis and growing risks, the Mexican government turned to the Bank in order to send a message to the markets of its commitment to implement structural reforms. A large portion of the adopted measures were approved between late 2009 and the first quarter of 2010, which is when the program was designed. As the strategic partner of the Mexican government, the Bank played a key role in the technical discussions on reforms. At the request of the Mexican government, but without prejudice to its efforts to proceed with the reforms, only half of the loan proceeds were disbursed due to the quick recovery of the Mexican economy.

4. Climate change

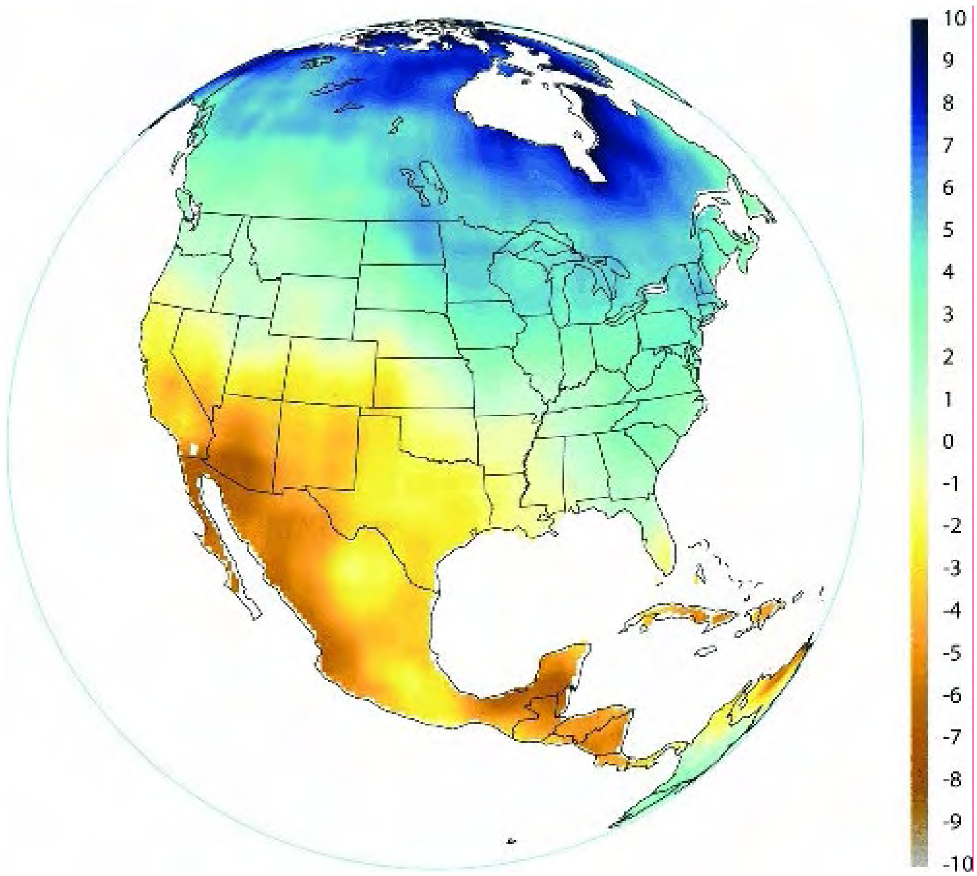
The Bank actively supported the Mexican government in promoting and implementing its climate change agenda, by approving three programmatic PBLs for a total of US$1 billion (ME-L1053 in 2008 for US$200 million, ME-L1058 in 2009 for US$400 million, and ME-L1078 in 2010 for US$400 million). The programs included components in support of: (i) macroeconomic stability; (ii) institutional framework; (iii) mitigation agenda; and (iv) adaptation agenda. As of December 2011, all three operations were fully disbursed. The Bank also approved US$7.9 million in technical assistance operations, primarily focused on supporting the climate change policy agenda at the national and subnational level, promoting energy efficiency, encouraging the use of renewable energy, and addressing systemic risk and other emergencies.

The information collected by OVE indicates that the commitments established in the policy matrices have been met and the programmatic approach has made it possible to provide continuous and efficient support in consolidating an institutional and operating framework able to sustain the climate change agenda. The main actions supported by the program include: analytical studies aimed at assessing the economic impacts of climate change in Mexico; institutional support for entities in charge of implementing the agenda (SEMARNAT, INE, SHCP); support for formulating and implementing the Special Climate Change Program (PECC), which is the main policy instrument in the climate change agenda and establishes specific mitigation and adaptation targets;[77] creation of a Climate Change Policy Division at SEMARNAT (in charge of coordinating and implementing the PECC); and development of a Sustainable Projects and Climate Change Unit at NAFIN.

Climate change: Estimated percentage decrease of rainfall in Mexico.

Comparison of 2021-2040 period to the 1950-2000 average. The Bank actively supported Mexico in the promotion and implementation of the climate change agenda by adopting three PBLs program totaling U.S. $ 1,000 million.

Image/data: Gabriel Vecchi, Geophysical Fluid Dynamics Laboratory, National Oceanic and Atmospheric Administration, *2012*



At the subnational level, the program has supported the development of State Climate Change Action Plans (PEACC) to increase the capacity of state governments in the areas of mitigation and adaptation. As of January 2012, seven states had prepared PEACCs (Chiapas, Tabasco, Veracruz, Puebla, Hidalgo, Guanajuato, and Nueva León) and more than 15 are in the preparation process.[78] The Bank provided direct support for preparing PEACCs in Yucatán and Tabasco through two technical assistance operations for a total of US$400,000.[79] In addition, it approved five private sector loans related to climate change (La Ventosa, ME-L1076; Eurus ME-L1068; Eurus CTF, ME-L1099; Mareña, ME-L1107; and BBVA Bancomer Facilidad Verde, ME-L1069).

C. Progress in the use of country systems

The greatest advances since the preceding period are in the areas of financial management, procurement systems, and results-based performance monitoring. With regard to financial systems, the Bank uses the country's budget, treasury, accounting, and internal and external audit subsystems in 100% of its operations. In addition, the expense reporting system has been streamlined, and an e-disbursement system has been implemented, which according to NAFIN, has cut disbursement request

times by 10 days. With regard to procurement systems, the Bank uses the CompraNet 5 information module to publicize procurement notices in 100% of its projects. In addition, bidding specifications and terms of reference have been standardized to accelerate execution times. The IDB, in coordination with the World Bank, has organized numerous training activities, which have been very well received by the Mexican authorities.

D. Coordination with other donors

There is generally a division of roles within the donor community that is defined by the Mexican government. Nevertheless, there has been a certain level of coordination in areas of common work. Some of the most significant achievements are highlighted below. For example, an investment plan for access to the Clean Energy Fund was designed jointly with the World Bank. Worth noting is the collaboration that exists between the two institutions and the Ministry of Civil Service (SFP) in the area of country systems and training for government employees on matters related to fiduciary models. Mexico is the first country where the IDB and the World Bank have harmonized general terms of reference, models for audited financial statements, and the list of eligible auditors.

Moreover, the IDB has coordinated activities in connection with the Rural Financing in Mexico Program (ME-L1055) and financed operations jointly with l'Agence française de développement and the SHF. In the housing sector, the Bank is coordinating with Kreditanstalt für Wiederaufbau and the Clean Technology Fund to finance sustainable dwellings. The private sector window is coordinating with the Japan Bank for International Cooperation and the National Infrastructure Fund to design a capital fund to support the environment.

6

Ceramic Pottery, Guanajuato, México
© Federico Delgado, 2009

6 Conclusions and Recommendations

This country program evaluation (CPE) finds that the program has generally been relevant to Mexico's structural challenges and especially to one of three challenges of the period under review (i.e., the financial crisis). With regard to the three cited areas of the Bank's position, the CPE finds that: (i) without prejudice to the substantial increase in the Bank's work with the private sector compared with the previous period and its countercyclical value, it has not succeeded in identifying clear criteria to organize or prioritize the existing portfolio, or to use the various windows vis-à-vis the Bank's comparative advantage, the country's market conditions, and the applicable strategy documents, in addition to having a low level of evaluability; (ii) the Bank and the Mexican government, despite efforts made during the period, have not yet found an efficient and effective mechanism to support subnational governments; and (iii) while the use of technical assistance has been well received, there is ample room for improving its strategic focus.

Portfolio efficiency, in terms of preparation, execution, and costs, has improved with respect to the preceding period and to other countries. Furthermore, there has been an improvement in the evaluability of sovereign guaranteed loan operations.

With regard to the program's effectiveness, although it is hard to separate the Bank's contribution from the country's own contribution, OVE finds that, in some programs, Bank participation has helped improve targeting (e.g., Oportunidades and PROCAMPO), design (e.g., PEC, Oportunidades), monitoring, (e.g., Habitat) and evaluation (e.g., PROCAMPO, PEC, Oportunidades). However, the evaluation has

also identified delays in execution (e.g., PASHEB) and found that some programs have failed to achieve all of their original objectives (e.g., Oportunidades, Habitat, 3x1 Migrants). OVE also notes significant progress in the use of country systems, which should help to lower transaction costs.

The evaluation suggests that, in order to enhance the relevance, efficiency, and effectiveness of the future program with Mexico, the Bank consider the following recommendations.

- Strengthen the relevance of the future program to the country's structural challenges, including support for the Mexican government in the Bank's future country strategy with Mexico to address the fiscal challenges related to the aging of the population and to promote the integration of Mexican industry into the global economy.

- Redefine and specify the criteria for the Bank's private sector work and monitor investments in the sector to guarantee results and the Bank's value added. In particular, the Bank should consider identifying clear principles for private sector intervention. These should ensure the sector's adherence to criteria that justify the use of scarce development bank resources to support private entities in Mexico, help prioritize the Bank's action, and improve coordinated participation by the various private sector windows in preparing the Bank's country strategy. In addition, for the design of non-sovereign guaranteed (NSG) operations, the Bank should consider developing evaluability criteria associated with market failures, ensuring that operations have indicators related to the country's development objectives.

- Reduce transaction costs. To reduce hassle costs, the Bank should make continued efforts to expand the use of country systems. In the specific case of federal government loans executed with transfers from the executing agency to the delegations or the states, using operating rules of the federal government program, the Bank should authorize the supporting documentation for the transfer from the central level to the delegation or state, as applicable, to serve as the expense voucher instead of requesting such documentation from the end beneficiary. In this case, national audit reports should be used to supervise the use of funds at the level of end beneficiary. In addition, the Bank and the Board of Executive Directors should jointly explore innovative ways of making loans to the private sector in local currency without having to resort to swaps.

- Explore effective ways of working with the subnational governments. In order to effectively support the country's development of its subnational governments, it is suggested that the preparation exercise for the next strategy should be used to further deepen the ongoing dialogue with the government in order to find and implement alternative ways of allowing the Bank to work directly with subnational governments without having to resort to financial intermediaries (e.g. creation of a trust), or to otherwise reduce transaction costs related to the

intermediation of Banobras (e.g. elimination of the inspection and supervision fee and duplicate processes), and improve collaboration between Banobras and the Bank to deliver technical assistance by the Bank to the subnational governments.

- Adopt a more strategic focus in developing the technical cooperation program. To ensure that technical assistance acquires greater strategic relevance and to prioritize increasingly scarce resources, Management should consider engaging in a discussion, during its annual programming exercise, with the Ministry of Finance (SHCP) on the use and destination of technical assistance resources potentially available for Mexico, based on indicative figures and the usage trends of each fund provided by Mexican government for such purpose. In addition, it should consider requiring that technical assistance operations contain results indicators aligned with the Bank's strategic objectives for the country, with responsibility for monitoring progress to be shifted to the Mexican government.

Annexes

Annex I

Tables and Figures

Table 1: Sovereign Guaranteed Loans Approvals (2001-2011)

Strategic Sector	Sector	Operation	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Social	Social Investment	OPORTUNIDADES		ME0244			ME-L1007				ME-L1052 ME-L1067	ME-L1080	
		Piloto 3x1 Migrantes						ME-L1012					
	Education	PACE	ME0233						ME-L1004		ME-L1084		
		PROFORHCOM				ME0255					ME-L1039		
		Educacion Comunitaria			ME0238							ME-L1033	
		Agua, Saneam. e Higiene en Edución. Basica											ME-L1086
Productivity	Water Sanitation	PROSSAPYS					ME0212						ME-L1050
		Demonstrativo Agua y Saneamiento				ME0253							
	Housing	HABITAT				ME0255			ME-L1019				ME-L1098
		Mercados Hipotecarios								ME-L1063	ME-L1065	ME-L1079	
	SMEs	Desarrollo Empresarial (PYMES)									ME-L1051		ME-L1081
		Pequeños Exportadores					ME0240						
	Financial Systems	Consolidación Sector Público Finaciero - PBL					ME0259						
	Rural Development	PROCAMPO	ME0213								ME-L1041		
		Bienes Públicos Rurales											ME-L1045
		Financiamiento Rural (Apoyo Sagarpa)											ME-L1055
		Sistema Financiero Rural - PBL			ME0243								
Fiscal	Subnational	BANOBRAS	ME0231					ME0256		ME-L1017			ME-L1059
	Federal	Presupuesto Basado en Resultados								ME-L1047			
		Consolidación de la Sostenibilidad Fiscal - PBL										ME-L1090	
Climate Change	Policy	Agenta Cambio Climatico - PBL								ME-L1053	ME-L1058	ME-L1078	
	Renewable energy	Energia Renovable CTF											ME-L1109

Notes: Only includes sovereign guaranteed operations
PACE: *Programa de Apoyo para la Capacitación y el Empleo* [Training and Employment Support Program]
PROFORHCOM: *Programa de Formacion de Recursos Humanos Basada en Competencias* [Skills-based Human Resources Development Program]
PROSSAPYS: *Programa para la Sotenibilidad de os Servicios de Agua Potable y Saneamiento en comunidades rurales* [Program for the Sustainability of Water Supply and Sanitation Services in Rural Communities]

Table 2: Approvals and Balance to be Disbursed by Strategic Area and Borrower Type

Strategic Sector	Available Balance (31 Dec. 2006)				Approvals 2007-20011				Available Balance (31 Dec. 2011)			
	Number		Amount		Number		Amount		Number		Amount	
	N	(%)	US$ millons	%	N	(%)	US$ millons	%	N	(%)	US$ millons	%
Social	5	31%	813.8	39%	10	23%	2414.0	25%	5	20%	866.8	29%
Productivity	8	50%	834.0	40%	19	44%	4145.7	43%	15	60%	1657.5	56%
Public Finance	2	13%	348.8	17%	4	9%	1705.0	18%	2	8%	249.1	8%
Climate Change	-	-	-	-	9	21%	1286.9	13%	2	8%	145.0	5%
Integration	1	6%	80.0	4%	1	2%	50.0	1%	1	4%	50.0	2%
Modernization of the State	-	-	-	-	-	-	-	-	-	-	-	-
Total	**16**	**100%**	**2076.6**	**100%**	**43**	**100%**	**9601.6**	**100%**	**25**	**100%**	**2968.4**	**100%**
Borrower Type	**Available Balance (31 Dec. 2006)**				**Approvals 2007-20011**				**Available Balance (31 Dec. 2011)**			
	Number		Amount		Number		Amount		Number		Amount	
	N	(%)	US$ millons	%	N	(%)	US$ millons	%	N	(%)	US$ millons	%
Sovereign Guaranteed	13	81%	1884.1	91%	27	63%	8666.0	90%	14	56%	2069.5	70%
Non-Sovereign Guaranteed	3	19%	192.5	9%	16	37%	935.6	10%	11	44%	898.9	30%
Total	**16**	**100%**	**2076.6**	**100%**	**43**	**100%**	**9601.6**	**100%**	**25**	**100%**	**2968.4**	**100%**

Notes: Includes loans and guarantees approved between 2007-2011 (Sovereign Guaranteed and Non-Sovereign Guaranteed). Does not include grants.
Social incudes operations classified as Social Investment, Education, Labor Markets and Health.
Productivity includes operations classified as Housing, SMEs, Water and Sanitation, Transportation, Agriculture/Rural, Thermoelectric Power
Public Finance include operations classified as Financial Management and Sub-National (Banobras).
Climate Change includes operations classified as Environment (Climate Change), Renewable Energy

Table 3: Approvals by Financing Instruments 2002-2011

Operation Type		Instrument Type	2002-2006 Number (N)	2002-2006 Number (%)	2002-2006 Amount (US$ millions)	2002-2006 Amount (%)	2007-2011 Number (N)	2007-2011 Number (%)	2007-2011 Amount (US$ millions)	2007-2011 Amount (%)
Sovereign Guaranteed	Investment Loans	Global Credit Programs					2	4.7%	90	0.9%
		Multiple Works Program					1	2.3%	250	2.6%
		Innovation Operations	1	6.7%	10	0.2%				
		Multi-Phase	7	46.7%	3,017	68.1%	5	11.6%	495	5.2%
		CCLIP Operations					11	25.6%	4,861	50.6%
		Specific Investments	2	13.3%	250	5.6%	4	9.3%	970	10.1%
	Policy Based Loans	PBL	2	13.3%	900	20.3%				
		PBL - Programmatic					4	9.3%	2,000	20.8%
	Sovereign Guaranteed Total		**12**	**80.0%**	**4,177**	**94.2%**	**27**	**62.8%**	**8,666**	**90.3%**
Non-Sovereign Guaranteed	Guarantee		3	20.0%	255	5.8%	5	11.6%	468	4.9%
	Private Sector Investment						9	20.9%	388	4.0%
	Private Sector Supplementary Loan						1	2.3%	30	0.3%
	TFFP						1	2.3%	50	0.5%
	Non-Sovereign Guaranteed Total		**3**	**20.0%**	**255**	**5.8%**	**16**	**37.2%**	**936**	**9.7%**
Total			**15**	**100%**	**4,432**	**100%**	**43**	**100%**	**9,602**	**100%**

Table 4: Non-Sovereign Guaranteed (NSG) by sector and type (2007-2011)

Focus/Sector	SCF / OMJ (US$ Millons)	%	SCF / OMJ (Projects)	%
Social Focus	**14**	**1.2%**	**2**	**10.5%**
Production Focus	**709**	**62.2%**	**10**	**52.6%**
MSME	79	7.0%	4	21.1%
Housing	215	18.9%	3	15.8%
Water and Sanitation				
Transportation	410	35.9%	2	10.5%
Agriculture	5	0.4%	1	5.3%
Climate Change Focus	**192**	**16.8%**	**5**	**26.3%**
Others	**225**	**19.7%**	**2**	**10.5%**
Total	**1,139**	**100.0%**	**19**	**100.0%**

Table 5: Non-Sovereign Guaranteed Operations (NSG) by main feature (In execution during 2007-2011)

Operation Number	Operation Name	Approval Year	Original Amount (US$ millons)	Instrument	Currency	Term	Anti-ciclical
Climate Change							
ME-L1076	EDF-La Ventosa Wind Project	2009	20.6	P	L	14	S
ME-L1068	Eurus Wind Project	2009	30	P	E	15	N
ME-L1099	Eurus Wind Project - CTF Loan	2010	50	P	E	15	N
ME-L1107	Marena Renovables Wind Project	2011	82	P	L	16.5	N
ME-L1069	BBVA Bancomer Green Facility	2009	40	P	E	5	S
MiPYMES							
ME-L1077	BBVA Bancomer S.A. - TFFP	2009	50	G	E	3	S
ME-L1089	Credito Real, S.A. de C.V. SFOM, ENR	2010	9.5	G	L	25	S
ME-L1087	Leasing Operations de Mexico	2010	17.8	G	L	25	S
ME-L1075	Mi Tienda: Rural Supply Network	2009	2	P	E	8	N
Housing							
ME-L1112	First Disbursement - Infonavit Mezzanine Finance Facility	2007	35	P	L	N/A	N/A
ME-L1009	Su Casita MBS/Warehouse Facility	2006	75	G	E	3	N
ME-L1011	Metrofinanciera Mortgage Warehouse and MBS Guarantee Facilities	2006	105	G	E	7	N
Transportation							
ME-L1044	"Mejora Tu Calle" Program	2008	10	G	L	7	N
ME-L1015	Guadalajara Toll Roads Project	2007	400	G	E	29	N
Agriculture							
ME-L1095	Small Farmer Sunflower Supply Chain Program	2010	5	G	L	7	N
Education							
ME-L1094	Loans for Access to University Education for Students at the Base of the Pyramid	2010	2	P	L	7	N
0							
ME-L1066	Puerta de Hierro Project	2009	12	P	E	10	N
Others							
ME0218	Thermoelectrica del Golfo, S.A. de C.V.	1999	75	P	E	17	S
ME-L1096	Macquarie Mexican Infrastructure Fund	2010	150	P	L	13	N

P=Loan; G=Guarantee; L=Local; E=foreign; S=Yes;N=No; N/A=No information available

Table 6: Operation preparedness for crisis response

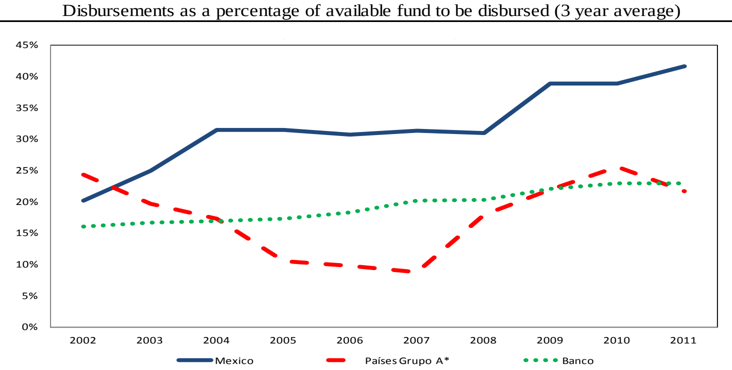
IDB's CRISIS RESPONSE					First Disbursement			
		Operation	Preparation [1]	Pipeline Entry [2]	Time [2]	Amount	Percentage	Last Disbursement [2]
PBLs / PBPs	PBLs	ME0227 [3]	n.d.	n.d.	-95	150	60%	-83
		ME0243 [3]	40	-86	-46	150	50%	-21
		ME0259 [3]	27	-61	-34	300	50%	-14
	PBPs	ME-L1053	11	-8	3	200	100%	3
		ME-L1058	21	-6	15	400	100%	15
		ME-L1078	24	9	33	400	100%	33
		ME-L1090	13	14	27	1000	100%	27
CCLIPs	X1002	ME-L1017 [3]	35	-21	14	13	4%	37
		ME-L1059	44	-5	39	72	23%	(active)
	X1006	ME-L1063	8	-2	6	500	100%	6
		ME-L1065	15	0	15	495	99%	39
		ME-L1079	18	9	27	500	100%	27
	X1007	ME-L1052	16	-8	8	182	91%	15
		ME-L1067	9	2	11	284	47%	27
		ME-L1080	24	9	33	502	63%	(active)
	X1009	ME-L1041 [3]	34	-13	21	450	60%	(active)
	X1010	ME-L1051	33	2	35	30	30%	(active)
		ME-L1081	30	9	39	50	100%	39

Notes: 1/ Months between pipeline entry and first disbursement
2/ Months related to the fall of Lehman Brothers
3/ Operations that entered the pipeline before the Finance Secretary made the "catarrito" declaration

Table 7: Operational Efficiency Indicators

Stage	Indicator	2002-2006			2007-2011		
		Mexico	Group A Countries*	Bank	Mexico	Group A Countries*	Bank
Preparation	**Approval Time**						
	Average from pipe-start to approval (months)	**29.4**	20.9	24.2	**14.4**	16.7	14.3
	Average from approval to first eligibility (months)	**13.5**	14.0	14.1	**7.9**	11.6	10.6
	Average from first eligibility to first disbursement (months)	**3.8**	3.3	1.5	**0.7**	1.8	1.7
	Preparation Costs						
	Preparation Costs (per approved US$ millions)	**698**	2,473	3,833	**891**	1,569	2,418
Execution	**Executing Extensions at the end of the period**						
	Active Projects with Extensions (number)	**2**	49	234	**0**	39	150
	Active Projects with Extensions (% active projects)	**18%**	48%	46%	**0%**	25%	26%
	Average Extensions on Extended Projects (months)	**43**	45	30	**-**	24	24
	Median Extensions on Extended Projects (months)	**42.5**	46.4	35.6	**-**	31.0	30.6
	Execution Costs						
	Execution Costs (per disbursed US$ millions)	**949**	1,972	3,935	**703**	1,847	3,680

Disbursements as a percentage of available fund to be disbursed (3 year average)



Notes:
Countries Group A*: Argentina, Brazil, and Venezuela. All numbers include only sovereign guarantee investment loans. Preparation costs data available since 2003. The Extension in Execution indicator was estimated over the active projects total of 2006 and 2001 respectively, and is calculated as the difference between the disbursement original expiration date and the actual expiration date of the disbursement of the respective year. The disbursements as the percentage of funds available to be disbursed on year t is calculated with the following: disbursements (t) / (available balance (t-1) + approvals (t)).

Source: IDB Databases used by OVE

Table 8: Operation Execution under CCLIPs (2007-2011)

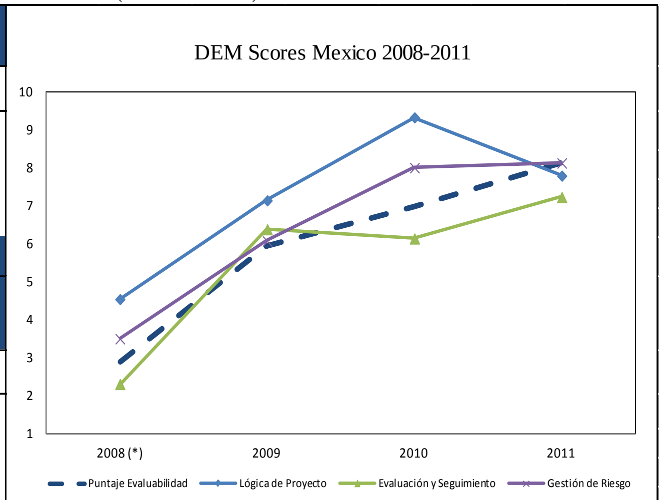
Code	Operation Name	Original Amount Approved	Amount Disbursed	Amount Cancelled	Disbursements (%)	Approval Date	Original date for Last Disbursement	Date of Last Disbursement
ME-L1017	Subnational Credit Infrastructure, Public Services & Institutional Strengthening	350	350		**100%**	**12-Nov-08**	9-Sep-14	**26-Oct-11**
ME-L1041	Direct Farm Support Program	750	502		**67%**	**9-Sep-09**	18-Nov-12	-
ME-L1051	Promote the Development of SME Suppliers and Contractors National Oil	301	99	201	**99%**	**11-Nov-09**	23-Nov-13	-
ME-L1052	Strengthening the Oportunidades Human Development Program	200	200		**100%**	**1-Jan-09**	25-Mar-11	**24-Dec-09**
ME-L1059	Infrastucture, Public Services and Institution-Strengthening II	310	72		**23%**	**3-Aug-11**	29-Nov-16	-
ME-L1063	First Global Credit Program for Mortgage Market Development	500	500		**100%**	**25-Nov-08**	3-Feb-14	**31-Mar-09**
ME-L1065	SHF - Second Global Credit Program for Development of Mortgage Markets	500	500		**100%**	**7-Aug-09**	14-Oct-12	**10-Dec-11**
ME-L1067	Strengthening the Oportunidades Human Development Program-Second Project	600	600		**100%**	**21-May-09**	15-Jun-11	**16-Dec-10**
ME-L1079	Third Credit Program for Mortgage Market Development	500	500		**100%**	**15-Jul-10**	14-Sep-13	**18-Dec-10**
ME-L1080	Strengthening the Oportunidades Human Development Program III	800	502		**63%**	**18-Oct-10**	1-Apr-13	-
ME-L1081	Second Individual Operation for Entreprenurial Development in Mexico	50	50		**100%**	**9-Dec-11**	16-Dec-15	**24-Dec-11**
TOTAL		**4861**	**3875**	**201**	**83.2%**			

Notes: Values as of December 31, 2011. Disbursement percentage over actual amount approved (original amount less cancellations)

Table 9: DEM Scores (2008-2011)

Score Evolution - México	2008 (*)	2009	2010	2011
Evaluability Score	2.9	5.9	7.0	8.1
Evaluability Dimensions				
Project Logic	4.5	7.1	9.3	7.8
Follow-Up Evaluation	2.3	6.4	6.1	7.2
Risk Management	3.5	6.1	8.0	8.1

Average Scores	2009-2011 (*)		
	México	Group A Countries *	Bank
Evaluability Score	6.6	5.8	5.9
Evaluability Dimensions			
Project Logic	8.1	7.5	7.4
Follow-Up Evaluation	6.6	5.8	5.9
Risk Management	7.4	7.9	8.0



(*)The projects approved on 2008 were clasified for ex post evaluability, in order to be able to make a comparison of how the loan proposals would be without the tool and the evaluability process. For Mexico, there were only two operations. The scores were not validated by OVE. Source: OVE using SPD's database.

Box 1: Criteria that justifies BDM's support to the private sector

Overall, the criteria that justifies the direct support of the BMD to the private sector are:

- Private sector support in countries with shallow financial markets and developed where companies have trouble to access financial markets (equity or debt), especially SMEs;
- Support companies with large potential externalities, such as those dedicated to health, education, environment, infrastructure, financial products and export;
- Using financial intermediaries to access more beneficiaries efficiently;
- Using long-term instruments, preferably in local currency;
- Using appropriate financial products to manage risks, such as guarantees, due to a lack of collateral;
- Anti-cyclically helping to solve liquidity problems in the markets during times of crisis.

Sources: Gurría Treviño & Volcker, 2001; Haber, 2003; Birdsall, 2005; Rodrik, Hausmann, & Velasco, 2005; De la Torre & Schmukler, 2006; Birdsall, Rodrik, & Subramanian, 2007; Arbellaez, Perry, & Becerra, 2010; and Perry, 2009 and 2011.

Annex II
Graphs

FIGURE 1: FOREIGN EXCHANGE INCOME FROM INTERNATIONAL TOURISM (CURRENT MILLION DOLLARS)

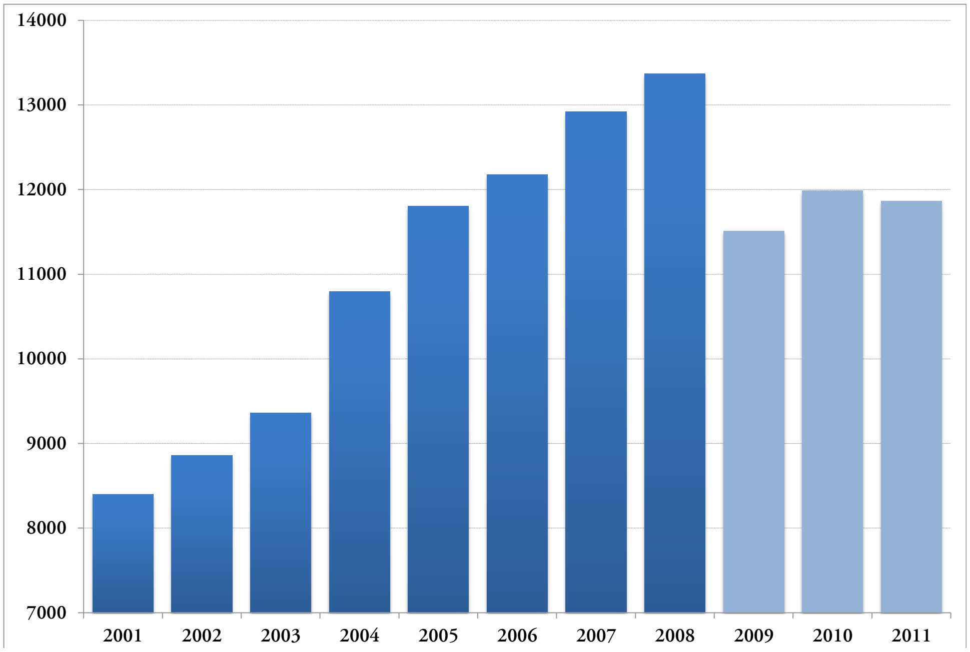
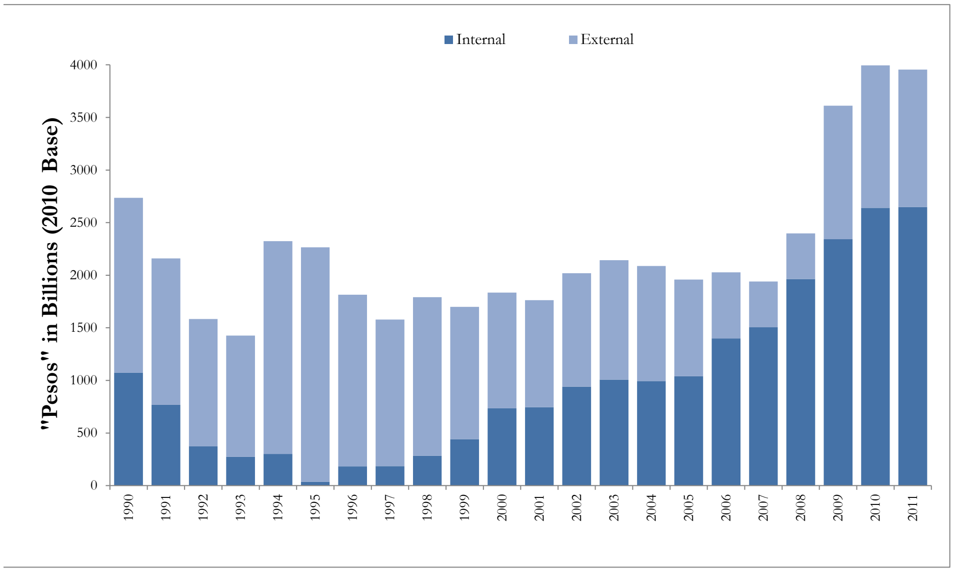


FIGURE 2: LEVELS AND COMPOSITION OF THE PUBLIC DEBT IN MEXICO



Source: National Statistics and Geography Institute, Economic Information Bank

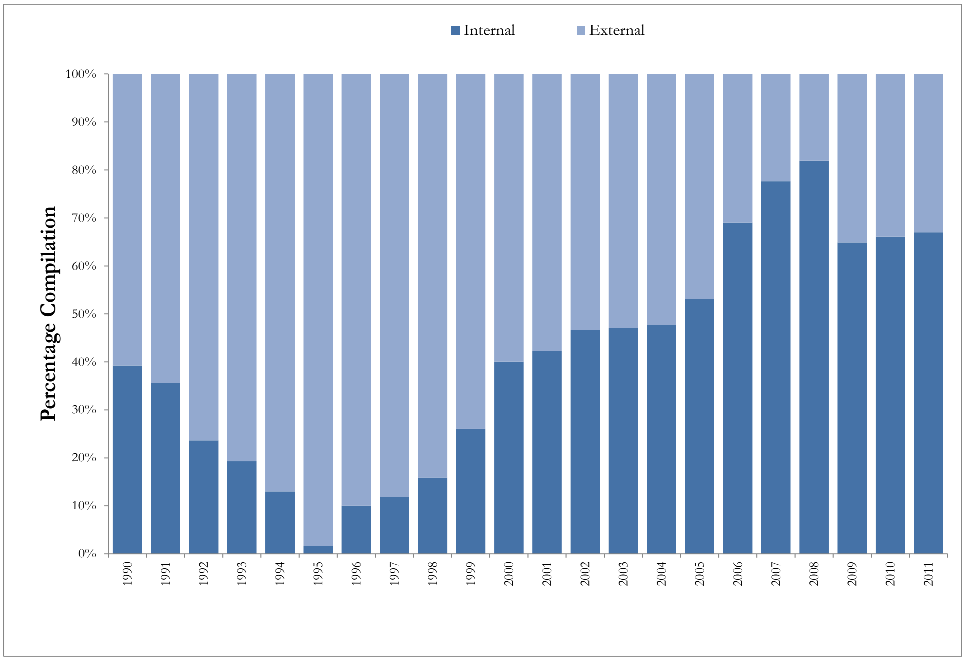


FIGURE 3: DISBURSEMENTS, DEBT SERVICES AND NET CASH FLOW FOR MEXICO (2000-2011)

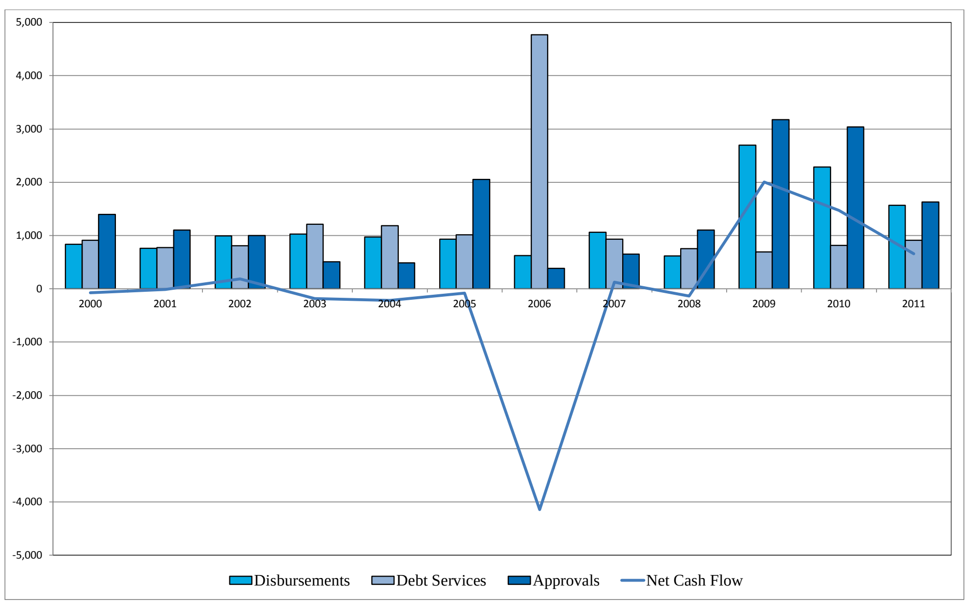
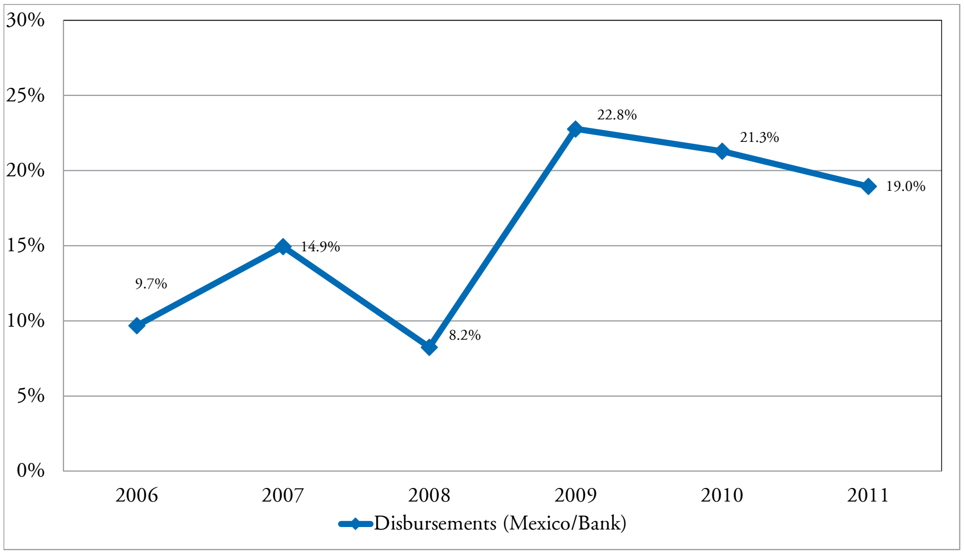


Figure 4: Mexican Disbursements versus IDB's Disbursements (2006-2011)



Source: Secretary of Finance

Figure 5: Real Growth and Disbursements for CCLIPs and PBLs

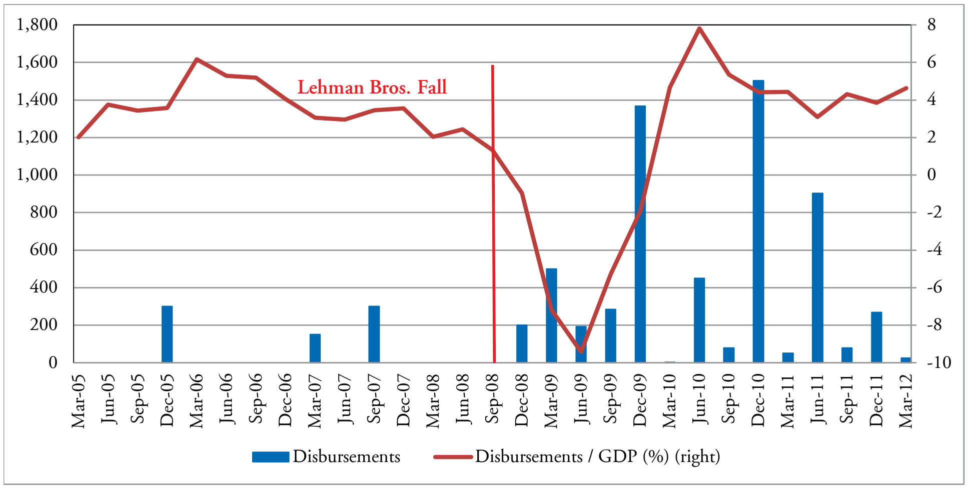
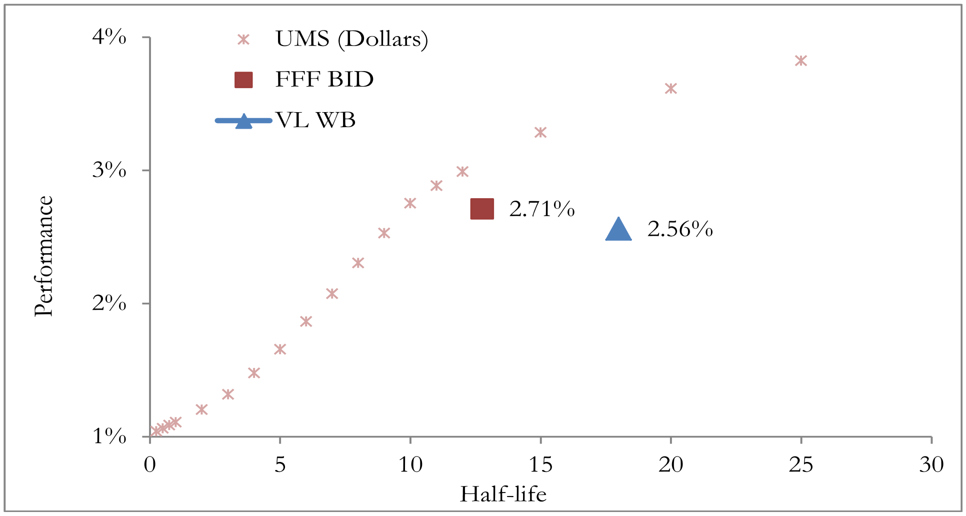
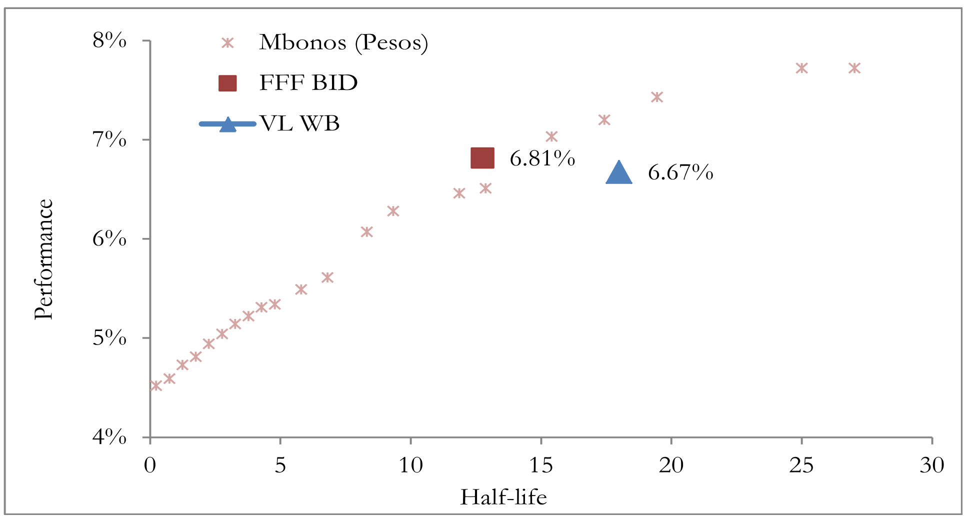


FIGURE 6: FINANCIAL COSTS FOR MEXICO

OFIS COSTS VERSUS UMS COSTS





Annexes

Endnotes

Endnotes

1 As set forth in the Bank's country strategy with Mexico (document GN-2595-1), the Bank's position is based on the following eight areas: (i) a programmatic focus on strategic sectors; (ii) participation in highly evaluable programs; (iii) development of knowledge to support the design, implementation, and evaluation of public policies; (iv) formulation of public investment projects with federal and subnational governments and the private sector; (v) rapid response in periods of crisis; (vi) strategic use of the Bank's financial instruments and the knowledge agenda; (vii) development of strategic partnerships with financial intermediaries; and (viii) work with subnational governments (see paragraphs 2.1 and 2.2 of document GN-2595-1).

2 For example, with respect to the previous period (2002-2006), the number of approved projects with the private sector increased by 433% and lending activity with subnational governments continued at similar levels to those of the preceding period, but the number of technical assistance operations rose by 70.6%.

3 Mexico has free trade agreements in place with more than 50 countries, including the United States, Canada, Central America, the European Free Trade Area, and Japan, which means that over 90% of its trade is subject to such agreements.

4 This position is held by numerous experts: (Hanson, 2010) (Heckman, Arias, Azuara, & Bernal, 2010) (Chiquar & Ramos-Francia, 2009) (Levy, 2008) (Levy & Walton, 2009), (EIU, 2000-2011), (World Bank, 2007), (IMF, 2011), (OECD, 2011), (IDB, 2010).

5 See note 4 above.

6 Galindo (2009) estimates the costs of climate change at anywhere from 5% to 15% by 2015.

7 Own estimates based on World Penn Table data (http://pwt.econ.upenn.edu/).

8 The Gini coefficient in Mexico for 2010 was 50.9, compared with 51.9 (2012), 52.1 (2009), and 56.0 (2010) for Brazil, Chile, and Colombia, respectively (CIA, 2012). Furthermore, inequality is more pronounced in the indigenous population (79.3%) and in rural areas (64.9%) (CONEVAL, 2012), as well as among women. The gender inequality index (GII) was 0.448 in 2011, placing Mexico in 57th place out of 187 countries, below Chile (44th) and Argentina (45th).

9 The aging of the population will drive up pension-related costs and healthcare expenditures. It is estimated that these costs, plus those related to the reform of the old pension system, could rise to 3% of GDP in 2015 (SHCP, 2012).

10 PEMEX recently discovered oil deposits in deep waters off the coast of the northern state of Tamaulipas that could hold reserves of up to 400 million barrels.

11 In response to external and internal conditions, the Mexican government maintained macroeconomic stability and implemented tax reforms in 2009 and 2010. These reforms were aimed at achieving higher non-oil revenue collection and lowering the dependence of public finances on oil revenue. Mexican federal public debt has remained on a sustainable path and is not a source of vulnerability. Moreover, the federal government initiated a general deregulation program, accelerated its infrastructure and housing finance program, and implemented results-based budgeting (RBB) through the Performance Evaluation System. Since 2009, the Mexican economy has been expanding and has surpassed its pre-crisis levels.

12 Counterintuitive though it may appear, victimization figures in Mexico are relatively comparable to those in countries such as England, Canada, and Chile. According to the 2011 National Survey on Victimization and Perception of Public Safety (INEGI, 2011), 24% of people over 18 years of age were victims of a crime and 38% of households included at least one victim of a crime in 2010. In England and Wales, the percentage of victims of a crime in 2009 was 21.5% in the 16-and-older population, while in Canada the equivalent figure was 27% in the 15-and-older population. In Chile, 28.2% of households were victims of a crime in 2010.

13 Preliminary investigations are initiated only in 8% of the crimes. In the United States, Canada, and England and Wales, preliminary investigations are initiated, respectively, in 41%, 31%, and 38% of the crimes (INEGI, 2011).

14 Respectively 80% and 70% of Mexicans are surveyed as having little or no confidence in police and judges (Latinobarómetro, 2012).

15 It should be noted that capability poverty (i.e., insufficient disposable income to purchase the food basket and make the necessary expenditure on health and education) declined from 47% to 25.3% of the population between 1996 and 2008 (CONEVAL www.coneval.gob.mx).

16 Notably, although the drop in output closely resembled the 1995 crisis, poverty did not rise to the same extent. Moreover, universal coverage was achieved for health and basic education services, and the housing increase was the largest in the country's history.

17 There are three official poverty lines: food poverty: inability to obtain a basic food basket even if all household disposable income is used to buy only the items in the basket; capability poverty: insufficient disposable income to purchase the food basket and make the necessary expenditure on health and education, even if all household income is used only for this purpose; and asset poverty: insufficient disposable income to purchase the food basket and to make the necessary expenditure on health, education, clothing, housing, and transportation, even if all household income is used exclusively for the purchase of these goods and services.

18 The United States buys 80% of the country's non-oil exports, and the present correlation of industrial production between Mexico and the United States is 0.9 for the 2006-2010 period (OECD, 2011).

19 In 1995 external financing accounted for approximately 98% of the debt. Between 2007 and 2011, external financing amounted to approximately 25% of total debt.

20 Since 2010 external debt levels have once again fallen, although at a slower pace than prior to 2009.

21 Tourism revenue exceeded US$1.3 billion in 2008, a level it had not regained as of end-2011 (Banxico, 2012).

22 According to the Mexican authorities, this situation is due to the transformation of the national and international drug market, the greater availability of illegal weapons, and the neglect of local security and justice institutions.

23 Because it has obtained investment grade, Mexico has access to financial markets under more favorable terms than in the past.

24 Bank lending to Mexico accounts for 15.2% of the total volume of loans approved by the Bank during the period under review.

25 Of the countries in the region, only Chile, with a score of 1.2, ranks higher than Mexico (0.16) in the Government Effectiveness indicator, which aggregates many indicators in this area. The index ranges from -2.5 to 2.5. The value "0" is equivalent to the average of the sample of the 117 countries surveyed (World Bank, 2011).

26 However, budget additionality does exist with respect to the resources that the Bank lends to financial intermediaries and resources that reach subnational entities. However, federal government ministries continue to have a certain appetite for Bank resources due to the quality of Bank support, as discussed below.

27 Section III below describes the substance of this new position in greater detail and assesses its relevance.

28 Financing needs are defined as total revenues less expenditures (International Monetary Fund). Six percent is the average for the 2007-2011 period, with the exception of Bank disbursements to Mexico in 2009, the year following the financial crisis, when they accounted for 28%. In 2011, Bank financing accounted for 3% of total debt incurred by Mexico.

29 This CPE does not evaluate the performance of MIF activities. OVE is performing a separate evaluation of the entire MIF portfolio, which will be presented to the Board of Executive Directors in late 2012.

30 Although the Bank decided to remove the citizen security program scheduled in 2007 from the pipeline, it should be noted that the SSP had a sufficiently large budget to implement the activities called for in the Bank's planned program and thus did not need the resources, Mexico signed the Merida Plan with the United States, and the Bank was just beginning to build its capacity in the sector, which was characterized by an extremely complex set of problems.

31 Against the backdrop of the influenza A (H1N1) epidemic, the Bank financed a water and sanitation project to improve hygiene in basic education (ME-L1086), aimed at helping to prevent similar epidemics from spreading in the future, but this cannot be considered an immediate response to the crisis. In addition, the Mexican Government expanded coverage of the Oportunidades program by almost one million households with a view to mitigating the effects of the international financial crisis, the increase in food prices, and the influenza epidemic.

32 The Flexible Financing Facility will make the Bank's resources more attractive since it gives the borrower the option of choosing the most suitable amortization structure and terms and conditions.

33 Given the full convertibility of the Mexican peso, the depth of the Mexican market, and the Bank's credit rating, the Bank is able to obtain pesos through swap transactions with average maturities of 15.25 years, improving on the terms offered in the local market. In particular, the Bank is able to obtain pesos at a rate equivalent to the 28-day interbank interest rate (TIIE28) minus 80 or 60 basis points (bps), which compares favorably to the funding prices available to financial intermediaries in the local market (i.e., approximately TIIE28 minus 5 or 10 bps).

34 The 2008 General Government Accounting Act, developed with Bank support, requires the harmonization of accounting standards across the different levels of government, but it has not yet been properly implemented. In addition, it harmonizes only the general charts of accounts, not the specific accounting systems of each entity.

35 In sovereign guaranteed operations, the Bank sets the spread, which is currently 62 bps, every six months. In operations with the private sector, the Bank charges the market rate, which varies depending on borrower risk. For example, in the Mareña Renovables Wind Project (ME-L1109), the Bank charges TIIE28 plus a spread that ranges from 275 to 365 bps depending on the project's year of operation.

36 The Bank is barred under its charter from assuming currency risk. Consequently, in order to operate in local currency, it must resort to U.S. swap instruments, which carry breakage costs. Breakage costs are fees that the borrower pays the lender only upon prepayment of a fixed-interest loan, but they are generally not triggered. While breakage costs are also included in sovereign guaranteed operations in local currency, the borrower has to date agreed to the typical breakage costs for swap transactions.

37 In one operation with the private sector (NSG) (Mareña Renovables Wind Project (ME-L1109)), the borrower refused to agree to breakage costs, thus affecting the Bank's margin. To resolve this impasse, the Bank borrowed the resources in pesos from NAFIN and passed them on to the operation's beneficiary.

38 Approximately half are MIF operations. Ordinary Capital technical assistance operations for Mexico are limited to those available for the Bank as a whole, such as PRODEV, the Infrafund, the Social Fund, the SECCI Fund, etc. The largest source of technical assistance for Mexico during the period under review were the Japanese funds (i.e., the Japan Special Fund, Japanese Special Program, and Japanese Consulting Fund), which accounted for 19% of total approvals, followed by PRODEV, SCI, and IPF, which accounted for 14%, 9%, and 8%, respectively (IDB, 2012).

39 In one of the surveys conducted by OVE to assess the degree of satisfaction with technical assistance, 100% of the Mexican government representatives surveyed stated that the Bank's technical assistance is generally of good quality.

40 According to 83.4% of the Mexican government representatives surveyed and most of those interviewed, there was a perceived improvement in the evaluability of projects over the last five years. See also paragraph 5.3.

41 The SHCP authorities interviewed indicated that, despite not needing the IDB's resources per se, they were asking the IDB and the World Bank to participate in the design of the fiscal consolidation measures to send a message to the markets that the proposed reforms had the backing of the international community.

42 Some subnational authorities observed that the political and social support needed to undertake large investments would have been difficult to obtain without the Bank's intervention, since Bank operations are inextricably associated with a seal of quality that assuages any political concerns and suspicions, while the Bank's fiduciary procedures and environmental safeguards provide a sense of security.

43 Mexico's strategic importance and growth potential ensure the interest of foreign banks in having a presence in the country (Oxford Analytica, 2012). Furthermore, Mexico's large commercial banks are expanding their lending coverage to SMEs as the large companies they traditionally serve gain access to the capital markets (IFC, 2009).

44 OVE is finalizing an evaluation on the Bank's private sector programs for presentation to the Board of Executive Directors in late 2012. It had to assign 20% of the NSG portfolio to the "Others" category because these projects could not be classified in accordance with the nomenclature of the applicable strategy documents for the period.

45 Since 2007, state government debt has grown at an accelerated pace, rising from approximately 1.5% of GDP before 2007 to 2.9% in 2011. The debt level of certain states, such as Coahuila, Nayarit, Quintana Roo, and Veracruz, is between 4.5% and 8.9% of their respective state GDP (SHCP, 2012).

46 In 2010, a new method was adopted to measure inequality, in addition to estimating income poverty. Estimates were made of the population with some type of social deprivation, defined as lack of access to health services, basic housing services, housing quality and space, social security, and education gaps.

47 Despite a reduction in social gaps, poverty in Mexico continues to vary significantly by region. For example, while in states such as Chiapas and Guerrero less than 10% of the population is considered not poor and not subject to any social deprivation, in Coahuila and Nuevo León the equivalent figure is approximately 45% (CONEVAL, 2012).

48 Subnational government revenues stand at 1.3% of GDP, below the average for OECD countries (OECD, 2011). This makes subnational governments dependent on transfers from the federal government and produces a fiscal illusion, which leads subnational governments to misperceive hard budget constraints and results in excess spending and inefficiencies (Buchanan, 1967) (Oates W. , 1988) (Mourao, 2007) (Gibson & Calvo, 2000). In fact, only 13% of state debt payment are made with own resources (SHCP, 2012). In addition, total federal spending by states is progressive to a very limited extent, and almost half of the states have regressive expenditure allocations among their municipios. The checks and balances in place in the federal government are not replicated in the states and municipios. Consequently, power is concentrated in the state executive branch, and this can lead to discretionary spending of public funds (Ortega & Sour, 2008). Lastly, there is abundant literature establishing a relationship between decentralization and greater growth, efficiency, and effectiveness in public spending (Oates W. E., 1993) (Dillinger, 1995) (IDB, 1997) (Ahmand, Hewitt, & Ruggerio, 1997) (Iimi, 2005) (Schelker, 2005).

49 Mexico's Constitution bars subnational governments from incurring external debt in foreign currency or borrowing from multilateral credit institutions. To be able to reach subnational governments, the Bank is required to use Banobras as an intermediary.

50 In an initial phase, the Bank issued loans to Banobras (ME0231 and ME0256), which served to open a line of credit that the subnational governments could draw on for eligible expenses based on a predetermined menu and following the Bank's fiduciary procedures. This modality proved efficient for transferring resources at a low design and execution cost, but it offers limited technical additionality, as the interaction between the Bank and the subnational governments is minimal.

51 The Bank proposed creating a multipurpose financial company known as a SOFOM through which it could work directly with the subnational governments. However, the Mexican government was not receptive to this idea due to legal obstacles preventing the Bank from using this formula

52 The cost of preparing the Yucatán operation (ME-L1059) per million dollars approved has been over 2.5 and 3 times higher than the preparation costs of FORTEM – Phase II (ME256) and the first CCLIP for Banobras (ME-L1017). It should also be taken into account that the states, aside from the financial costs of the Bank's loan, must factor in the financial costs of the intermediary (e.g. Banobras), which include the Bank's inspection and supervision fee, even if this is not applied.

53 During the same period, in Brazil, where the Bank can lend directly to subnational governments, it approved a total of 70 operations for approximately US$7 billion for subnational governments, which accounted for approximately 50% of the Bank's total direct lending to Brazil.

54 According to 70% of government representatives surveyed, "the IDB's relevance would increase if technical assistance were decoupled from financing." While 50% of VPS staff oppose a decoupling and 25% are indifferent, 36% of CID staff support a decoupling, 27% are opposed, and the rest are indifferent.

55 In a broader context, the Bank has started to respond to these concerns. The realignment introduced the single window for channeling and prioritizing all technical assistance requests. Since 2012, following approval of the Operational Guidelines for Technical Cooperation Products (document GN-2629-1), technical assistance to support the design and execution of operations or client needs is to be reflected in the country program documents. In addition, the guidelines require reporting twice yearly of an indicative amount of available technical assistance resources, as well as streamlining and standardizing the technical assistance approval processes and simplifying the execution processes.

56 Nearly 50% of nonreimbursable technical assistance operations are executed directly by the Bank (IDB, 2012).

57 This situation creates an excessive workload for Bank staff, who have furthermore indicated they do not receive the support they need. In fact, all VPS staff who were surveyed stated that they do not receive sufficient financial or human resources to prepare or supervise technical assistance operations.

58 Cancellations during the period included the following operations: Small Exporters Finance Program (ME0240), approved in 2005, cancelled US$90.4 million in the period (91% of the originally approved amount of US$100 million); Water and Sanitation Institutional Reform Demonstration Project (ME0253), approved in 2004, was cancelled in its entirety (US$10 million); Program to Support Results-based Budgeting - Phase I (ME-L1047), approved in 2008, cancelled US$20.4 million during the period (45% of the originally approved amount of US$45 million); Loan to Promote the Development of SME Suppliers and Contractors National Oil Industry (ME-L1051), approved in 2009, cancelled US$201 million during the period (67% of the originally approved amount of US$301 million).

59 Excluding private sector guarantees, the increase in NSG loan balances pending disbursement would be 44%, while the increase in the entire Mexico portfolio would be 13%.

60 The age of the portfolio at the end of 2007 and 2011 is calculated as the mean of the differences between the effective date and 31 December for active projects in the respective year.

61 Considering only the disbursement of operations approved in the same period, operations executed under CCLIPs accounted for 88% of the investment loan amounts disbursed and 60% of all sovereign guaranteed operations.

62 According to the website of the Oportunidades Human Development Program, the banking program began in 2009 and ended in December 2011. Since then, 6.5 million beneficiaries receive transfers via a debit or pre-paid card.

63 Until quality is improved, the evaluations will continue to yield these types of contradictory findings.

64 The Mathematica Policy Research evaluation determined that drainage construction had positive impacts in terms of reducing the gap in development. However, it was unable to find evidence of the program's impact on real estate values (CONEVAL, 2010).

65 In 2008, 10 million people had no access to drinking water and 14 million had no access to sewage services, and this problem was more acute in rural areas and small towns.

66 OVE visited a community near Cuernavaca, where it found that the worst problems related to maintenance of the facilities had to do with the absence of supervisory personnel at the state level, low community involvement, water contamination, and the still unmet needs of a significant part of the population, a potential focal point of conflict in the future.

67 PCR for the program approved in 2011.

68 PMR for the program (March 2011).

69 PMR for the program (March 2011).

70 Both operations correspond to the US$1.2 billion CCLIP ME-X1002.

71 The loan for Yucatán under the CCLIP was approved for US$200 million. Baja California and Michoacán are in preparation with the help of two PRODEV technical assistance operations.

72 The first operation under the CCLIP (ME-L1017) included an investment component in the amount of US$344 million and a technical assistance component in the amount of US$3 million. Meanwhile, the second operation (ME-L1015) estimates 80% for investment and 20% for technical assistance.

73 The program included four components: (i) RBB; (ii) external evaluations; (iii) public investment system; and (iv) expansion of RBB to the states.

74 Request by the executing agency dated 10 November 2011, IDBDOCS#36522744.

75 Consulting services were engaged in March 2012 to prepare a proposal for updating the program's outcomes and outputs matrix (PMR, March 2012).

76 The program included the following components: (i) macroeconomic stability and growth reactivation; (ii) tax and customs policy and administration; (iii) fiscal rules and fiscal accountability; and (iv) quality of fiscal and budget management.

77 The PECC sets the goal of reducing emissions by 50% by 2050 with respect to 2000 (approximately 340 million MtCO2e), while the target for 2012 is a reduction of 50.7 MtCO2e.

78 Source: National Ecology Institute (INE). http://www2.ine.gob.mx/sistemas/peacc/.

79 These technical assistance operations, each for US$200,000 (ME-T1116, approved in 2008, and ME-T1119, approved in 2009), were aimed at supporting the development of PEACCs in Tabasco and Yucatán, respectively. Both operations were cancelled due to execution delays, so the states and the federal government mobilized own resources, which will be reimbursed with the proceeds of the new operations approved in 2010: ME-T1170 (Yucatán) and ME-T1171 (Tabasco). An additional three technical assistance operations are in the preparation stage for the states of Tamaulipas, Campeche, and Oaxaca.