



Independent Country Program Review

Mexico 2019-2024

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ACRONYMS AND ABBREVIATIONS

ADV	Advisory Services
AFORE	Administradora de Fondos para el Retiro (Retirement Fund Administrators)
CCLIP	Conditional Credit Line for Investment Projects Inter-American Development Bank Group
CDC	Country development challenges
CID	Country Department for Central America
CIEP	Centro de Investigación Económica y Presupuestaria (Center for Economic and Budgetary Research)
CP	Country Program
CPD	Country Program Document
CPE	Country Program Evaluation
CS	IDB Group Country Strategy
DB	Development Banks
EE	Energy Efficiency
EMS	Educación Media Superior (Upper Secondary Education)
EQU	Equity Investing
ER	Expected Result
FEIP	Fondo de Estabilización de los Ingresos Presupuestarios (Budgetary Revenue Stabilization Fund)
FIRA	Fideicomisos Instituidos en Relación con la Agricultura (Trust Funds Established in Relation to Agriculture)
FND	Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero (Agricultural, Livestock, Rural, Forestry, and Fishing National Development Finance)
GCF	Green Climate Fund
GCI	Global Competitiveness Index
GCR	Global Credit Programs
GDP	Gross Domestic Product
GoM	Government of Mexico
GUA	Guaranty Operation
ICPR	Independent Country Program Review
IDB	Inter-American Development Bank
IGR	Investment Grant
IMSS	Instituto Mexicano del Seguro Social (Mexican Social Security Institute)

INSABI	Instituto Nacional de Salud para el Bienestar (National Institute of Health for Well-Being)
INV	Investment Loan
LAC	Latin America and the Caribbean
LGAHOTDU	Ley General de Asentamientos Humanos, Ordenamiento Territorial y Desarrollo Urbano (General Law of Human Settlements, Land Use Planning, and Urban Development)
MDB	Multilateral Development Bank
MSMEs	Micro, small, and medium-sized enterprises
NCP	Non-contributory pensions
NDP	National Development Plan
OECD	Organization for Economic Cooperation and Development
OO	Operating Organizations
OVE	Office of Evaluation and Oversight
PA	Priority Area
PBL	Policy-Based Loan
RF	Reverse factoring
RM	Results Matrix
SMEs	Small and medium-sized enterprises
SHCP	Secretaría de Hacienda y Crédito Público (Ministry of Finance and Public Credit)
SLO	Senior Loan
SNE	Servicio Nacional de Empleo (National Employment Service)
SO	Strategic Objective
TCP	Non-reimbursable Technical Cooperation
TSCF	Trade and Supply Chain Finance Program
USA	United States of America
XSR	Expanded Supervision Report

EXECUTIVE SUMMARY

Purpose. This Independent Country Program Review (ICPR) analyzes the relevance of the latest IDB Group Country Strategy (CS) with Mexico, and the relevance, implementation, and contribution of the Country Program (CP) of the Inter-American Development Bank (IDB) and IDB Invest in Mexico during the 2019-2024 period. The ICPR aims to enhance accountability for these institutions' work in Mexico and provide the Board of Directors with useful information to support of their consideration of the future CS and corresponding CP. In addition, the ICPR can provide the Government and other external actors an independent perspective on the work of the IDB and IDB Invest in Mexico. The ICPR is based on a systematic document review and information gathered from nearly 80 semi-structured interviews with staff of the IDB, IDB Invest, and counterparts in the country. The methods, tools, and processes used follow the Implementation Guidelines for Independent Country Program Reviews (document [RE-348-10](#)).

Country Context. Mexico is the second-largest economy in Latin America, with a solid macroeconomic framework and diversified productive structure. Between 2020 and 2024, Mexico maintained macroeconomic stability despite fiscal pressures stemming from low tax revenue (13.8% of GDP, which as supplemented by fiscal revenues from state-owned enterprises, bring total budgetary revenues to around 22.2% of GDP), an increase in total net public spending (25.6% of GDP, compared to an average of 24.2% in 2014–2019), and historically low levels of physical investment (2.7%–3.2% of GDP). Although the fiscal deficit (Public Sector Borrowing Requirements) averaged 4.38% of GDP and the gross public debt of the Federal Public Sector averaged 50.2%, the country retained its investment-grade rating (though it experienced a few downgrades within that rating during this period).

However, this stability did not translate into greater economic dynamism. Growth remained low (1.1% annually, including 2020) due to low productivity, persistent informality (over 50% of the labor force), and a strong duality in the economy: a competitive export sector alongside a large informal sector with little integration. Public safety, transparency, and infrastructure challenges limited investment. On the social front, reforms to pensions, health care, and education were successful in reducing poverty, especially among older adults and formal workers, thanks to universal pensions and minimum wage increases. However, access to medical services worsened, and the number of people without adequate care increased significantly. Gaps in educational access and outcomes persisted, especially among indigenous populations, persons with disabilities, and rural communities. In addition, urban challenges and issues related to access to safe water were exacerbated by rapid urbanization and the water crisis, which had a greater impact on vulnerable households.

Table 1. Objectives of the 2019-2024 CS

Strategic Objectives
PA1 - Social services: Contribute to equitable access to and sustainability of social services
SO1. Improve health services
SO2. Increase coverage and quality in education
SO3. Improve the quality and sustainability of water services
SO4. Strengthen the labor market
PA2 - Investment: Foster investment dynamism
SO5. Strengthen public finances
SO6. Strengthen access to credit
PA3 - Territorial development: Contribute to balanced and sustainable territorial development
SO7. Improve rural productivity
SO8. Improve territorial planning
SO9. Strengthen subnational fiscal management (municipalities)

Relevance of the Country Strategy In this context, the CS, effective from December 17, 2019, to December 31, 2024, established three priority areas: Social Services, Investment, and Territorial Development, with 9 strategic objectives (see Table 1) and 16 expected results. The Bank's strategy for Mexico from 2019 to 2024 maintained relative continuity with the previous strategy from 2013 to 2018, replicating more than half of its objectives fully or partially. The CS objectives were consistent with the country's needs and the IDB's and IDB Invest's corporate priorities, but they became less relevant because they did not align with the significant shift in national priorities outlined in the National Development Plan (NDP) for the 2019–2024 period. All of the objectives that ended up misaligned with the new NDP were already part of the previous strategy and were carried over.

Despite the new context, characterized by the government's reservations about taking on new debt from multilateral organizations and the country's strong access to alternative financing sources, the CS did not redefine the added value of the IDB and IDB Invest. The strategy assumed continuity in the relationship and program size. This assumption contradicted clear signals of weakening, including an increase in loan cancellations under the previous strategy and a decline in demand for IDB financing.

In terms of design, the CS had gaps. About half of the objectives had weaknesses in their theory of change, which hindered the establishment of a clear path for progress. The results framework also had weaknesses—several indicators were imprecise, and others were based on sources that, even at the time of the CS's preparation, already posed challenges for updating—which prevented it from serving as an effective monitoring tool. Moreover, interviews conducted for the ICPR suggest that IDB and IDB Invest specialists had limited awareness of the strategy and that the strategy was not fully used in dialogue with the government during the period.

Finally, the CS showed weaknesses in risk identification and mitigation. Although it mentioned general risks—fiscal, climate-related, and deterioration of the business environment—it did not address the most relevant risk: the lack of country ownership of the program. This risk, noted from the outset in OVE's previous CPE, became more acute over the period with the reduction in new loans and the increase in cancellations. However, no adjustments were made to the CS, nor were effective mechanisms created to redefine the IDB Group's value added in the country's new context.

Country Program (CP). The CP included 137 IDB operations and 133 IDB Invest operations. The IDB approved 14 loans totaling US\$5.739 billion—seven investment loans (INV) and seven policy-based loans (PBL)—and 72 non-reimbursable operations for US\$28.9 million, mainly technical cooperations (TC). IDB Invest approved 36 long-term operations for US\$1.1777 billion, including various instruments such as guarantees and bond issuances. It also carried out 40 advisory services (ADV) for US\$2.8 million and disbursed US\$3.840 billion in short-term financing, mostly through reverse factoring lines. In addition, the program included 51 legacy IDB operations and 23 legacy IDB Invest operations, with outstanding balances of US\$640.7 million and US\$207.5 million, respectively, as well as factoring lines and 26 completed private-sector operations (19 with expanded supervision reports, or XSR, expected during the period and seven ADV).

Approvals of IDB investment loans fell by 80% compared to the previous period, while PBL approvals remained constant. The reduction in new IDB operations was attributed to lower interest from the country in investment loans. TCs maintained a similar volume to the previous period, becoming one of the principal means of support and dialogue, although most remained directed toward objectives that were no longer government

priorities. Only around 20% directly supported the preparation or execution of operations, particularly PBLs.

In contrast, IDB Invest quintupled its approvals of short-term financing—through trade supply chain finance (TSCF) operations—while long-term financing approvals fell by one-third compared to the previous period, largely due to the shift in the regulatory environment toward private sector participation in infrastructure. IDB Invest stood out for its diversification of instruments and the strong presence of its treasury operations in Mexico, which allowed it to offer local currency solutions, achieving a portfolio in which nearly half was denominated in pesos.

Alignment of the program to the CS objectives. The CP included operations supporting all nine strategic objectives (SO), although more than half of them had low feasibility of contribution from the design stage (SO1, SO2, SO5, SO8, SO9). Strong alignment was concentrated in four objectives (SO3, SO4, SO6, and SO7), such as *strengthen the labor market* (SO4), which had a broad program from both the IDB and IDB Invest, while other objectives, such as *subnational fiscal management* (SO9), received limited support, mostly through TC. In addition, weaknesses in the CS theory of change—such as the disconnect between strategic objectives and expected results—reduced the program's feasibility of contributing to the objectives. Four of the objectives (SO1, SO3, SO5, and SO9) were supported exclusively by the IDB, with varying capacity for progress. IDB Invest concentrated more than 90% of its portfolio on *improve access to credit* (SO6), with interventions in clean energy and reverse factoring that achieved scale and had demonstration effect. It also complemented IDB efforts in supporting *labor market* (SO4) and *rural productivity* (SO7) objectives. Finally, both the IDB and IDB Invest responded flexibly to the pandemic, channeling public and private resources to support economic recovery, even beyond the original framework of the CS.

Program Implementation. Between 2020 and 2024, implementation of the IDB's CP faced significant challenges. Although the total amount approved remained close to what was projected in the annual Country Programming Documents (CPDs), the approved volume was 40% lower than estimated in the CS, and more than half of the planned operations did not materialize. This reflected difficulties in dialogue, misalignments between the IDB's programming cycle and that of the country, as well as contextual changes, including because of the pandemic. Numerous cancellations were also recorded—particularly of INVs—affecting both legacy operations and those approved during the period. These cancellations in the IDB's CP, which exceeded US\$1.6 billion, limited progress toward several strategic objectives. Policy-based loans (PBL), in contrast, did not experience the same level of cancellations. IDB Invest, on the other hand, reported far fewer cancellations or suspensions, with only four operations affected, mainly due to external factors, such as the pandemic or changes in the regulatory environment.

IDB disbursements decreased significantly compared to the previous period, with PBL accounting for more than 85% of the total (versus 78% of total approvals). By contrast, IDB Invest disbursements increased in both long-term operations and short-term financing, the latter driven mainly by reverse factoring operations. Finally, both the costs and the preparation and execution times of the IDB program increased compared to the previous cycle, due to a decrease in the average size of operations, higher cancellations, and a less predictable environment. Although these indicators remained below the IDB average, their relative advantage diminished.

Contribution of the program to the objectives. Between 2020 and 2024, the CP made a medium contribution toward four strategic objectives (SO2, SO4, SO6, and SO8) and a low contribution toward the other five (SO1, SO3, SO5, SO7, and SO9). The greatest contributions occurred when the CP supported areas of high priority for the Government (such as pensions and social protection), when there was continuity of prior work by the IDB and IDB Invest that had laid the groundwork for contributions (such as upper secondary education or clean energy), or when IDB Invest's participation amplified results in areas where the IDB had reduced its involvement, such as *access to credit* (OE6). In contrast, the lack of clarity in the theory of change, reduced demand for financing from the country, as reflected in the fact that programmed operations did not materialize and cancellations in the IDB's PP, and the lack of evidence of contribution, and various recent operations that have not yet shown results limited contributions to other objectives.

In the priority area of social services, the CP's contribution varied across objectives. The CP achieved a high contribution in *social protection for older adults* (ER1.1), supporting key pension-related legal reforms through PBLs and TCs. However, its contribution to *improve health services* (SO1) was low due to weaknesses in the theory of change, limited scope of interventions, and lack of evidence of contribution. In contrast, the contribution in *education* (SO2) was medium. Progress was made in reducing upper secondary school dropout rates, partly through improvements in educational quality, although other operations were canceled or had limited scope. Regarding the *quality and sustainability of water services* (SO3), the contribution was low due to cancellations of key IDB loans and the lack of evidence of contribution of other support efforts. Finally, in *strengthen the labor market* (SO4), the CP had a medium contribution, with notable advances in *pensions* (ER4.3), while efforts to *increase labor participation* (ER4.1) and *reduce informality* (ER4.2) were constrained by cancellations and limited scope. However, IDB Invest complemented these efforts with additional results in formal job creation.

In the priority area of investment, the IDB's CP in Mexico between 2020 and 2024 had limited contributions due to cancellations of IDB loans, restructurings, and changes in government priorities. *Strengthen public finances* (SO5) saw a low contribution, with key operations canceled and no evidence of impact from others. Regarding *access to credit* (SO6), the contribution was medium, mainly attributable to the actions of IDB Invest, which facilitated credit through multiple instruments and sectors and, to a lesser degree, to IDB operations, which faced cancellations or lacked evidence of contribution. Support for *capital market development* (ER6.2) and *clean energy* (ER6.3) showed relevant contributions from IDB Invest, although in the latter case they were limited after 2020 by the regulatory environment. Interventions aimed at *increasing national development bank financing to the private sector* (ER6.1) had some contribution, although the impacts were limited by cancellations, lack of evidence of contribution, and the country's reduced appetite for contracting IDB loans to channel through development banks (one of the IDB's traditional lines of work in Mexico). Finally, and the contribution to *promoting financing for rural environmental sustainability* (ER6.4) was low due to cancellations, lack of evidence of results, and the reorganization of the development banking system, which included the closure of the National Development Financial Institution for Agriculture, Rural, Forestry, and Fisheries (FND). New operations were approved at the end of the period, including with the Trust Funds Established in Relation to Agriculture (FIRA), a new entity that took over some of the functions of the now-defunct FND, but there is still no evidence of their contribution.

In the priority area of territorial development, the CP had a medium contribution to *improve territorial planning* (SO8), and a low contribution to *improve rural productivity* (SO7) and *subnational fiscal management* (SO9). In *rural productivity*, the cancellation of a key IDB operation limited results, while IDB Invest supported agribusiness companies with contributions whose scope was limited to these companies, in contrast with the broader objective. In *territorial planning*, the IDB supported the implementation of the General Law on Human Settlements, Territorial Planning, and Urban Development through both legacy and new operations, although only some were executed. Housing results supported by IDB Invest were limited, with opportunities identified for stronger coordination with the IDB. Finally, support for *subnational fiscal management* was limited and without evidence of contribution through the inputs of various TCs aimed at strengthening local tax capacities and transparency.

Conclusions. This ICPR offers potentially useful insights for optimizing the future contributions of the IDB and IDB Invest. The ICPR highlights: (i) the importance of strengthening dialogue and coordination with government to ensure strategic alignment and an agile response to changes in context; (ii) the need to refine the IDB and IDB Invest's value added proposition, emphasizing their technical expertise and support for the continuity of development processes; (iii) the importance of improving the generation of evidence to be able to demonstrate and deepen the IDB Group's contributions to that value proposition; (iv) the need to use technical cooperation strategically, to continue contributing in contexts with lower demand for investment financing, and to explore with the government the best approaches to support national priorities; and (v) the opportunity to continue building on private sector engagement and the diverse instruments of IDB Invest, enhancing synergies with the IDB's work and its demonstration effects.

I. INTRODUCTION

1.1 This Independent Country Program Review (ICPR) analyzes the strategy and program of the Inter-American Development Bank Group (IDB Group) in Mexico during the 2019-2024 strategic period. ICPRs are independent reviews of the IDB Group's most recent Country Strategy with Mexico (CS) and the corresponding country program (CP). According to the Office of Evaluation and Oversight's (OVE) Country Product Protocol (document [RE-348-8](#)), ICPRs focus on accountability. In line with this, ICPRs do not make recommendations, but rather derive conclusions to inform the Board's consideration of the future CS. These conclusions, and the lessons learned during the preparation of the ICPR, are also often taken into account by Management to enrich the design and implementation of the future CS and CP.

1.1. This ICPR is based on an extensive document review and interviews with counterparts in Mexico, IDB Group staff, and other key external informants. The ICPR reports exclusively on the work of the IDB Group¹ and therefore does not evaluate the country or its policies. After providing a brief description of the country context, the ICPR assesses the relevance of the objectives set out in the 2019-2024 CS, describes the CP, analyzes its alignment with the CS, and

¹ The IDB Group is composed of three entities: IDB, IDB Invest, and IDB Lab. Since OVE's country products do not include IDB Lab operations, in this ICPR "IDB Group" refers only to IDB and IDB Invest, unless otherwise indicated.

examines its implementation and contributions to the objectives set. The ICPR is based on a systematic review of documentary information on CP operations, as well as information obtained through nearly 80 semi-structured interviews that included both IDB Group staff and key IDB Group counterparts in the country.

II. CONTEXT OF THE COUNTRY

2.1. **Mexico has the second largest economy in Latin America and the Caribbean (LAC) and one of the fifteen largest in the world.** With around 132 million inhabitants and a per capita gross domestic product (GDP) of over US\$13,000, Mexico is the second most populous country in Latin America and the Caribbean (LAC) and is close to reaching the World Bank's high-income country threshold (IMF, n.d.). Its economy has been characterized by sustained openness to foreign trade and private investment, driven largely by its geographic proximity to and deep trade integration with the United States of America (USA)². Mexico's GDP composition reflects a diversified economy, with significant contributions from tertiary activities (services, 62%) and secondary activities (mining, energy, construction, manufacturing, 33%), and a smaller contribution from primary activities (agriculture, livestock, fishing, etc., 5%) (INEGI, 2025). Since 1994, Mexico has been a member of the Organization for Economic Co-operation and Development (OECD), which brings together countries committed to democratic governance and a free-market economy.

A. Macroeconomic situation and productive development

2.2. **Mexico has a sound monetary and fiscal policy framework that has allowed it to cope with an environment of significant external shocks.** The constitutional autonomy of the Bank of Mexico, established in 1994, has allowed it to develop a monetary policy based on inflation targeting and a flexible exchange rate. In the fiscal area, the country has maintained discipline anchored in the Federal Budget and Fiscal Responsibility Law, approved in 2006 and amended in 2014, which imposes limits on deficits and debt and includes countercyclical mechanisms such as the Budgetary Revenue Stabilization Fund (FEIP). In addition, Mexico has maintained a high level of international reserves and has actively managed public debt (OECD, 2024a). For its part, the financial system has remained sound, reflecting the strengthening of financial supervision following the crisis of 1994 and 2008³.

2.3. **This framework has also increased resilience to fiscal pressures stemming from low tax revenues and rising public spending.** Tax revenue averaged 13.8% of GDP during the review period (2020–2024)⁴, below the LAC average (21.5%) and

² The USA absorbs more than 80% of Mexican exports and is the main source of foreign direct investment. Several global value chains have favored nearshoring in the country. In addition, of the 11,848,537 Mexicans residing abroad (approximately 9.4% of Mexico's total population), 97.2% live in the USA. Remittances from emigrants in the USA exceeded US\$60 billion in 2023, equivalent to 4% of Mexico's GDP (Li Ng, 2024).

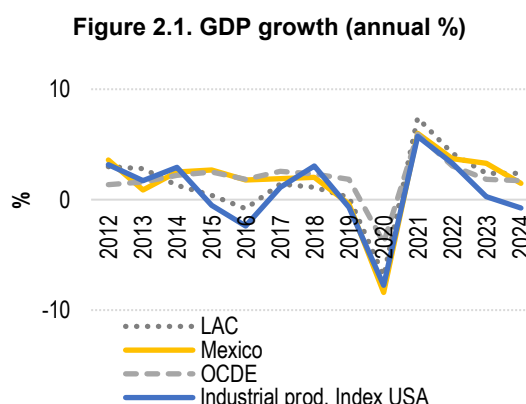
³ Banks maintain adequate liquidity and capitalization levels, along with low non-performing loan ratios. The deposit insurance system provides nearly full coverage for accounts and deposits. (Bank of Mexico, 2024; Van Roosebeke, Defina, & Wahyuni, 2023).

⁴ The ICPR review period begins on the date of approval of the CPF, December 17, 2019. However, to facilitate comparability, full calendar years are used, starting in 2020.

the OECD average (34.0%)⁵. Including fiscal revenues from state-owned enterprises, total public sector budgetary revenues averaged 22.2% of GDP in 2020–2024, compared to 22.0% in 2014–2019 (SHCP, 2025). For its part, total net spending averaged 25.6% of GDP between 2020 and 2024 (compared to 24.2% in 2014–2019) (SHCP, 2025), driven by higher health costs from the pandemic and new social protection programs. Physical investment remained at historically low levels in 2020–2024, ranging between 2.7% and 3.2% of GDP⁶, despite the push for large infrastructure projects such as the Felipe Ángeles International Airport, the Maya Train, and the Dos Bocas Refinery. The fiscal deficit (Public Sector Borrowing Requirements) averaged 4.38% of GDP, and the Federal Public Sector gross debt stood at approximately 50.2% of GDP in 2020–2024, above the 2013–2019 average of 44.7%, but below the OECD average (119.6% in 2022) (SHCP, 2025; OECD, n.d.). In this context, Mexico managed to maintain financial market confidence and preserve the investment grade that the three main rating agencies have assigned⁷. However, the six-year period covered by this ICPR was particularly challenging, with at least two downgrades to the country's sovereign debt rating by one or more of the three major credit rating agencies—compared with only two credit rating downgrades in the previous 20 years since 2000.

2.4. **However, this macroeconomic stability has not translated into accelerated economic growth.**

Between 2020 and 2024, Mexico's annual GDP growth averaged 1.1% (including 2020), below the LAC average (1.9%) and the OECD average (1.7%) (IMF, 2024a; World Bank, 2024). This performance was also weaker than the country's own average growth between 2014 and 2019 (1.75%) (IMF, n.d.-c). In 2020, Mexico experienced an 8.4% contraction due to the initial impact of the COVID-19 pandemic. Although there was a rebound in 2021–2022, annual growth again slowed to below 3% (see Figure 2.1). Growth has shown a high correlation with the USA's industrial production index, reflecting the deep integration between the two countries.



Source: International Monetary Fund (IMF, 2024, 2024a; World Bank, 2024).

2.5. **Low productivity remains the main obstacle to Mexico's growth.** Growth has been constrained by the negative contribution of total factor productivity (TFP), reflecting persistent structural weaknesses that hinder the efficient allocation of

⁵ Mexico's average tax revenue estimate is based on figures reported in IMF Article IV reports (IMF, 2020, 2021, 2022, 2023, and 2024). The OECD and LAC averages were obtained from the OECD Revenue Statistics in Latin America and the Caribbean 2024 report, which includes data up to 2022. (OECD et al.2024.).

⁶ This value is below the OECD country average (3.79%) and the LAC average (3.48%) for the same period (OECD, 2024a).

⁷ Between 2000 and 2024, Mexico's credit rating ranged from BBB to A3 according to S&P, from Baa3 to A3 according to Moody's, and from Baa2 to A3 according to Fitch (see Annex).

production resources. TFP measures how efficiently capital and labor are used together in the production process. A negative contribution suggests that the economy is not making full use of its existing inputs. The contribution of capital to growth fell during 2020–2024 compared to 2014–2019, despite investment levels remaining around 23.1% of GDP (versus 23.8% in the previous period).⁸ By contrast, labor force growth continued to contribute positively, although this effect masks high informality levels (55.7% during the period), which negatively affected job quality and, in turn, the economy's aggregate productivity.

- 2.6. **This persistent productivity gap is linked to a dual economy, characterized by a large informal sector and a mismatch between the skills of the labor force and the needs of the productive sector.** In 2019, Mexico ranked 48th in the *Global Competitiveness Index* (GCI, 2019), positioning itself as the second least competitive country within the OECD. The Mexican economy is characterized by a strong duality, where a modern and competitive export-oriented sector—such as the automotive and electronics industries—coexists alongside an informal sector with low productivity. This fragmentation, combined with insufficient technical and digital skills, limits the transfer of innovation and productivity. Although it concentrates more than half of the workforce, the informal economy⁹ contributes less than one-quarter of the GDP. Informality is

⁸ Private investment accounted for most of the investment during the period.

⁹ The National Institute for Statistics and Geography (INEGI; 2024b) classifies the informal economy into two main categories: (i) the informal sector, made up of micro-businesses that are neither registered nor formalized, and (ii) other informal modalities, which include activities such as subsistence agriculture, paid domestic work, and jobs performed in formal economic units but without access to legal labor protections.

higher in the southern and central states of the country, where low value-added economic activities predominate, with limited integration into international markets and a lower participation of skilled labor.

- 2.7. **Structural challenges, including infrastructure gaps, crime, and lack of transparency, undermine productivity and private sector investments.** Infrastructure gaps and high levels of insecurity in certain areas increase operational costs for businesses, reducing their productivity and investments. Public investment in infrastructure in Mexico represents only 1.5% of GDP, less than half the average of upper-middle-income countries, which stands at 3.6% (Global Infrastructure Hub, n.d.; n.d.-a). This figure is also below the average range of 4% to 5% of GDP considered necessary to drive growth (Fay, Andrés, Fox, Narloch, Straub, & Slawson, 2017). Private sector investment in infrastructure has been limited over the past five years. One particularly affected area is power generation and transmission, as a result of a shift in public policy direction that reduced incentives for private investment and prioritized strengthening state-owned enterprises. The *Global Competitiveness Index* notes that the volume and quality of private sector investments are also affected by corruption, crime, and insecurity. The economic cost of crime in the country is estimated at around 3% of GDP (IDB, 2019). Transparency and integrity indicators place Mexico below the average for both LAC and OECD countries (Transparency International, 2024). Distrust in the police and the judiciary, political interference, and organized crime undermine property rights and contract enforcement in Mexico (IMF, 2024).

B. Social development

- 2.8. **During the period, the country implemented reforms to promote universal access to the social protection system, as well as to education and health services.** In 2020, constitutional amendments were passed to grant non-contributory pensions to older adults and persons with disabilities, marking a shift toward a universal coverage social protection model. Under this new framework, a universal pension for older adults was created, replacing the previously conditional scheme and extending the benefit to the entire population aged 65 and over. Subsequently, the contributory pension system was reformed to improve its sustainability and expand its coverage. In the education sector, reforms were carried out to expand access to education. In 2019, the Constitution was amended to guarantee free and compulsory education from preschool to higher education. Among the most significant changes was the replacement of the Prospera conditional cash transfer program with more universal programs^{10,11}. Finally, the government promoted the transition of the health system from a targeted model to

¹⁰ Between 1997 and 2018, Progresá operated as a conditional cash transfer program in Mexico, aimed at reducing extreme poverty by improving access to health, education, and nutrition among vulnerable households. New programs in the education sector include a universal scholarship to reduce dropout rates among upper-secondary students and targeted scholarships for primary and secondary education students from low-income families.

¹¹ The government also launched other targeted social protection initiatives, such as the *Programa para el Bienestar de Niñas y Niños Hijos de Madres Trabajadoras* (Program for the Welfare of Children of Working Women), providing economic support for children and adolescents in single-parent households; *Sembrando Vida* (Sowing Life), offering transfers to small farmers for reforestation and sustainable agriculture projects; and *Jóvenes Construyendo el Futuro* (Youth Building the Future), which provides stipends and vocational training to young people aged 18 to 29 who are neither in education nor employment, integrating them into companies or organizations to enhance their employability; among others.

one of universal coverage. This change represented a structural shift toward a system that conceives health as a universal right, independent of formal employment or prior affiliation with social security institutions¹².

- 2.9. **These reforms led to significant reductions in poverty rates.** Between 2018 and 2022, the income poverty rate fell from 49.9% to 43.5%, and extreme poverty declined from 14% to 12.1%, a significant achievement given the pandemic context (CONEVAL, 2022). Pension reforms implemented since 2020 helped reduce poverty among adults over 65 years old, while an 86.6% real increase in the minimum wage between 2019 and 2024 contributed to poverty reduction among formal-sector workers (CONASAMI, 2024). Nevertheless, poverty levels remained above the regional average for Latin America and the Caribbean (29%) and the OECD average (11.4%) (ECLAC, 2023; OECD, 2024c).
- 2.10. **In contrast, gaps in access to health services worsened between 2019 and 2024, while access to and outcomes in education remained low.** Lack of access to medical services increased from 16.2% in 2018 to 39.1% by the end of the period, representing an increase of 20.1 million people without effective access to healthcare (CONEVAL, 2024a). In addition, life expectancy in Mexico was below the OECD average, while avoidable mortality rates and the prevalence of diabetes were the highest among OECD member countries (OECD, 2023a). In education, the gaps in access and outcomes persisted. In 2022, 71.4% of children and youth people aged 3 to 24 were enrolled in some educational service, while the attendance rates for children and youth speaking indigenous languages, with disabilities, and in rural areas were 57.7%, 54%, and 67.4% respectively (CONEVAL, 2024a). Mexico improved its upper-secondary completion rates, with the share of 25- to 34-year-olds without an upper-secondary diploma falling from 53% in 2016 to 42% in 2023. Nevertheless, the country remains far behind its OECD peers, where the average was 14% in 2023 (OECD, 2024). In terms of learning outcomes, Mexican students continue to score below the OECD average in the Programme for International Student Assessment (PISA).
- 2.11. **Between 2020 and 2024, Mexico also faced challenges in maintaining access to potable water, while rapid urban growth exacerbated housing and mobility constraints, further affecting lower-income groups.** The availability of water increased from 93.4% to 96.7% of households, and access to sewage systems remained stable at around 95% (INEGI, 2025a). However, continuous access to water became an increasingly pressing concern, as nearly two-thirds of municipalities faced water shortages due to the ongoing water crisis. Droughts, which intensified between 2020 and 2024, affected up to 76% of the national territory, including densely populated areas such as the Valley of Mexico, leading to drastic reductions in supply. At the national level, 30 of 32 states reported severe shortages. In 2022, only 61% of the population had access to safely managed drinking water services (Agenda 2030 Mexico, 2024). At the same time, the urban

¹² In 2020, the creation of the Instituto de Salud para el Bienestar eliminated affiliation requirements, and free, universal access to health services was proposed. However, implementation was uneven, creating uncertainty regarding effective coverage. In 2023, the government consolidated the approach through IMSS-Bienestar, providing comprehensive health services to the uninsured population by leveraging the infrastructure of the Instituto Mexicano del Seguro Social (IMSS), which already delivers medical services, pensions, and social benefits to formal-sector workers and their families.

population grew by approximately 4 million, exacerbating the housing deficit¹³, informal settlements, and urban sprawl into peripheral areas lacking adequate infrastructure. This increased reliance on private transportation, causing traffic congestion, higher pollution, and longer commute times, which disproportionately affected lower-income populations.

III. RELEVANCE OF THE IDB GROUP COUNTRY STRATEGY

- 3.1. **The IDB Group Country Strategy for Mexico (CS 2019-2024) identified three priority areas (PAs): (i) contributing to equitable access to and sustainability of social services; (ii) encouraging dynamic investment; and (iii) contributing to balanced and sustainable territorial development.** Within these areas, the CS set 9 strategic objectives (SOs) and 16 expected results (ERs), hereafter referred to as the Country Strategy's *objectives* (Box 3.1). In addition, the CS identified four cross-cutting themes to be integrated into the IDB Group program in these PAs: (a) institutional strengthening and transparency (in the investment and territorial development PAs); (b) gender and diversity (in the social services and territorial development PAs); (c) strengthening the resilience of the private sector, public disaster risk management capacity, and climate change adaptation (in the territorial development PA); and (d) personal identification (with no specific PA assigned). The CS also identified five areas for dialogue where support was expected to be progressively developed: business climate¹⁴, migration, regional integration, urban transport infrastructure, and road safety.

¹³ According to the 2021–2024 National Housing Program, the National Housing Commission (CONAVI) reported a housing deficit requiring 9.4 million housing interventions (SEDATU, 2021).

¹⁴ Dialogue in this area was to focus particularly on citizen security, cybersecurity, planning and preparedness for Industry 4.0 in the country, logistics, and cultural industries.

Box 3.1. Priority Areas (PA), Strategic Objectives (SO), and Expected Results (ER) of the 2019-2024 CS

SO	ER
PA1 - Social services: Contribute to equitable access to and sustainability of social services	
SO1. Improve health services	ER1.1. Greater social protection for older adults
	ER1.2. Increased coverage of preventive services for chronic diseases
	ER1.3. Improved access to water and sanitation services in the rural sector
SO2. Increase education coverage and quality	ER2.1. Reduced dropout rate in upper secondary education
SO3. Improve the quality and sustainability water services	ER3.1. Improve the level of service provided by drinking water and sanitation operating organizations
SO4. Strengthen the labor market	ER4.1. Increase labor participation
	ER4.2. Reduction of informality
	ER4.3. Increase in the number of people receiving pensions
PA2 - Investment: Foster investment dynamism	
SO5. Strengthen public finances	ER5.1. Increase in tax revenue collection
SO6. Strengthen access to credit	ER6.1. Increase in national development bankfinancing to the private sector
	ER6.2. Improve the depth and efficiency of capital and financial markets
	ER6.3. Penetration of clean energy sources in electric power generation
	ER6.4. Increase in funding for rural environmental sustainability
PA3 - Territorial development: Contribute to balanced and sustainable territorial development	
SO7. Improve rural productivity	ER7.1. Increase in agricultural productivity
SO8. Improve territorial planning	ER8.1. Consolidation of urban areas
SO9. Strengthen subnational fiscal management (municipalities)	ER9.1. Increased own-source revenues at the subnational level

Source: Mexico 2019-2024 CS (document [GN-2982](#)).

- 3.2. **The Strategy was analyzed in terms of the relevance of its objectives and the quality of its design.** To assess the *relevance* of the objectives, their alignment with the country's development needs and priorities, as well as the IDB Group's corporate priorities, was considered. In addition, the robustness of the rationale supporting the selection of objectives was evaluated, including whether the feasibility of the IDB Group's contribution had been taken into account. Furthermore, the *quality of the CS design* was assessed by analyzing the elements that were included—or should have been included—in the CS to optimize the likelihood of the IDB Group contributing to the objectives, including: (i) the structure of the CS Results Matrix (RM) (i.e., the how the expected result is anticipated to contribute to the advancement of the strategic objective, and how the SO to progress toward the priority area); (ii) the adequacy of the RM indicators to measure progress toward the objectives; and (iii) the identification of the main risks that could affect the CP contribution to the objectives, as well as the adequacy of the proposed mitigation measures.
- 3.3. **The CS objectives were consistent with the country's needs and the IDB Group's corporate priorities, but their relevance was diminished because they did not accompany a significant shift in national priorities.** Most objectives reflected key development challenges for the country. The objectives were also aligned with the IDB Group's Institutional Strategy Update 2010–2020 (document

[AB-3008](#)), in force at the time the CS was approved¹⁵. In contrast, though formally agreed to with the Government, the CS objectives were less aligned with the country's [2019–2024 National Development Plan](#) (NDP), approved in June 2019, which emphasized challenges related to strengthening governance, social policy, and the economy (see Box 3.2). More than a third of the CS's strategic objectives, approved six months later, in December 2019, were not linked to the NDP's priorities. Although the CS addressed sectors and themes similar to those of the NDP, it did so with an approach that did not align with the country's significant shift in direction from that of previous periods.

- 3.4. **The objectives in the *social services* area did not reflect the country's approach, which sought to universalize access regardless of the population's formality status or ability to pay.** In health, the NDP aimed to achieve universal coverage. The CS objectives aimed to *improve health services* (SO1) and *increase coverage of preventive services for chronic diseases* (ER1.2), both of which were only minimally related to the universalization of the beneficiary base. Similarly, the CS sought to *improve access to water and sanitation services in the rural sector* (ER1.3), an ongoing objective from the previous CS which yielded positive results in the past. However, this approach did not align with the NDP's vision, or of the National Water Plan 2020-2024 (PNH) which emphasized access to water and sanitation as a basic human right. Objectives to *improve the quality and sustainability of water services* (SO3) and to *improve the level of service provided by drinking water and sanitation operating organizations* (ER3.1) targeted important service and financial sustainability aspects that were not priorities of the country. In education, the NDP proposed a new educational reform, replacement of existing conditional cash transfer programs in the sector with new programs, as well as the creation of a new free university system and scholarships to promote universal access. In contrast, the CS aimed to *reduce dropout rates in upper secondary education* (ER2.1). Only a small portion of the CS objectives were relevant to the country's priorities, such as the pursuit of *greater social protection for older adults* (ER1.1) or *increase in the number of people receiving pensions* (ER4.3). These objectives were placed at the lowest level, i.e., as expected results (ER), under strategic objectives (SO) that were not entirely related and were continuations from the previous CS, for example, *social protection for older adults* (ER1.1) under *health services* (SO1).
- 3.5. **In the *investment* area, some objectives were relevant because they aligned with the need to increase fiscal resources and productive financing, while others lost relevance because they conflicted with the NDP's vision of a more limited role for the private sector.** The objectives related to *tax collection* (ER5.1), *financing through national development banks* (ER6.1), and *increased financing for rural sustainability* (ER6.4) were consistent with both the country's needs and priorities. In contrast, the objectives aimed at *improve the depth and efficiency of capital and financial markets* (ER6.2) and *penetration of clean energy sources in electric power generation* (ER6.3) aligned with the country's challenges but not with NDP priorities. The NDP's focus on the private sector

¹⁵ In particular, the CS reflected IDB Group corporate objectives related to developing quality human capital, eradicating extreme poverty, providing inclusive infrastructure, creating a more distributive fiscal policy, strengthening state capacity, providing urban planning and rural infrastructure, financial inclusion, providing adequate knowledge and innovation ecosystems, as well as the cross-cutting themes of gender equality, diversity, and climate change.

was directed towards small businesses and did not address capital and financial markets, which are typically linked to larger companies. Similarly, the NDP included small-scale renewable energy generation as part of efforts to transform the rural sector¹⁶ but viewed the previous energy reform, which had led to large-scale renewable energy generation, as "*a serious damage to Petróleos Mexicanos and the Federal Electricity Commission, state productive enterprises already suffering from privatizing designs*".¹⁷ (Government of Mexico, 2019) In the previous period, the IDB Group had contributed in capital markets and renewable energies. The CS aimed to continue these objectives but contrasted with the shift in the country's priorities.

- 3.6. **In the area of territorial development, only the agricultural productivity objectives were relevant, while the rest reflected a previous approach that no longer matched the country's priorities.** A pillar of the NDP was achieving food self-sufficiency¹⁸, which related to the SO of *increasing rural productivity* (SO7). In contrast, the alignment between the NDP and the CS was limited regarding *improve territorial planning* (SO8). The CS sought to address "deficiencies in territorial planning and in the [...] prioritization of investments [which] have contributed to regional disparities and have emerged as a significant challenge for [...] urban and rural development." This perspective contrasted with the NDP, which proposed a programmatic approach to address regional disparities through major initiatives such as the Maya Train, aimed at promoting territorial planning in the Yucatán Peninsula region; the Urban Improvement and Housing Program in northern border cities and tourism development hubs; and the National Reconstruction Program to assist populations affected by the 2017 and 2018 earthquakes. The importance of partnering with federal government initiatives was previously noted by the OVE in its Country Program Evaluation Mexico 2013-2018 (CPE), which recommended that the IDB seek mechanisms to identify federal programs and policies where it can add value to remain a relevant development partner in Mexico. Similarly, the NDP no longer highlighted *strengthen subnational fiscal management (municipalities)* (SO9) as a priority, despite it being an objective continued from the previous CS with positive results. According to the Financial Discipline Law for Federative Entities and Municipalities, the federal government closely controls the debt of subnational entities, so addressing this issue without an agreement at the federal level is unlikely.

¹⁶ According to the NDP, "The new energy policy seeks to promote sustainable development by involving populations and communities in energy production from renewable sources, which will be essential to bringing electricity to small, isolated communities that still lack this service. This energy transition will also foster the emergence of a social sector in the energy field and will encourage the country's reindustrialization." (Government of Mexico, 2019)

¹⁷ In its 2020–2024 Sectoral Energy Program, published after the approval of the CS, the Government stated its commitment to continue increasing renewable energy generation, but emphasized the importance of doing so through the State Productive Enterprises (SENER, 2020).

¹⁸ According to the NDP, the aim was to "promote food self-sufficiency and rural recovery, benefiting small and medium producers, promoting agroecological and sustainable practices, and ensuring the conservation of soil, water, and agro-biodiversity." (Government of Mexico, 2019)

Box 3.2. National Development Plan (NDP) 2019-2024

The National Development Plans (NDPs) are guiding documents through which the Federal Government specifies national objectives, strategies, and priorities for integral and sustainable development of the country during its six-year term. These plans are outlined in Article 26 of the Political Constitution, the Planning Law, and the Organic Law of the Federal Public Administration. The *National Development Plan 2019-2024* defined government principles and three focus areas. Under each area, high-level objectives, lines of work, legislative or institutional changes, and associated projects and programs were specified:

- (i) **Politics and Government** established criteria to combat corruption, respect the rule of law and the legal framework, prevent conflicts of interest, comprehensively address security, strengthen democracy, define foreign policy, and manage migration.
- (ii) **Social Policy** identified nine priority programs to promote the economic development of vulnerable groups (e.g., youth, older adults, students, victims of natural disasters, micro-enterprise owners, farmers, and residents of marginalized neighborhoods). It also highlighted challenges in sustainable development, education, health, and culture and outlined principles to guide public policies that address these challenges.
- (iii) **Economy** outlined principles for economic management, as well as specific measures and programs at the national and regional levels concerning banking, energy, communications, transportation infrastructure, agriculture, science and technology, and sports. Regarding the energy sector, the NDP assigned the State a central role in rehabilitating and modernizing hydroelectric plants and refineries, thus reversing the previous opening toward large private investors.

Source: [National Development Plan 2019-2024](#).

- 3.7. **All of the objectives that lost alignment with the NDP during this period were objectives included in the previous CS and that were continued in this CS.** The 2019-2024 CS maintained relative continuity with the previous CS (2013-2018). It preserved similar priority areas—productivity, social development, and regional development—and partially or fully replicated more than half of its objectives. Most of these objectives had an active portfolio when the CS was approved, which, according to the IDB Group’s Country Strategy Guidelines, was a factor to consider when setting objectives, but not a determining factor.¹⁹ All objectives that were no longer aligned with the national priorities outlined in the NDP had been present in the previous CS. In the *social services* priority area, the objectives related to *improve health services* (SO1) and *water services* (ER1.3, ER3.1, and SO3) continued. However, their focus was not aligned with national priorities. Similarly, in the *investment* priority area, *improve the depth and efficiency of capital and financial markets* (ER6.2), a topic not included in the NDP, was literally carried over from the previous CS. Two objectives in the *territorial development* priority area that were not aligned with the NDP—*improve territorial planning* (SO8) and *strengthen subnational fiscal management (municipalities)* (SO9)—were also continued from the previous strategy.
- 3.8. **In a context marked by changes in national priorities and Mexico's fluid access to alternative financing sources, the CS did not manage to redefine the IDB Group's added value.** Mexico's strong credit rating grants its easy access to financing, including internal sources that constitute the majority of the national

¹⁹ According to the CS Guidelines, the selection of CS objectives should consider, among other factors, the portfolio in execution. However, this, “does not mean that all of the issues identified in the diagnostics or already supported through the active portfolio must necessarily be addressed in the CS, considering that this document is the outcome of a mutual agreement with the beneficiary country.” (IDB, 2015)

debt (84% of the total in 2024)²⁰. In this regard, the CS identified as a lesson learned the need to *"use flexible instruments with competitive costs [...] including local currency instruments for companies"* to provide financial added value²¹. In contrast, the CS did not emphasize the need to redefine a non-financial value added that would encourage country ownership of the program. The CS was limited to highlighting the value of operational support through TCs, which in turn depended on maintaining an active loan portfolio. In this regard, the CS argued that *"The Government of Mexico has expressed interest in continuing with a financing framework aligned with the previous strategy [...] it has anticipated continuing to turn to multilateral banks and seeking to maintain with the Bank a program consistent with the previous strategy. This, combined with the Bank's structured relationship with Mexico, with established executing agencies and broad experience, offers conditions for the IDB Group to maintain its cooperation program with Mexico."* In light of the expected continuity of the existing relationship—which historically has had significant scale for the IDB²²—the CS did not provide sufficient guidance on what changes in the IDB Group's value added should be developed to contribute in the new country context.

- 3.9. **The selection of CS objectives assumed continuity in the relationship and approach, although there were already signs that these were changing.** Mexico's new administration was elected in July 2018 and took office in December of that year. For its part, the OVE had produced a Country Program Evaluation: Mexico 2013-2018 (CPE) in June 2019, preceding the approval of the 2019-2024 CS in December 2019. The CS argued several bases for the choice of its intervention areas. First, the CS emphasized the importance of dialogue with the authorities. However, at the time of its approval, there were already indications that the dialogue did not seem to reflect the vision of the new government, which expressed reservations about continuing taking on debt from international financial institutions²³. Second, the CS indicated that the priorities had been selected according to the development needs identified by the IDB Group, but its approach did not fully incorporate the priorities of the new NDP (see paragraph 3.3). Finally, the CS pointed to *"the possibility of building on the results achieved during the previous Strategy and the execution capacity to support implementation"* as another basis for selecting the intervention areas²⁴. The reference to implementation capacity assumed that an investment portfolio would be maintained despite the growing number of cancellations of IDB loans during the

²⁰ Relative to the country's size and needs, the financing provided by multilateral development banks (MDBs) has been limited, representing about 5% of the national debt. The IDB was the largest lender among MDBs (World Bank, 2019).

²¹ The CPE noted an increase in cancellations of IDB operations since 2016, partly due to a decline in its competitiveness caused by an increase in charges associated with loans.

²² Between 2014 and 2018, Mexico ranked between first and third among IDB borrowing countries by approved loan amounts. Historically, Mexico accounted for about 15% of the IDB's annual financing volumes, a ratio that was halved during this period.

²³ The President of Mexico had already publicly expressed concern about the IMF and other international institutions, stating that: "They imposed a neoliberal policy that caused many misfortunes [and] they will no longer decide Mexico's agenda." (Milenio Digital, July 2019).

²⁴ The CPE highlighted results in subnational fiscal reform, increased access to credit, education, renewable energies, improved maternal and childcare and availability of medical supplies, orderly urban growth, greater rural water and sanitation coverage, and financing for agricultural productivity.

previous strategy²⁵. Additionally, at least nine of the 16 expected results of the new CS continued the approach of the previous CS in areas where the CPE had already identified possible challenges to continuing support implementation²⁶.

3.10. In terms of design quality, the CS had weaknesses in its theory of change.

The theory of change of a CS describes *how* it is expected to contribute to the objectives. This theory of change is documented in the CS results matrix, so that progress on the lower-level objectives—the expected results, associated with the planned interventions—leads to progress on their respective next-level objectives—the strategic objectives—and that, in turn, the progress of these contributes to the advancement of the priority areas. A clear theory of change is always important but is particularly critical when the IDB Group's contributions are expected to be relatively small compared to those of the country, as was the case with Mexico. Defining how the contribution was expected to address the country's much broader needs and priorities was key to articulating the expected contribution of the IDB Group. However, the CS exhibited weaknesses in the clear theory of change almost half of the objectives (see Box 3.3 and Annex I, Box I.2.1).

Box 3.3. Examples of weaknesses in the 2019-2024 CS theory of change

Inverted objectives: Theory of change implies that progress toward the more narrowly defined objectives – which serve as entry points for interventions (i.e., the expected results, ERs) – translates into progress toward higher-level objectives (i.e., the strategic objectives, SOs). However, in several cases, this logic was reversed. For example, progress toward *reduced dropout rates in upper secondary education* (ER2.1) does not contribute to *increasing coverage and quality in education* (SO2). On the contrary, it would first be necessary to increase educational coverage and quality for this to result in lower dropout rates. Similarly, an *increase in the number of people receiving pensions* (ER4.3) may be the result of a *strengthened labor market* (SO4), not a driver of it. In the same manner, *consolidation of urban areas* (ER8.1) can derive from *improved territorial planning* (SO8) but the opposite, which the CS proposes, while plausible indirectly, would not be the most natural way of intervening. *Increased own-source revenues at the subnational level* (ER9.1) could come from *strengthened subnational fiscal management* (SO9), but the reverse would also not be a reasonable form of intervention.

Unrelated objectives: The theory of change also implies that objectives at different levels should be logically related with each other, such that progress in one can reasonably lead to progress in the other. However, this was not the case in several instances. For example, *increased social protection for adults* (ER1.1) and *improved access to water and sanitation services in the rural sector* (ER1.3) cannot directly contribute to the objective of *improving health services* (SO1), to which they were supposedly linked. Similarly, the *penetration of clean energy sources in electric power generation* (ER6.3) is not a means to *strengthen access to credit* (SO6). Likewise, *strengthening the labor market* (SO4) does not directly contribute to *equitable access to and sustainability of social services* (PA1), its higher-level objective.

²⁵ The CPE already noted that during the 2013-2018 period, US\$1.6 billion from 15 operations were canceled (three of them entirely), which was 5.5 times more than the previous period in terms of amounts (and four times in terms of the number of operations with cancellations). Cancellations began to increase in 2016, reaching 30% of available balances in 2018. The largest cancellations affected rural development, climate change (energy), urban development, education, labor markets, and public management objectives, which were repeated in the new CS.

²⁶ The CPE had already identified potential challenges to future interventions aimed at improved access to water and sanitation services in the rural sector (ER1.3), reduced dropout rates in upper secondary education (ER2.1), improved level of service provided by drinking water and sanitation operating organizations, and increased labor market participation (ER4.1), reduced informality (ER4.2), increased tax revenue collection (ER5.1), increased national development bank financing to the private (ER6.1), penetration of clean energy sources (ER6.3), consolidated urban areas (ER8.1), and increased own-source revenues at the subnational level (ER9.1). (See Chapter 3, Section E of the CPE.)

- 3.11. **Furthermore, the inadequate design of some of the CS Results Matrix (RM) indicators affected its use as a monitoring tool.** Out of a total of 16 progress indicators, three were too broad or partial to adequately measure the expected result. Another six presented baseline problems due to inadequate definitions, data reporting errors, and reliance on information sources that were discontinued during the Strategy period, generating potential challenges for their update.²⁷ On the other hand, interviews conducted for this review revealed limited awareness of the CS among specialists, resulting in its limited use as a supervision tool. Furthermore, the interviews confirmed that the Strategy and its RM were not fully used to support the IDB Group's dialogue with the Government of Mexico (GoM) during the period.
- 3.12. **The CS also had weaknesses in identifying risks and mitigation measures to address them.** The CS Guidelines state that "the preparation process of the [Country Strategy] includes identifying the main risk factors that could hinder the achievement of development objectives of the IDB Group's interventions." The CS identified macroeconomic risks (which could lead to fiscal constraints), deterioration of the business climate (with a slowdown in growth), and risks related to natural disasters (including those due to climate change). However, these risks were not program-specific, and the mitigation measures were inadequate. The CS proposed addressing the risk of fiscal constraints through the program's own operations aimed at *increasing tax revenue collection* (ER5.1). This would have been difficult given the lag between the possibly rapid emergence of the risk and the slower production of results from the program's operations. Similarly, although the risk of deterioration in the business environment and the effects of climate change occurred during the period, their mitigation depended on the program's implementation, which was mostly discontinued.
- 3.13. **The main risk – the lack of country ownership of the program – was not addressed.** The change in government priorities compared to the previous administration was not considered a risk in the CS, nor were mitigation mechanisms proposed to manage fluctuations in Mexico's interest in utilizing IDB Group financing toward agreed CS objectives. In addition to differences in priorities, OVE's previous CPE highlighted the IDB's pre-pandemic loss of financial competitiveness. The IDB Group's strategic approach with Mexico comprises the initial CS, which is approved in formal agreement with the GoM and is complemented by a sequence of annual Country Programming Documents (CPDs), through which the Group could also identify and respond to changing circumstances. During the period, the number and amounts of new loans continued to decline, while cancellations and prepayments increased (see Chapters IV and V). Although the factors behind the cancellations varied over time, this trend reflected a substantial change in the country's ownership of the program as well as in the assumptions underlying the relationship. Despite this change in context, the objectives were not updated using the mechanisms available for this purpose: either minor changes through the CPDs or major changes via an update of the CS. Strategic dialogue was also affected by the unusually high turnover of IDB Group staff representatives: the IDB Group had five successive representatives in Mexico following CS approval.

²⁷

See Table 1.3.1 in the annex for a detailed analysis of the CS results matrix.

IV. COUNTRY PROGRAM

- 4.1. **This chapter describes the Country Program (CP) and analyzes its alignment with the CS objectives and its operational design.** OVE's Country Product Protocol ([RE-348-8](#)) establishes that the CP includes all operations of the IDB and IDB Invest approved during the review period²⁸, as well as those inherited from previous periods²⁹. First, the composition of the CP is described, analyzing its alignment or *ex-ante* feasibility to contribute to CS objectives. Then, the CP's operational design (including the type, mix, and sequencing of operations) is analyzed, assessing its suitability to contribute to CS objectives, including through resource mobilization.
- A. Program description**
- 4.2. **The Country Program consisted of 137 IDB operations and 133 IDB Invest operations.** During the review period, the IDB approved 14 loans (seven investment loans (INV) and seven policy-based loans (PBL)) totaling US\$5.74 billion, as well as 72 non-reimbursable operations (71 technical cooperation operations (TCP) and one investment grant (IGR)) totaling US\$28.9 million. One of these INVs was approved under a conditional credit line (CCLIP) for US\$1 billion³⁰. Meanwhile, IDB Invest approved 36 long-term operations—including one equity investment (EQU), three guarantees (GUA), 29 senior loan operations (SLO), one project combining GUA and EQU, and two projects combining SLO and EQU—totaling US\$1.1777 billion. It also approved 40 advisory services (ADV) totaling US\$2.8 million and disbursed US\$3.84 billion under 14 uncommitted short-term revolving credit lines³¹ (seven of which were new lines opened during the period with limits between US\$15 million and US\$51 million³²). The CP also included 51 inherited IDB operations and 23 inherited IDB Invest operations, which had outstanding disbursement balances of US\$640.7 million and US\$207.5 million, respectively (see Table 1.6.1 in the annex for a detailed list of CP operations). In addition to these operations, the CP included 19 completed IDB Invest operations whose final closure report (XSR) was to be prepared during the period, as well as seven legacy ADV.
- 4.3. **On the IDB side, approvals of INVs dropped by 80% compared to the previous period, while PBL approvals remained steady.** The number and value of approved INVs decreased from 24 INVs with an average value of US\$248.8 million

²⁸ The start date of the period is December 17, 2019 (approval date of the 2019-2024 CS), and the end date is December 31, 2024 (cut-off date defined by OVE in accordance with the Protocol, practically coinciding with December 16, 2024, the original expiration date of the CS).

²⁹ Defined by the Country Products Protocol (document RE-348-8) as those operations approved prior to the evaluation period but with outstanding disbursement amounts at its start, as well as operations that were required to prepare an expanded supervision report (XSR) during the period.

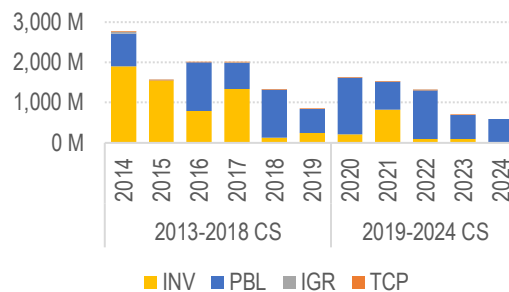
³⁰ CCLIP lines aim to finance a succession of investment loans (INV) and/or guarantees (GUA) to support long-term sector strategic objectives. The nominal amount of the CCLIP lines does not involve a commitment of resources and therefore is not counted in the total operations and amounts of the CP; only the INVs or GUAs approved under them are considered.

³¹ Some of these lines were approved jointly with other products under a single project number.

³² New short-term facility approvals included six reverse factoring (RF) facilities (12522-01/2020, 12775-02/2021, 13505-01/2022, 13283-01/2021, 13284-01/2022, 13209-01/2020) and one import financing facility (13117-01/2020) from the trade and supply chain finance program.

during the 2013-2018 CS to seven INVs with an average value of US\$177.0 million in the current period (see Figure 4.1). According to interviews, the reduced portfolio of INVs during the period was due to lower country interest in this product. On the other hand, the number and amount of PBLs remained similar to the previous strategy period, with the approval of seven PBLs totaling US\$4.5 billion during this CS, compared to seven PBLs totaling US\$4.45 billion in the previous period³³.

Figure 4.1. IDB Approved Amounts



Source: OVE based on corporate data.

Note: The 2013-2018 CS started on December 18, 2013, and ended on December 16, 2019. The amounts approved during the first two weeks of the 2013-2018 CS were added to the totals for 2014, and the amounts approved during the first two weeks of the current CS were added to the totals for 2020.

- 4.4. **Most TCPs were aimed at sustaining support and dialogue around objectives identified by the IDB as long-term challenges for the country, but whose priority for the GoM had diminished.** Between 2020 and 2024, an average of 14 TCPs per year were approved for an average value of US\$370 thousand, totaling an amount comparable to the 16 TCPs per year averaging US\$352 thousand approved between 2014 and 2019. Most of the TCPs were allocated to *client support* (71% of the Country Program's TCPs), aiming to maintain dialogue and support for CS objectives that had lost priority for the government (energy, rural water and sanitation, support to development banks, and subnational management). To a lesser extent, they also supported objectives where the IDB had less of a track record (early childhood development). *Research and dissemination* TCs (8% of the total) sought to advance knowledge agendas, primarily in the education and labor market sectors. Finally, *operational support* TCPs (21% of the total) facilitated the preparation and execution of INVs and PBLs, including studies and verification of policy conditions.
- 4.5. **IDB Invest quintupled its annual approvals for value chain financing compared to the previous period.** Short-term financing in Mexico consisted solely of value chain operations (TSCF). TSCF financing was channeled through 14 reverse factoring lines (RF)³⁴, six of which were opened during the period, and one traditional factoring line opened in 2020. IDB Invest approved an average of US\$765.7 million per year between 2020 and 2024, compared to US\$143.2 million annually in 2018 and 2019 (Figure 4.2).

³³ The 2013-2018 CS was in effect from December 18, 2013, to December 16, 2019, covering a full six-year period. However, since the 2019-2024 CS was still active at the time of preparing this ICPR, the analysis period for this report is shorter, spanning from December 17, 2019 (its approval date) to December 31, 2024 (the cut-off date set by OVE in accordance with the Country Products Protocol), a period of five years.

³⁴ The RF provides short-term financing to suppliers of large companies (*anchor companies*).

4.6. **In contrast, long-term financing decreased by about one third compared to the previous period.** IDB Invest's long-term financing decreased from an annual average of US\$272.7 million in 2016-2019³⁵ to US\$177.5 million annually in 2021-2024³⁶ (Figure 4.3). This decrease was associated in part with the government's new approach toward the role of the private sector in infrastructure, particularly for energy generation. This change in focus was also seen in a lower mobilization of resources from managed funds, which fell from 7% of approvals in the previous period to 3% in this period, mainly due to the halt of energy projects starting in 2020. In contrast, B loans remained at about 3% of approvals in both periods.

Figure 4.2. IDB Invest Approved Amounts: Short-term

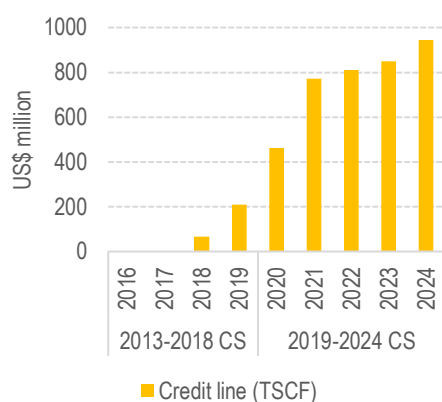
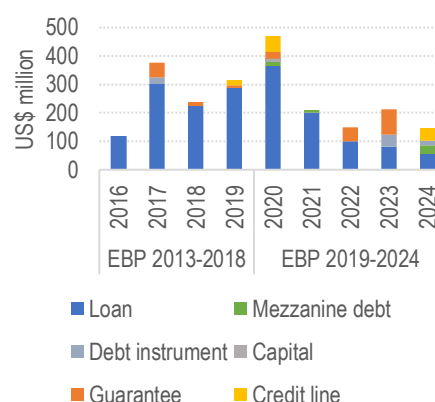


Figure 4.3. IDB Invest Approved Amounts: Long-term



Source: OVE based on data from IDB Invest.

Note: For the 2013-2018 CS, only data from 2016 onward is included, the year when IDB Invest was created. Also, since the 2013-2018 CS ended on December 16, 2019, amounts approved from December 17 to 31, 2019 were included in the total approvals for 2020 under the 2019-2024 CS.

4.7. **Nevertheless, IDB Invest managed to deploy a diversity of instruments, including in local currency.** IDB Invest used a more diverse set of long-term instruments than in the previous period, including mezzanine debt (which combines characteristics of debt and equity), guarantees (a product in which Mexico has been a leader within the IDB Group), bond issuance support (including some pioneering sustainable issuances), and revolving lines (which allow flexible access to funds). This offer was complemented by advisory services (ADV), whose total amount more than doubled compared to the previous period, supporting initiatives such as gender monitoring systems³⁷. In these cases, IDB Invest continued offering long- and short-term solutions in local currency, achieving that nearly half of the portfolio was denominated in pesos.

³⁵ The period 2016-2019 is used instead of 2014-2019 because the former only considers private sector operations approved from the establishment of IDB Invest, for greater consistency in comparison with the 2020-2024 period.

³⁶ The year 2020 was atypical due to the effects of the pandemic. Therefore, it is excluded from the comparison of averages. In January 2016, the merge-out of private sector operations of the IDB and the former Inter-American Investment Corporation (CII) came into effect, with both transferred to the current IDB Invest. For simplicity, operations prior to this merger are reported as part of IDB Invest.

³⁷ Advisory services (ADV) seek to strengthen client capabilities and develop markets.

- 4.8. **This diversity of local currency instruments was supported by the active presence of IDB Invest's treasury in Mexico.** Since 2007, IDB Invest has issued at least ten local currency bonds in the country, totaling more than MXN 18 billion (around US\$1 billion). Since 2021, these issuances to finance operations in Mexico and the region have been carried out under IDB Invest's Sustainable Debt Framework. In 2021, the first gender-focused social bond in Mexico issued by a multilateral institution was launched for MXN 2.5 billion (about US\$122 million) to finance micro, small, and medium enterprises (MSMEs) led by women. In 2022, IDB Invest issued another bond for MXN 2.5 billion (about US\$125 million) to support MSME value chains. In 2023, a social bond was issued for MXN 3.5 billion (around US\$195 million) for inclusive and sustainable projects. In 2024, IDB Invest led the first public issuance of asset-backed sustainable securities in the country, subscribing MXN 203 million (around US\$12 million) for agro-industrial MSMEs.
- B. Alignment of the CP with the CS objectives**
- 4.9. **The program included operations supporting all CS strategic objectives but had a low feasibility ex ante of contributing to more than half of them.** The CP was strongly aligned with four of the nine SOs, in which it had sufficient operations and feasibility to advance half or more of the corresponding expected results (ER). In other SOs, from the outset, the CP that was deployed had little feasibility to contribute.
- 4.10. **Targets with strong alignment had a focused program with sufficient scope.** This occurred, for example, with the program aimed at *strengthening labor markets* (SO4), which included IDB operations (four PBLs, two INVs, and 22 TCPs) and IDB Invest operations (one inherited blended debt loan, one equity investment, two guarantees, two combinations of senior loans and equity investments, 19 senior loans, and two TSCF loans) to support the creation of formal jobs, reform public policies to improve job quality, expand pension access, and strengthen public capacities to support labor market insertion.
- 4.11. **Objectives with weak alignment did not have a focused or sufficiently scaled program to support them.** For example, the program to *strengthen subnational fiscal management* (SO9) only had non-reimbursable operations that financed inputs for future actions. Similarly, the previously identified problems in the Strategy's theory of change reduced the feasibility of the program's contribution to the SOs. In some cases, operations strongly aligned with a specific ER could not contribute to the associated SOs due to a lack of connection between the two. For example, the CP's focus on the *penetration of clean energy sources in electric power generation* (ER6.3) fell outside the scope of its corresponding SO, which sought to *strengthen access to credit* (SO6). In other cases, operations were directly aligned with a strategic objective rather than through one of its expected results, but their feasibility to contribute to these SOs was low due to their indirect focus on them. Finally, a minimal part of the CP, equivalent to 0.2% of its amount (one reimbursable operation for US\$1.5 million and 63 non-reimbursable operations totaling US\$17.8 million), was not aligned with any SO.

Table 4.1. Program alignment by 2019-2024 CS strategic objective

SO	ER	Portfolio			Approvals			Total	
		Inherited			2021-2024				
Strong Weak	● = Strong ● = Weak	IDB	IDB Invest	NR ^a	IDB	IDB Invest	NR ^a		
PA1. Social Services: Contribute to equitable access to and sustainability of social services									
SO1. Improve health services	●●●	#	–	–	1	2	–	6	9
		US\$M	–	–	0.3	1,300		1.7	1,302.0
SO2. Increase coverage and quality in education	●	#	3	1	6	1	–	6	17
		US\$M	850	28.3	2.3	120		1.6	1,002.2
SO3. Improve the quality and sustainability of water services	●	#	1	–	3	1	–	4	9
		US\$M	200		2.6	100		1.6	304.1
SO4. Strengthen the labor market	●●●	#	2	13	6	5	15	15	56
		US\$M	330	790.4	2.1	3,300	702.2	4.9	5,129.7
PA2. Investment: Foster investment dynamism									
SO5. Strengthen public finances	●	#	1	–	2	–	–	2	5
		US\$M	30	–	13.9	–	–	0.5	44.4
SO6. Strengthen access to credit	●●●●	#	2	42	10	4	41	23	122
		US\$M	585.8	3,296.9	74.0	719	2,214.1	9.3	6,899.1
PA3. Territorial Development: Contribute to balanced and sustainable territorial development									
SO7. Improve rural productivity	●	#	1	3	1	–	2	3	10
		US\$M	145	48.6	0.4		35	0.4	229.5
SO8. Improve territorial planning	●	#	–	5	6	4	4	5	24
		US\$M	–	48.3	17.3	1,500	102.2	2.2	1,670.0
SO9. Strengthen subnational fiscal management (municipalities)	●	#	–	–	1	–	–	4	5
		US\$M	–	–	0.3			0.8	1.0
Total^{b, c, d, e}		#	9	48	34	15	42	64	228
		US\$M	1,970.8	3,652.5	85.6	6,739.0	2,219.1	22.2	14,689.1

Source: OVE, with data from IDB, 2022; IDB Invest, 2016a, 2023.

Notes: ^a NR includes all non-reimbursable operations (TCP, IGR, and ADV). ^b Includes inherited IDB Invest operations with Extended Supervision Reports during the period, even if they had no disbursements. ^c Includes duplication of operations in cases where they were aligned with more than one SO (these duplications are removed in the overall total). ^d Total amounts include amounts approved in both short- and long-term IDB Invest operations. ^e SO2 and SO8 have weak alignment, even though their respective ERs have strongly aligned CPs, due to gaps in the theory of change that links them.

4.12. **Four of the nine strategic objectives were supported only by the IDB, whose likelihood of contributing to their progress was limited by the reduction in its loan operations.** Efforts to support *improve health services* (SO1) and the *quality and sustainability of water services* (SO3), as well as *strengthen public finances* (SO5) and *subnational fiscal management* (SO9), were exclusively backed by IDB instruments, with varying likelihood of advancing toward the objectives. The strongest support was observed in *health*, particularly in *expanding social protection for older adults* (ER1.1), through a programmatic series that reformed the legal framework and enabled universal subsidies for this group (see Box 4.1). In contrast, the other expected results related to health were only supported by technical cooperation³⁸, with limited scope and low potential to

³⁸

For more information on technical cooperations, see Section V of the Annex.

advance the objective. In *water* (SO3), the IDB program was sufficient to have feasibility to contribute to the objectives: two phased investment loans were approved, complemented by technical cooperations aimed at capacity strengthening, offering a clear pathway to progress in the sector. In contrast, *public finances* (SO5) and *subnational fiscal management* (SO9) were mainly addressed through technical cooperation³⁹, whose scale and nature were insufficient to have feasibility to contribute to the objectives.

Box 4.1. Programmatic Series

The use of the PBL instrument and programmatic series in Mexico played an important role during the period. Policy-Based Loans (PBL) provide flexible and liquid financing to support policy reforms and institutional changes. Loans to support programmatic reforms (Programmatic Policy-Based Loans, PBP) are structured as series of operations with a common sectoral focus on reform to be carried out in phases. Each tranche depends on meeting triggers to approve the next one. OVE's [Financing in Support of Policy Reforms at the IDB](#) evaluation reports that PBLs for Mexico are among the largest (typically over US\$600 million) and have been systematically approved since 2016.

During the period, the IDB approved 7 PBLs (for US\$4.5 billion) in support of four of the ERs:

- One programmatic series, comprised of the *Pension System Improvement Program in Mexico* (ME-L1315/2022, US\$700 million) and the *Program to Reduce Economic Vulnerability of Older Adults in Mexico* (ME-L1332/2024, US\$600 million), supported *greater social protection for older adults* (ER1.1) and *increasing the number of people receiving pensions* (ER4.3) by seeking to reduce the economic vulnerability of older adults through improvements in both contributory and non-contributory pension systems.
- The PBL *Program to Improve Employment Quality in Mexico* (ME-L1289/2020, US\$800 million) also aligned with supporting *increase in the number of people receiving pensions* (ER4.3). This operation aimed to improve labor rights protection, labor justice, and the functioning of social security. The second operation in the series, whose approval is expected before the period's closure, is currently in design.
- The *Public Management and Transparency for Competitiveness Program I and II* (ME-L1299/2021, US\$700 million; ME-L1322/2022, US\$500 million) supported the *reduction of informality* (ER4.2) through lowering regulatory costs.
- Under two programmatic series, the IDB sought to advance the *consolidation of urban areas* (ER8.1). The *Strengthening Program for Urban Development and Territorial Planning Reform II* (ME-L1294/2019, US\$600 million) was the second operation of a programmatic series initiated during the previous CS to strengthen a new integrated, inclusive, resilient, and sustainable territorial and urban development model. The *Program to Support Safe, Inclusive, and Sustainable Mobility in Mexico* (ME-L1331/2023, US\$600 million) was the first operation in a programmatic series aimed at strengthening the regulatory and institutional framework, as well as urban mobility planning, road safety, and territorial planning.

Policy-Based Loans exhibited marked variability in terms of sectoral focus, amount, and scheduling. Three operations had values more than double those indicated in the corresponding Country Program Document (CPD) for their year of approval (ME-L1289, ME-L1299, ME-L1315), and two were not identified in the CPD for their year of approval (ME-L1322, ME-L1331).

- 4.13. **IDB Invest focused on *strengthening access to credit* (SO6), helping to generate a critical mass in the area of clean energy.** More than 90% of the IDB Invest program was channeled toward *strengthening access to credit* (SO6). IDB Invest's financing to support the *penetration of clean energy sources in electric power generation* (ER6.3) promoted private sector construction and operation of wind and solar power plants, achieving a scale and demonstration effect that helped support the expansion and diversification of Mexico's energy matrix. This

³⁹ One loan and one investment grant that also supported the objective financed only a few linked products, which alone had low feasibility to contribute to advancing the objective.

was made possible, in part, by the IDB's support of an energy sector reform during the prior strategy period.⁴⁰ Similarly, reverse factoring lines through large companies were replicated by IDB Invest, multiplying their effects. Additionally, IDB Invest's direct financing to companies complemented the IDB Group's support toward other objectives, including *strengthening the labor market* (SO4), *penetration of clean energy* (ER 6.3) and *improving rural productivity* (SO7).

- 4.14. **The IDB Group demonstrated willingness to support Mexico's response to the COVID-19 pandemic, providing both public and private support.** The IDB Group sought to support Mexico's COVID-19 response by approving operations for the country's economic recovery, even when these were not planned in the CS, demonstrating flexibility (see Box 4.2). In fact, the IDB had its highest levels of approvals in 2020. Similarly, IDB Invest had a notable spike in long-term financing in 2020, while not pausing its short-term financing.

Box 4.2. Operational support from the IDB Group in response to COVID-19

IDB Group support to Mexico in response to the COVID-19 crisis was channeled through non-reimbursable operations and budget support. Mexico was the last country to approve a CS with the IDB Group prior to the COVID-19 pandemic. Unlike other countries in the region, Mexico sought to finance the immediate needs created by the pandemic through resource reallocation and austerity measures, rather than debt. Direct IDB support for the COVID-19 response was limited to 4 TCPs totaling US\$1,117,000. These supported strengthening the epidemiological information system (ME-T1402/2020), adaptation of national and international COVID-19 prevention protocols for the federal public administration (ME-T1359/2020), prevention of COVID-19 spread in rural communities in Guanajuato (ME-T1443/2022), and training officials from the State of Mexico's Ministry of Education in the use of digital applications (ME-T1469/2022). Additionally, although not directly linked to COVID-19 policies, a PBL supporting public management, transparency, and competitiveness (ME-L1299/2020) was approved, which the Bank designated as part of the operational response to COVID-19. From IDB Invest, an ADV supported the development of a mobile application for a social network for educational professionals (US\$60,699).

On the other hand, the IDB Group provided significant backing for Mexico's post-pandemic economic recovery, primarily through support to micro, small, and medium enterprises (MSMEs). The IDB approved seven operations totaling US\$623.2 million to support economic recovery, including three INVs focused on helping MSMEs through national development banks for job creation and preservation in the manufacturing and tourism sectors (ME-L1300/2021), commerce and services (ME-L1308/2021)^a, and agroindustry (ME-L1301/2020); although the last was canceled without disbursement. These were complemented by four non-reimbursable operations: two to create a guarantee fund for loans offered through ME-L1308 (ME-G1019 and ME-T1473), one to strengthen Bancomext's institutional and operational capacities to implement ME-L1300 (ME-T1441/2021), and another to support preparation and execution of the Convergence Program of the Ministry of Finance and Public Credit, as part of Mexico's economic recovery plan (ME-T1427/2020). From IDB Invest, two revolving lines of credit with limits of \$67.3 million and four SLOs or GUAs totaling \$179.3 million were approved, both of which focused on economic recovery by strengthening MSMEs (12678-01/2021, 12893-01/2020, 13057-01/2020, 13102-01/2021, 13117-01/2020, and 13209-01/2020). Operations offered financing in local currency to promote financial inclusion, MSME growth, and continuity of investments in infrastructure, agriculture, and energy.

Source: [IDB COVID Dashboard](#) monitoring reports, Convergence and interviews. Note: In 2020, the Board approved the reformulation of the *Geothermal Financing and Risk Transfer Program* (ME-L1148/2014), authorizing that uncommitted and undisbursed amounts up to US\$54.3 million be used to finance the *Global Credit Program for the Defense of the Productive Fabric and Employment* (ME-L1308/2021), while canceling the remaining balance.

⁴⁰ Including through the PBL Support for the Implementation and Strengthening of the Energy Reform (ME-L1264), approved in 2018, and associated TCPs.

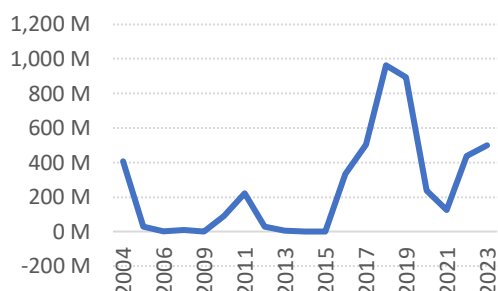
V. PROGRAM IMPLEMENTATION

- 5.1. **This section reviews the country program’s execution and presents an analysis of its performance.** The execution of the program, including its progress in supporting the different SOs of the CS, affects the potential of the CP to contribute to these objectives. The execution analysis assesses the strength of the annual programming in anticipating new operations, cancellations and reformulations of operations, the pace of disbursements, and the timing and costs of operation execution. These elements are contrasted with the projections included in the CS, previous periods, and comparable countries. Next, the main challenges affecting the CP’s execution and the actions that Management, in coordination with the government, have taken to address them are analyzed.
- A. CP execution**
- 5.2. **The IDB programmed 40% less financing than projected in the CS, managing to approve it but through operations different from those anticipated.** The CS forecasted US\$10.25 billion in IDB approvals for the period. Subsequently, the annual programming of operations—carried out at the end of each year for the following calendar year in Country Programming Documents (CPD)—projected approval of 27 IDB loans during the period for a total value of US\$6.3 billion (~40% below the amount projected in the CS). By the end of the period, the IDB had approved 12 of these 27 loans, plus four loans that were not previously anticipated, totaling US\$6.7 billion. This total amount was in line with that anticipated in the CPDs, but more than half of the anticipated operations were not approved, with their amounts redistributed to different operations. A similar situation occurred with TCPs: only around half of the anticipated TCPs were approved, but the total amount of approved TCPs was similar to expected thanks to unanticipated operations⁴¹.
- 5.3. **In addition to differences between the IDB Group’s and the country’s programming cycles, this low predictability reflected challenges of country ownership.** The IDB Group maintained a formal strategic dialogue with the Government of Mexico (GoM) through two instruments. The first instrument was the CS, a multi-year framework agreed upon with the Ministry of Finance and Public Credit (SHCP). For Mexico, the CS covered an almost six-year period, longer than in most other countries, increasing the likelihood of changes in context and priorities. Additionally, this CS was the last one approved by the IDB Group before the pandemic, whose effects emerged just three months later. The second instrument was the CPDs, prepared every November based on dialogues with the SHCP and sector ministries to agree on the operations planned for the following calendar year. Despite these formal mechanisms, the predictability of the program was low, as the country decided not to move forward with a large share of the operations agreed upon during programming. Added to this was the operational challenge that the IDB Group’s annual programming cycle does not align with that of the country, which usually defines its external financing needs between six and eight months after the close of the IDB Group programming cycle.

⁴¹ Of the 81 non-reimbursable operations planned by the IDB for the period in the CPDs, only 51% were approved.

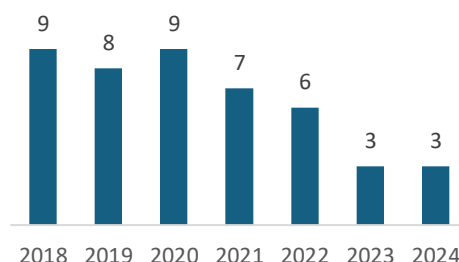
5.4. **These challenges also resulted in cancellations in the IDB’s CP, of both operations approved during the period and legacy ones.** Cancellations had been increasing since 2016 but intensified during the period (see Figures 5.1 and 5.2), totaling US\$1.64 billion (more than half of the INV portfolio)⁴². The cancellations similarly affected inherited INV operations (53% of their original amounts were canceled) and those approved during the period (50% of their amounts were canceled). This reduced support across all objectives except those lacking INV support: *health* (SO1) and *subnational management* (SO9). PBLs did not experience the same level of cancellations but a programmatic series in the labor area, launched at the beginning of the period, did not move forward as expected to the approval of the second operation before the end of the period (see Box 4.1). Notably, cancellations decreased during the most critical stage of the pandemic (2020-2021), rising again from 2022 onward. Additionally, in 2022, the GoM announced "a strategy to reduce short-term maturities [through] prepayment of debt to multilateral organizations, starting with two IDB loans for [approximately US\$45 million]." In 2023, the GoM announced "the early repayment of a loan with the World Bank for [approximately US\$180 million]" (SHCP, 2023, 2022). Reflecting similar challenges in dialogue with the country, not many operation reformulations were agreed upon⁴³.

Figure 5.1. Canceled Amounts of IDB Loans 2004-2024



Source: OVE, with data from IDB, 2024.

Figure 5.2. Loans of Investment Assets Per Year



Source: OVE, with data from IDB, 2024.

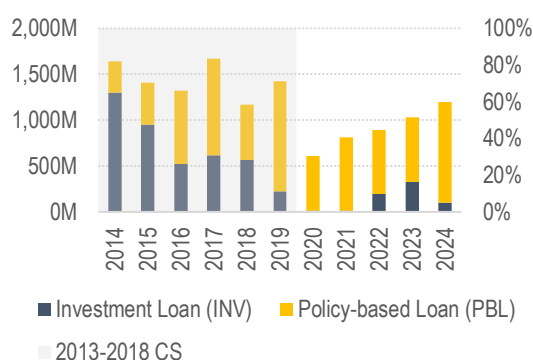
5.5. **In contrast, the IDB Invest portfolio experienced few cancellations.** Only four private sector operations were canceled, abandoned, or put on hold: three loans and one guarantee, which mainly affected contributions to *energy* (SO6). Several of these operations were impacted by changes in global and national conditions. One guarantee was abandoned due to the anticipated negative impact on the company's operations, resulting from the conflict in Ukraine. One loan was suspended when the client chose not to continue, following a change in their strategic priorities, while another loan was suspended due to changes in market conditions caused by the pandemic. In another case, regulatory uncertainty in the energy sector increased risk, so IDB Invest did not proceed.

⁴² Five INV operations were canceled in full and six partially, considering only cancellations that exceeded 10% of the originally approved amounts.

⁴³ Only two operations focused on geothermal energy were reformulated (one INV and one IGR). One of these was later canceled 100%, and the other has only managed to disburse 4% of its approved amount.

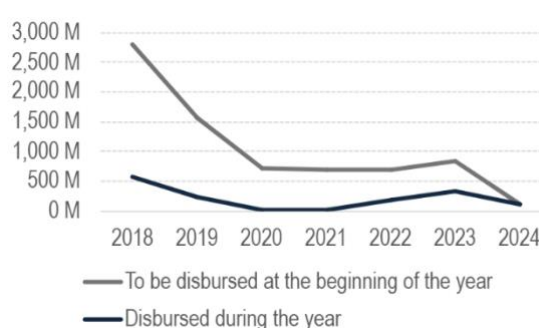
5.6. **IDB disbursements decreased compared to the previous period, with PBLs accounting for more than 85% of them.** IDB disbursements between January 2020 and December 31, 2024, totaled US\$4.55 billion (Figure 5.3), well below the scenario projected in the CS for 2020–2024 (US\$7.3 billion). They were also lower than those recorded in the previous strategic period, dropping from an annual average of US\$1.44 billion to US\$909.4 million. Disbursements associated with PBLs represented 85.8% of total disbursements between January 2020 and December 2024 (Figure 5.3), exceeding their share in approvals (78%). The remainder of disbursements was linked to seven INV operations. The reduction in active INVs during the period resulted in a sharp decline both in disbursed amounts and amounts pending disbursement (Figure 5.4). Therefore, the portfolio in execution, to be considered for the new CS, is almost nonexistent.

Figure 5.3. Disbursements of IDB loans



Source: OVE, with data from IDB, 2024.
 Note: IDB disbursements are only validated by the Department of Finance as of 2017.

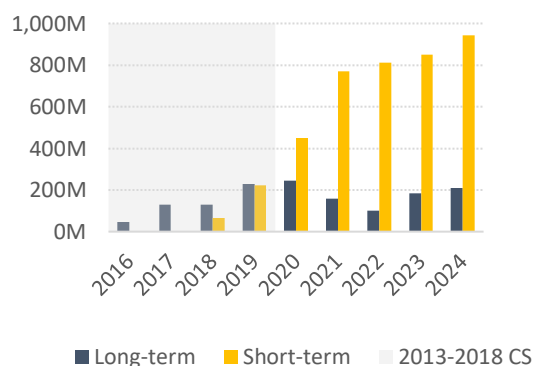
Figure 5.4. Amounts to be disbursed and disbursed: investment loans



Source: OVE, with data from IDB, 2024. Note: IDB disbursements are only validated by the Department of Finance as of 2017.

5.7. **In contrast, between 2020 and 2024, IDB Invest disbursements increased compared to the previous period.** In total, long-term operation disbursements reached US\$899.1 million between 2020 and 2024 (Figure 5.5). The average annual disbursements of these operations increased from US\$133.6 million in 2016-2019⁴⁴ to US\$179.8 million in 2020-2024, a 35% increase. On the other hand, disbursements associated with short-term financing through the Trade and Supply Chain Finance Program (TSCF) reached US\$3.8

Figure 5.5. Disbursements of IDB Invest loans



Source: OVE, with data from IDB Invest, 2024.
 Note: IDB Invest data available as of 2016.

⁴⁴ The period 2016-2019 is used instead of 2014-2019 because it only considers the period from the establishment of IDB Invest, to allow greater consistency with the 2020-2024 period. The average annual disbursements of long-term operations in 2014-2019 were US\$126 million.

billion during the period, driven by factoring operations. The annual average disbursement was US\$765.7 million, compared to US\$143.2 million in 2018 and 2019⁴⁵. This significant growth was particular to Mexico, where IDB Invest has the most robust factoring portfolio in the region.

B. Performance analysis

- 5.8. **The costs and preparation times of the IDB's CP in Mexico increased compared to the previous strategic period, consistent with the contextual challenges and interaction with the country.** Preparation expenses for INV and PBL averaged US\$1,817 and US\$372 per million approved, respectively, below the averages for both the IDB and the Country Department Central America (CID)⁴⁶. This aligns with historical trends, associated with the larger average loan sizes in Mexico. Between 2020 and 2024, the average loan in Mexico was 1.8 times larger for INV and 2.5 times larger for PBL compared to the IDB average. However, preparation costs increased relative to the previous period: INV costs rose by 71%, while PBL costs increased by 31%. This increase is explained by two factors: a nearly 30% decrease in the average size of INV⁴⁷ between 2020 and 2024 and an increase of 30% in preparation times for INV and 41% for PBL. The period included the effects of the pandemic and growing divergences in priorities with the Government of Mexico. Unlike the previous period, preparation times for both INV and PBL became longer than the average for the IDB and CID⁴⁸.
- 5.9. **Costs and execution times of the IDB's CP also increased compared to the previous period.** Average execution costs for INVs and PBLs were US\$4,183 and US\$239 per million disbursed, respectively⁴⁹. Execution costs increased by 54% for INVs compared to the 2014-2019 period, while those for PBLs increased by 27%. The increase in INV execution costs reflects both the rise in cancellations and the reduction in the average size of operations. Additionally, execution times for both INVs and PBLs increased, which also contributed to higher execution costs. Compared to IDB and CID averages during the same period, execution costs and times in Mexico remained considerably lower for both INVs and PBLs; however, the gap narrowed relative to the previous period.

⁴⁵ The TSCF program was launched in 2018.

⁴⁶ For INV, the average preparation cost of operations in CID and the IDB was US\$6,216 and US\$5,534 per million approved, respectively. PBL preparation costs in CID and the IDB averaged US\$875 and US\$1,023 per million approved, respectively.

⁴⁷ The average size of INV decreased from US\$243.2 million in 2014-2019 to US\$177.0 million in 2020-2024. The average size of PBLs was similar to that of the previous period: US\$631.2 million in 2014-2019 compared to US\$650.0 million in 2020-2024.

⁴⁸ The average preparation time of loan operations (from registration to Board approval) in Mexico was 17.7 months for INVs in 2020-2024, compared to 13.6 months in the previous period, and 15.1 months for PBLs, compared to 10.7 months previously. At the IDB level, the average preparation time for INVs was 14.5 months in 2020-2024 and 15.2 months in 2014-2019, and for PBLs it was 11 and 15.3 months, respectively. In the case of CID, INV preparation took 12.7 months in 2020-2024 and 14.7 months in 2014-2019, and PBL preparation 14 and 15.5 months, respectively.

⁴⁹ For INVs, the average execution cost per operation in CID and IDB was US\$21,235 and US\$21,811 per million disbursed, respectively. PBLs in CID and IDB had average execution costs of US\$867 and US\$769 per million disbursed, respectively.

VI. PROGRAM CONTRIBUTION TO OBJECTIVES

- 6.1. **This section presents the contribution of the IDB Group's country program to the Strategy objectives.** The analysis covers all operations under the CP and is based on both internal and external sources, including the IDB Group's databases, progress and completion reports, as well as interviews with heads of major CP operations, sector specialists, fiduciary and procurement staff, key counterparts, and clients in the country⁵⁰. The analysis of contribution was conducted sequentially and hierarchically, from operations to ERs, and then from ERs to SOs following the methodology described in the ICPR Guidelines. As for the structure of this section, it first summarizes the CP's contribution to the SOs and ERs, regardless of the underlying causes; followed by details on the main factors explaining greater or lesser contributions of the CP. Some of those factors, such as the relative newness of the associated program, may make it reasonable that the CP's contribution to each SO was low. However, the methodology applied avoids conflating the degree of contribution with its causes.
- 6.2. **In line with the OVE Country Products Protocol (document [RE-348-8](#)), the ICPR focused on reporting results and contributions up to the ICPR closure date.** Country Products analyze the contribution of the IDB Group's CP to the CS objectives, reporting on outputs, outcomes, and, when possible, impacts, but with a focus on outcomes. Since these results are attributable to multiple factors, the analysis is limited to reporting the IDB Group's contribution. This contribution is presented as of December 31, 2024, the closing date of this ICPR; and therefore it could have continued to increase if it involved parts of the CP still under implementation. OVE considered setting a closing date closer to the end of 2025 (i.e., beyond December 31, 2024, the Strategy's original expiration date). However, as the key issues brought forward by the ICPR are structural—centered on the relationship with the country—and what is carried out in 2025 will be covered (with the benefit of the operations' greater maturity) by an Extended Country Program Evaluation (OVE's other country product) in the next strategic cycle, the 2024 closing date was maintained.
- 6.3. **The CP made a medium contribution to four of the CS strategic objectives and a low contribution to the other five.** The CP was considered in its entirety, but its contribution depended on its maturity. Approximately 135 operations (16 IDB loans, three IGRs, 58 TCPs, 41 reimbursable IDB Invest operations, and 17 ADVs) completed disbursement⁵¹; 39 operations from the previous CS period remained in execution (two INVs, two IGRs, 28 reimbursable IDB Invest operations, and seven ADVs); and 62 operations approved during this period were mature enough to be expected to yield results (one PBL, 31 TCPs, 19 IDB Invest financings, and 11 ADVs). The greatest contributions were to *increasing the coverage and quality of education* (SO2), *strengthening the labor market* (SO4), *improving access to credit* (SO6) and *territorial planning* (SO8). In contrast, the contribution was low towards the remaining five strategic objectives, including those related to *public finances* (SO5), *rural productivity* (SO7), *subnational fiscal management* (SO9), *health* (SO1), and *water & sanitation services* (SO3).

⁵⁰ This section summarizes the detailed analysis by CP operation contained in the Annex.

⁵¹ The analysis includes operations disbursed before the period, for which an XSR was prepared during it.

Table 6.1. Contribution of the Country Program to SOs and ERs

Strategic Objective	Contribution	Expected Results
		● = High ● = Medium ● = Low
SO1. Improve health services	Low	● ● ●
SO2. Increasing coverage and quality in education	Medium	●
SO3. Improve the quality and sustainability of water services	Low	●
SO4. Strengthen the labor market	Medium	● ● ●
SO5. Strengthen public finances	Low	●
SO6. Strengthen access to credit	Medium	● ● ● ●
SO7. Improve rural productivity	Low	●
SO8. Improve territorial planning	Medium	●
SO9. Strengthen subnational fiscal management (municipalities)	Low	●

Source: OVE, based on the analysis in Annex Chapter VI.

6.4. **The CP's greatest contributions occurred when it supported topics of high priority for the Government of Mexico (GoM), where the IDB Group achieved continuity that transcended strategic periods, or where IDB Invest managed to enhance the IDB contributions.** The CP achieved better contributions when it supported areas of high priority for the GoM, such as *greater social protection for older adults* (ER1.1). Even in areas not prioritized by the GoM, there were contributions where the IDB Group had been working before the period, as happened with the *reduced dropout rates in upper secondary education* (ER2.1), *penetration of clean energy sources in electric power generation* (ER6.3), or *consolidation of urban areas* (ER8.1). In a context of shifting interest from the GoM in working with IDB financing, contributions were enhanced by IDB Invest's involvement, which managed to generate critical mass in support of objectives such as *strengthening access to credit* (SO6). In contrast, contribution was lower when the IDB had an unclear theory of change, as in *improve health services* (SO1); in areas where there was declining country interest, reflected in cancellations and fewer approvals than expected; where foundational work to generate contributions had yet to be established, as occurred in *water services* (SO3); or in areas where there was no evidence of contribution even though important outputs such as studies and plans had been produced, as was the case in *subnational fiscal management* (SO9).

A. Priority area 1. Social services

SO1. Improve health services

- 6.5. **Contribution to *improve health services (SO1)* was low due to weaknesses in the theory of change through which contributions were expected and limitations in the scope of the CP.** According to the Country Strategy’s theory of change, *improved health services (SO1)* would be achieved through *greater social protection for older adults (ER1.1)*, *improved access to water and sanitation services in the rural sector (ER1.3)*, and *greater coverage of preventive services for chronic diseases (ER1.2)*. However, it was only reasonable to expect contribution to *improve health services (SO1)* through the last of these expected results (ER1.2). The other expected results could only lead indirectly to improvements in the population’s health, but not to *improve health services (SO1)*. The CP in support of SO1 was limited. One legacy TCP (ME-T1362/2018) sought to support the evaluation of the government strategy *Salud en Tu Escuela* (Health in your School) and prevention interventions to reduce obesity in girls, boys, and adolescents. Following the discontinuation of this strategy due to changes in government priorities, the TCP was redirected toward youth and adolescent addiction prevention and financed a digital health pilot for people with diabetes in a low-income rural area to send preventive health messages via cell phone and facilitate remote access to doctors. Another TCP (ME-T1402/2020) sought to improve the epidemiological surveillance system in Mexico City but later became a pilot telehealth intervention. Another TCP to strengthen institutional capacity in hospitals in Chiapas in maternal health services (ME-T1479/2022) has not yet produced results. There is no evidence that these TCPs have contributed to *improved health services (SO1)* ⁵².
- 6.6. **Although not directly linked to the *health objective (SO1)*, the CP had a high contribution to *greater social protection for older adults (ER1.1)*, supporting key legal reforms facilitated by technical work financed through PBLs; and a low contribution to *improved access to water and sanitation services in the rural sector (ER1.3)*, due to its limited scope.** The CP supported pension reform through a programmatic series (ME-L1315/2022 and ME-L1332/2024) that promoted the improvement of the regulatory framework for non-contributory pensions (NCPs), as well as the reform of the Social Security Law. Among the main policy conditions of the series were the constitutional right to an NCP for older adults, as well as the increase of NCP amounts above the extreme poverty line for rural areas. Through the PBLs, the IDB supported the preparation of inputs for the reform, including technical materials, a diagnostic of the pension system and its poverty impacts, reform options, and technical proposals for improve state-level pension systems. Two TCPs contributed to improving social protection for older adults. One TCP (ME-T1439/2020) financed a pilot project with the Mexican Social Security Institute (IMSS) that supported the opening of a day care center for older adults with space for 30 people and caregiver training. Another TCP (ME-

SO1 - Improve health services
ER1.1 - Greater social protection for older adults
ER1.2 - Increased coverage of preventive services for chronic diseases
ER1.3 - Improved access to water and sanitation services in the rural sector

⁵² According to the 2013-2018 CPE, the IDB had used TCPs to advance the health agenda in Mexico. However, during that period, TCP activities were dispersed, not linked to loans, and had a variable degree of government ownership, limiting their contribution.

T1502/2023) supported a digital platform to monitor the care of low-income older adults requiring home health care, but this did not have high adoption. Another TCP (ME-T1539/2024), to strengthen the care system for older adults, has not yet produced results. The CP support for *improved access to water and sanitation services in the rural sector* (ER1.3) consisted of only one TCP (ME-T1458/2022) to prepare a program co-financed by the Green Climate Fund (GCF) to improve resilience to the effects of climate change in rural communities through the implementation of systemic solutions for access to water and sanitation⁵³. The TCP continues to be implemented, but its contribution feasibility is low because it seeks only program design and not implementation. The program with the GCF has not yet been approved.

SO2. Increase coverage and quality in education

- 6.7. **The CP's contribution to *increasing coverage and quality in education* (SO2) was medium, despite deficiencies in the theory of change through which contribution was expected.** According to the CS theory of change, the increase in educational coverage and quality (SO2) would be achieved through *reduced dropout rates in upper secondary education* (ER2.1), its only expected result. This was not likely, but it happened in practice. In fact, the CP had a medium contribution to *reduced dropout rates in upper secondary education* (ER2.1), achieved in part through improvements in *educational quality* (SO2). Two legacy INVs and one legacy TCP financed interventions to improve the technical quality of upper secondary education (Educación Media Superior, EMS) and provided scholarships and conditional cash transfers to youth attending EMS. An investment loan (ME-L1142/2013) included a component to improve the quality and relevance of technical EMS, which supported the training of more than 60,000 teachers (about 15% of the national EMS teaching staff) and provided workplace-based training scholarships for youth. The program did not measure school dropout rates but, according to the project, it contributed to improving the technical EMS graduation rate by 3.3 percentage points. A second INV (ME-L1257/2016) supported the strengthening of the PROSPERA cash transfer program, evaluations, and a pilot change in transfer recipient to assess the effect of delivering transfers directly to youth⁵⁴. The program did not achieve its target for the percentage of youth completing EMS, but the pilot reduced the dropout rate among last-year EMS scholarship recipients by 3.7 percentage points compared to the control group. A TCP (ME-T1335/2017) financed the program evaluation.
- | |
|--|
| E2 - Increasing coverage and quality in education |
| ER2.1 - Reduced dropout rates in upper secondary education |
- 6.8. **Another part of the CP sought to directly support the *increase of coverage and quality in education* (SO2), but its contribution was low due to its limited outreach and the cancellation of IDB support for online learning.** An INV (ME-L1162/2017) funded 60 thousand interventions with Community Education Leaders in the Collaborative and Dialogue-Based Learning Model. The evaluation of the intervention presented results with improvements in the communication, socioemotional and mathematical skills of sixth grade students (the last year of the

⁵³ The 2013-2018 CPE had already identified challenges in the rural water and sanitation sector linked to budget cuts by the Government of Mexico, which led to the partial cancellation of an IDB loan.

⁵⁴ PROSPERA, a conditional cash transfer program, was closed in 2019. The TCP sought to strengthen the co-responsibility scheme for its educational and food component.

basic education cycle). Other loan operations did not manage to contribute, including an INV (ME-L1297/2020) that sought to launch an online teaching platform as part of the digital transformation agenda was canceled before signing. The CP also included nine TCPs to improve the quality of preschool and early childhood education, which had a low contribution due to their limited scope (e.g., pilots, evaluations, or diagnostics that did not lead to follow-up actions) and cancellations. Two TCPs (ME-T1505/2023 and ME-T1534/2024), recently approved, have not yet reported results.

SO3. Improve the quality and sustainability of water services

6.9. **The CP had a low contribution to improve the quality and sustainability of water services (SO3) due to cancellations of key IDB operations and the lack of evidence of contribution of other supports.** A legacy INV (ME-L1176/2015) managed to begin intervening in operating organizations (OO) in customer management, non-revenue water, and energy efficiency. However, it was affected by a budget crisis and changes in government priorities, which led to the cancellation of 83% of financing at the end of the previous period⁵⁵. Another INV (ME-L1295/2022) that aimed to continue the work initiated under the legacy INV was canceled in its entirety 10 months after IDB approval, without the loan contract having been signed. TCPs linked to the loans continued to be executed after the cancellations, but due to their limited scope, their contribution was low.⁵⁶ Another TCP (ME-T1443/2022) that aimed to train local water committees in Guanajuato in administration, operation, and maintenance achieved the development of a methodology, a virtual platform, and about half of the planned workshops, but has yet to complete delivery of its products or provide evidence of results. Another TCP (ME-T1458/2022) that aimed to develop the water and sanitation sector in rural areas has financed the elaboration of studies and implementation schemes but has not yet presented evidence of results.

SO3 - Improve the quality and sustainability of water services
ER3.1 - Improve the level of service provided by drinking water operating organizations

SO4. Strengthen the labor market

6.10. **The CP made a medium contribution to strengthening the labor market (SO4), with better results in pensions than in labor participation and reduction of informality, where there were cancellations in the related INVs.** The CP aligned with *increasing labor participation* (ER4.1) and *reduction of informality* (ER4.2) was affected by partial cancellation of associated INV from the previous period. In contrast, the CP that supported *increasing the number of people with pensions* (ER4.3) had political backing in the

SO4 - Strengthen the labor market
ER4.1 - Increased labor participation
ER4.2 - Reduction of informality
ER4.3 - Increase in the number of people receiving pensions

⁵⁵ The 2013-2018 CPE highlighted that the priorities of the Government of Mexico in water and sanitation had shifted. This shift was reflected in severe budget cuts for the National Water Commission, which led to the cancellation of IDB programs and loans.

⁵⁶ Technical Cooperations (TCPs) ME-T1326/2016, ME-T1360/2018, and ME-T1424/2020 contributed to the design of technical instruments and improvement plans for water utilities in different states, including plans for non-revenue water management, asset management, energy efficiency, and implementation of AquaRating. However, the contribution was limited by the narrow scope of their interventions and, in the case of other TCPs such as ME-T1366/2017 and ME-T1500/2023, by the lack of results.

period and had a CP with good coverage, scope and achievement of results, through PBLs and TCPs.⁵⁷

- 6.11. **The CP had a medium contribution to *increasing labor participation (ER4.1)*, thanks to the contribution of a partially canceled INV.** The CP aligned with this result included eight IDB operations (1 INV and 7 TCPs) and one IDB Invest operation (1 EQU). The greatest contribution came from a legacy INV (ME-L1142/2013), of which 65% of its original amount was canceled. Despite its reduced scope, it supported the development of job skills and improvements in quality in upper secondary education (EMS), achieving an 8% difference in the employment rate of beneficiary graduates compared to the control group. Five of the TCPs had a low contribution due to their indirect focus or limited results, two more TCPs had no progress yet as they had been recently approved.
- 6.12. **The CP had a low contribution to *reducing informality (ER4.2)*, due to its limited scope, which was further reduced by the partial cancellation of the main IDB supports.** A legacy INV (ME-L1142/2013), which had more than 50% of its original amount canceled, provided 134,091 economic supports for on-the-job training, achieving a 5.9% difference in the formal employment rate between program beneficiaries and the control group. This is equivalent to approximately 8,000 more formally employed people, i.e., less than 0.02% of the informal labor force. Another legacy INV (ME-L1258/2017), also canceled by more than 50%, supported the modernization of the National Employment Service (SNE), achieving only 31% of its target for formal employment services. One TCP supported this INV with studies and recommendations to improve the SNE processes and platform, without specifying how these inputs would be used. The rest of the related operations have not yet reported results⁵⁸.
- 6.13. **The CP had a high contribution to the *increase in the number of people receiving pensions (ER4.3)*, through a sequence of programmatic policy-based loans and TCPs, which facilitated its implementation and inter-institutional coordination.** The first operation of a programmatic series (ME-L1289/2020), accompanied the labor reform promoted by the Executive Branch, supporting the increase in the registration of domestic workers with the Mexican Social Security Institute (IMSS) from a baseline of 17,213 people to 61,298 people by the end of the project.⁵⁹ A TCP (ME-T1393/2019) supported the preparation of a plan and information system for implementing this reform, and three other TCPs (ME-T1435/2020, ME-T1448/2021, and ME-T1474/2022) strengthened the new conciliation centers and labor courts under the Judicial Branch. Another programmatic series focused on pensions (ME-L1315/2022 and ME-L1332/2024) supported the approval of the Social Security Law, which reduced the minimum required number of contribution weeks. The IDB provided technical support during

⁵⁷ Another part of the CP, consisting of IDB Invest financing to companies, also helped strengthen the labor market (SO4) through job creation. Twenty-five IDB Invest loan operations had targets related to job creation; nine of them met or exceeded their formal employment generation targets, while the others had low contributions because they failed to create the expected number of jobs, did not collect data on job creation, or were too recent to produce results.

⁵⁸ These include two TCPs, ME-T1512/2023 and ME-T1538/2024, as well as a programmatic series composed of two disbursed PBLs (ME-L1299/2021 and ME-L1322/2022).

⁵⁹ The second operation, which is expected to be approved before the end of the period, is currently under preparation by the IDB (ME-L1341).

the reform process through three TCPs that financed recommendations for the regulation of the Retirement Fund Administration (AFORE) system, the diagnosis and analysis of the pension system's commission scheme, and the conceptual design of an interoperability model for the pension systems (ME-T1465/2021); a study on the fiscal implications of reform scenarios (ME-T1391/2020); and a report and survey on the implications of digital platforms in the labor market and social security (ME-T1386/2018). The other TCP aimed to improve the interoperability of the pension system has not yet reported results (ME-T1513/2023)

B. Priority area 2. Investment

SO5. Strengthen public finances

6.14. **The CP's contribution to *strengthening public finances* (SO5) was low due to the cancellation of the main related IDB operations and lack of evidence on the contribution of others.** One TCP

SO5 - Strengthen public finances

ER5.1 - Increase in tax revenue collection

(ME-T1394/2019) sought to support the Tax Administration Service in its digital transformation to *increase tax revenue collection* (ER5.1). The TCP was canceled without reporting progress as of the ICPR closing date, along with 53% of the approved resources, due to changes in government priorities. Another TCP (ME-T1507/2023), aimed at modernizing the tax framework, was in an early stage of implementation and had not reported results to date. Three additional operations focused on promoting energy efficiency (EE) at the state level, which could also indirectly contribute to *strengthened public finances* (SO5), though to a much lesser extent given the relatively low weight of this item in total fiscal accounts. One INV (ME-L1267/2018) aimed to boost EE to achieve savings in Federal Government office buildings but was fully canceled. One TCP (ME-T1359/2020) financed guidelines for the development of EE projects to help subnational governments reduce costs but there is no evidence of its contribution. One IGR (ME-G1012/2017) sought to reduce energy costs in three cities but lacked indicators to monitor its results and contribution to the objective.

SO6. Strengthen access to credit

- 6.15. **The CP's contribution to *strengthening access to credit (SO6)* was medium, thanks to the combined efforts of IDB Invest and the IDB.** The CP had a medium contribution to *strengthened access to credit (SO6)*, to *increasing national development bank financing to the private sector (ER6.1)*, and to *improving the depth and efficiency of capital and financial markets (ER6.2)* due to the strong contribution of IDB Invest and some IDB contributions, despite a lower demand of financing for the public development banks. In contrast, the CP had a low contribution to *increasing financing for rural environmental sustainability (ER6.4)*, due to cancellations in line with priority changes in the country and the lack of evidence of results from more recent operations. Although the country's shifts in focus hindered its continuity after 2020, the CP achieved a medium contribution to *promoting the penetration of clean energy sources in electric power generation (ER6.3)*, though this did not translate in progress on *access to credit (SO6)* due to its lack of clear connection to the objective.
- 6.16. **Fifty-five percent of IDB Invest's portfolio facilitated access to credit (SO6), both through intermediaries and directly.** Seventy-six (76) IDB Invest operations provided short- and long-term credit for various purposes: construction of social housing, student and mortgage loans, business expansion, working capital, purchase of equipment or land, support for business projects, diversification of funding sources, SME financing, securitization, reverse and traditional factoring, and social investment through MSMEs. Of these, 11 operations met or exceeded their targets, while the remaining operations made a smaller contribution to strengthening access to credit, either because they did not reach their planned targets, did not report information, or were limited in scope to granting credit to only one company (and thus did not expand credit beyond the initial loan).
- 6.17. **The IDB Invest CP also contributed to *improving the depth and efficiency of capital and financial markets (ER6.2)* and to the *penetration of clean energy sources in electric power generation (ER6.3)* despite the shift in government interest that limited the IDB's role.** The CP related to *capital market development (ER6.2)* included six IDB Invest operations (one loan with a guarantee, one GUA, two EQU, and two SLO) and one IDB TCP. The main contributions came via IDB Invest operations. In addition, since 2007 IDB Invest has been active in issuing debt in Mexico's capital markets through sustainable bonds. The CP related to *clean energy (ER6.3)* included 14 IDB Invest operations (11 SLO to support wind and solar power generation plants, one senior loan with a guarantee to create renewable energy systems in the residential sector, and two ADV) and 12 IDB operations (one INV, four IGR, and seven TCP) to support photovoltaic, geothermal, and wind electricity generation in public buildings, residences, municipalities, and MSMEs. IDB Invest's approval of energy projects, resulting from changes in the legal framework that had been supported by the IDB in the previous strategy period, was halted in 2020 due to the changing regulatory environment, which increased financial and operational risks. Since then, most

SO6 - Strengthen access to credit
ER6.1 - Increasing national development bank financing to the private sector
ER6.2 - Improve the depth and efficiency of capital and financial markets
ER6.3 - Penetration of clean energy sources in electric power generation
ER6.4 - Increase in funding for rural environmental sustainability

funded projects have met production and/or renewable energy generation capacity targets, though some did not. The IDB investment operations were mostly legacy projects not aligned with the government's new priorities and, as such, were either canceled or did not show significant progress. However, through non-reimbursable operations (ME-G1005/2014 and ME-T1494/2023), the IDB maintained dialogue and support with the Comisión Federal de Electricidad, the state-owned electric company, regarding geothermal energy production and to prepare a framework to advance its energy transition process.

- 6.18. **The CP made a medium contribution to increasing national development bank financing to the private sector (ER6.1).** The related CP included 12 IDB operations (five INV, two IGR, and five TCP) and one IDB Invest SLO. In 2014, two linked operations were approved, INV ME-L1148 and IGR ME-G1005, to provide financing through NAFIN for investments in geothermal energy generation projects⁶¹. The loan was restructured and canceled in 2020⁶² and the IGR has yet to disburse. During the COVID-19 pandemic, a series of operations focused on SMEs and aimed at supporting the country's economic recovery were approved. In 2020, the IDB approved a global credit loan (GCR) for NAFIN (ME-L1301/2020) to support MSMEs in the agribusiness sector and IDB Invest approved a SLO to mobilize additional resources to expand RF lines targeting MSMEs. The GCR loan contract was never signed and the operation was canceled in 2023. In 2021, the IDB approved another GCR (ME-L1300) to provide additional financing to an existing BANCOMEXT credit line for SMEs, offering longer maturities and terms to help them cope with the negative effects of the health crisis; and an INV to support NAFIN in channeling loans to SMEs (ME-L1308). The two loans were fully disbursed, but only the second one has reported growth in NAFIN's relevant SME portfolio (from US\$6.3 billion to US\$7.566 billion, higher than the loan amount, which was anticipated and would indicate that it contributed to the objective). Two related non-reimbursable operations (ME-G1019/2022, ME-T1473/2022) supported the creation of a guarantee fund for the new credit line. In 2023, an INV (ME-L1326) was approved to channel resources through NAFIN to the Agricultural Trust Funds (FIRA) of the Special Fund for Agricultural Financing. The loan was fully disbursed but has not yet reported results. Two TCPs (ME-T1421/2019 and ME-T1340/2017) contributed to strengthening the institutional capacity of national development banks, improving their service offerings, operational efficiency, and capabilities to foster the development of innovative and inclusive products in the fintech segment to expand financial inclusion. The contribution of the rest of the program was low due to recent approval or lack of evidence of results.
- 6.19. **The CP had a low contribution to increasing financing for rural environmental sustainability (ER6.4) due to the closure of the main executing agency and its recent replacement by another entity.** An INV (ME-L1259/2017)

⁶¹ The Country Program Evaluation for Mexico (2013-2018) noted that, at the end of 2015, IDB loans to national development banks (DBs) were not disbursed or began to be written off due to increased IDB loan charges. In their interviews, most DBs reported that, while they valued the IDB's technical support, they did not need its financing under normal market conditions, except to avoid mismatches between the maturities of assets and liabilities. During the 2013-2018 period, private participation in infrastructure had created an abundant stock of long-term projects.

⁶² In 2020, the *Geothermal Financing and Risk Transfer Program* (ME-L1148/2014) was reformulated, authorizing \$54.3 million to be reused for the *Global Credit Program for the Defense of the Productive Fabric and Employment* (ME-L1308/2021) and canceling the remainder.

and two accompanying TCPs (ME-T1346/2017 and ME-T1414/2019) sought to strengthen the National Financing Agency for Agricultural, Rural, Forestry, and Fisheries Development (FND). All three were affected by changes in FND's institutional strategy in 2021, and its eventual closure in 2023, which led to a partial cancellation of US\$375 million from the INV (75% of the approved amount) and 58% and 69.5% of the approved amounts from the TCPs, without achieving most of the intended results. A GCR (ME-L1301/2020) that aimed to support the short-term financial sustainability of MSMEs in the agribusiness sector during the pandemic was canceled in 2023 without being signed. At the end of the period, another INV (ME-L1326/2023) and a TCP (ME-T1477/2024) were approved to support FIRA, the new public entity supporting the agribusiness sector that assumed part of the functions formerly carried out by the FND. The loan is fully disbursed, although results have not yet been reported, while the TCP is still in an early stage of implementation.

C. Priority area 3. Territorial development

SO7. Improve rural productivity

- 6.20. **The CP had a low contribution to *increasing agricultural productivity* (ER7.1), reflecting the limited input from IDB Invest operations to strengthen agribusiness companies, as well as the cancellation of a key IDB operation.** The main INV (ME-L1256/2016), approved in the previous period, sought to contribute to the increase of agricultural productivity but was canceled in 2020 following a change in government priorities (only 3% of the resources had been disbursed). A TCP (ME-T1347/2018) financed studies to support the country's agricultural policy and facilitate technical dialogue between the IDB and the Government of Mexico. For its part, IDB Invest remained active in the sector, focusing on strengthening agribusiness companies. Although IDB Invest operations contributed to advancing the ER, their level of contribution was low given that interventions supported individual companies and had a limited impact on the agricultural sector as a whole.

SO7 - Improve rural productivity
ER7.1 - Increasing agricultural productivity

SO8. Improve territorial planning

6.21. **The CP's contribution to *improving territorial planning* (SO8) was medium, thanks to the support for the country's regulatory framework provided through the legacy portfolio.** Three legacy operations—the final

SO8 - Improve territorial planning
ER8.1 - Consolidation of urban areas

operation of a programmatic series (ME-L1294/2019) and two associated TCPs (ME-T1356/2017 and ME-T1357/2017)—supported the creation and implementation of territorial information systems and regulations to operationalize the General Law on Human Settlements, Territorial Planning, and Urban Development (LGAHOTDU) approved in 2016. To follow up on the implementation of the LGAHOTDU at the subnational level and support urban planning, the IDB approved several operations at the beginning of the period, including a CCLIP along with its first INV (ME-L1312/2021) and three TCPs. Of these, only two TCPs (ME-T1464/2021 and ME-T1472/2021) were implemented. The first supported the use of a guide for the design and implementation of metropolitan programs, 10 municipal urban plans, and the expansion of the Territorial and Urban Information System; while the second financed the preparation of inputs for mainstreaming gender, risk management, and climate change issues into the programs of the Ministry of Agrarian, Territorial, and Urban Development. The CCLIP, the INV, and one TCP were canceled without executing. According to interviews, the Government of Mexico's interest in executing them faded soon after approval, partly due to the demands of the pandemic. Following the pandemic, the IDB shifted its focus toward urban mobility, approving the first PBL of a new programmatic series (ME-L1331/2023), which has yet to report results⁶⁴. An associated TCP (ME-T1488/2020) supported the planning of urban mobility systems but did not achieve the expected results in strengthening regulatory and data systems. An IGR (ME-G10012/2017) financed a sanitation study for the Bay of Campeche, addressing the lack of planning tools in the area, but there was no evidence that the study had been used for territorial planning purposes.

6.22. **IDB Invest also supported the housing sector, but lack of coordination with the IDB limited its potential additional contribution to *improve territorial planning* (SO8).** Eight IDB Invest operations included components to improve the organization and planning of social housing developments in disadvantaged areas or those with housing deficits. However, the absence of a cohesive urban development plan limited their contribution to SO8. Interviews indicated that these projects were mostly located in peripheral areas, which was not well aligned with the urban planning principles promoted by the IDB, suggesting potential to strengthen coordination between the IDB and IDB Invest.

SO9. Strengthened subnational fiscal management (municipalities)

⁶⁴ The operation's conditions included establishing (i) a new federal legal framework to guarantee the right to mobility and road safety, (ii) the foundations to guarantee the right to mobility in at least five states, in accordance with the new General Law on Mobility and Road Safety (LGMSV) and integrated with the LGAHOTDU, and (iii) public policy strategies derived from the LGMSV, aligned with the National Territorial Planning Strategy.

- 6.23. **The CP had a low contribution to *strengthening subnational fiscal management (municipalities) (SO9)*, due to its limited scope and lack of results from the financed outputs.** Only two TCPs supported the increase of own-source revenues at the subnational level (ER9.1), which aimed to *strengthen fiscal management (SO9)*. One TCP (ME-T1467/2020) supporting fiscal management in Mexico City did not contribute to this result. The other TCP (ME-T1475/2022), which aimed to improve tax management, has yet to meet its established targets. Several other TCPs with a broader scope contributed to developing subnational fiscal management tools. An operational support TCP (ME-T1372/2018) linked to the first PBL of a programmatic series to improve fiscal management (ME-L1253/2017), sought to improve the institutional capacities of federal, state, and municipal governments to implement the Financial Discipline Law for Federal Entities and Municipalities. The TCP financed the development and implementation of the Unified Public Registry System for Financing and Obligations of Federal Entities and Municipalities, helping promote transparency regarding subnational government indebtedness levels. Another TCP (ME-T1427/2020) financed inputs for the development of the Convergence Program, part of the Government of Mexico's subnational economic recovery plan addressing pandemic impacts, along with an expected INV to support its implementation, neither of which was approved. Additionally, a TCP (ME-T1493/2022) facilitated the exchange of best practices in subnational fiscal management between Mexico and Brazil.

SO9 - Strengthen subnational fiscal management (municipalities)			
ER9.1	-	Increase	in
subnational		own-source	
revenues			

VII. CONCLUSIONS

- 7.1. **During the evaluation period (from December 17, 2019 to December 31, 2024), Mexico experienced a significant shift in national priorities and interest in collaborating with multilateral organizations to advance them.** Despite major external shocks, including the pandemic occurring just three months after the period began, Mexico underwent a relatively rapid recovery. National priorities, as set out in the 2019-2024 National Development Plan (NDP), underwent a strategic shift emphasizing universal access to social services and focusing on small businesses and large state-led infrastructure projects as drivers of development. Mexico maintained its investment grade rating and sustained fluid access to financing, enabling it to advance an active debt reduction program with multilateral organizations. Although these organizations accounted for only 5% of total public debt in 2023, they were perceived as proponents of an agenda divergent from the NDP vision.
- 7.2. **The CS assumed continuity in the IDB Group's relationship with the country despite clear signs to the contrary.** Approved nearly 18 months after the new administration took office⁶⁵, the CS justified its intervention areas largely based on continuity with the previous CS. These included alignment with development needs identified in the IDB Group's diagnostics, potential to build on past results, and long-standing collaboration with experienced execution agencies. However, cancellations of operations had already begun in 2016, and the CPE had noted that the country's new priorities would challenge at least 9 of the 16 expected results of the new CS. This was confirmed during the period, with investment loan approvals reaching only about half of what had been foreseen and intensifying cancellations leading to a near depletion of the disbursable loan portfolio. Faced with this lack of ownership by the country—a key risk the CS failed to identify—the IDB Group did not utilize available instruments to adapt its approach (such as CS updates or minor adjustments through annual programming). In addition, the high turnover of IDB Group representatives in Mexico (five in less than six years) made the required strategic dialogue even more difficult.
- 7.3. **With only marginally competitive financing, the IDB's contribution was ad hoc and lacked the benefit of strategic reflection.** The previous CPE had already highlighted a decline in the IDB's financial competitiveness, emphasizing the importance of partnering with federal government initiatives. According to the CPE, to remain a relevant development partner in Mexico, the IDB needed to seek mechanisms to identify federal programs and policies where it could add value. This need became even more pronounced during the period, in which the IDB still managed to provide value through PBLs, whose share rose to 85% of disbursements due to the sharp decline in INVs. The PBLs facilitated the inter-institutional coordination necessary to implement some of the government's priority policies, such as pensions. Part of the technical cooperation program enhanced the technical work of these PBLs, supporting studies and verification of policy conditions. Most TCPs were aimed at sustaining support and dialogue around objectives identified as long-term challenges for the country, but how priority for the GoM had diminished. In specific cases, where the IDB's prior

⁶⁵ Mexico's new administration was elected in July 2018 and took office in December 2018. For its part, the OVE had produced a Country Program Evaluation: Mexico 2013-2018 (CPE) in June 2019, the discussion of which preceded the approval of the 2019-2024 CS in December 2019.

work—before the cancellations and the GoM’s lack of interest in accessing IDB investment financing that characterized the period—had already laid the necessary groundwork, contributions were achieved, thanks to the continuity provided by these TCs, such as upper-secondary education and territorial planning. Finally, although the country chose not to resort to multilateral financing to respond to the pandemic, the IDB made financing and technical assistance available.

- 7.4. **IDB Invest’s growing contribution compensated for the IDB’s reduced presence, but opportunities for increased coordination remain.** In some areas, such as *labor market promotion* and *access to credit*, actions by IDB Invest—through lines to intermediaries and direct financing to companies—shored up the reduced use of public development banks, which traditionally channeled larger amounts of IDB resources. During this period, IDB Invest quintupled its short-term financing approvals (mostly factoring) and deployed a variety of products, including mezzanine debt, guarantees, support for bond issuances, and revolving lines. Nearly half of its portfolio was in local currency thanks to its active participation in sustainable bond issues in the local capital market since 2007. Despite being discontinued following a shift in the country’s priorities, IDB Invest made significant contributions to clean energy. It financed the construction and operation of various wind and solar power plants, supporting the transformation of the country’s energy matrix. This contribution was supported by the IDB’s prior work in backing an energy reform, particularly through a PBL series launched in 2018. IDB Invest was also able to provide countercyclical support during the pandemic, providing liquidity and support to companies and MSMEs. In contrast, its contribution to objectives such as rural productivity was limited since its interventions primarily benefited individual companies without achieving broader national-level impact or the benefit of IDB support, which had been canceled. IDB Invest also supported housing developments, but a lack of coordination with the IDB limited its impact on territorial planning.
- 7.5. **In comparison, the IDB Group program had limited contributions due to weaknesses in its theory of change, the effect of cancellations, and a lack of supporting evidence.** The CS had deficiencies in the theory of change of almost half of the objectives to which contributions were expected. Clarity in the theory of change is always important, but it is especially critical in contexts like Mexico’s, where the IDB Group’s resources are relatively limited compared to those of the country. Contributions were further weakened by cancellations related to objectives for which the IDB had not yet laid the groundwork for contribution before the country’s interest in continuing to receive IDB investment financing changed, such as *rural productivity* (SO7). Finally, the lack of evidence also affected the assessment of the contribution. For instance, in *subnational fiscal management* (OE9), several technical cooperation initiatives produced tools and proposals, yet there is no evidence indicating their use to increase municipal revenues. The previous CPE had already noted the lack of information regarding TCP contributions, which, like this ICPR, it identified as a key part of the Program.
- 7.6. **The ICPR yields potentially useful lessons for optimizing the IDB Group’s future contribution.** The findings of the ICPR indicate the following: (i) the importance of strengthening dialogue and coordination with the government to ensure strategic alignment and an agile response to changes in context; (ii) the need to refine the IDB and IDB Invest’s value added proposition, emphasizing

their technical expertise and support for continuity of development processes; (iii) the importance of improving evidence generation to demonstrate and deepen the IDB Group's contributions to their value proposition; (iv) the need to use technical cooperation (TCP) strategically to continue contributing in contexts with lower demand for investment financing and to explore with the government the best approaches for supporting national priorities, and (v) the opportunity to further build on private sector engagement and the diverse instruments of IDB Invest to enhance synergies with the IDB's work and its demonstration effects.

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