

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**MEXICO**

**HEALTH SERVICES UPGRADING PROGRAM**

**(ME0159)**

**EXTENSION OF DEADLINES**

Under the Access to Information Policy, this document is subject to Public Disclosure.

MEXICO. Loans 202/IC-ME and 788/SF-ME to Nacional Financiera, S.N.C.  
Executing agency: Secretaría de Salud  
Health Services Upgrading Program

The object of this document is to consult the Board of Executive Directors on the amendment of Resolutions DE-55/86, paragraph 7 and DE-56/86, paragraph 6, in order to extend: (a) the deadline for physical initiation of all the works of the program, except hospitals, for a period of two years beyond the original date approved, that is, from July 22, 1989 to July 22, 1991; (b) the deadline for disbursement of the financing for a similar period, that is, from July 22, 1990 to July 22, 1992.

The proposed amendments would require making the following changes in Resolutions DE-55/86 and DE-56/86:

Current provision:

Proposed amendment:

Resolution DE-55/86 (Loan 202/IC-ME)

7. Physical Initiation and Disbursement: The term for physical initiation of all the works of the Program shall expire 3 years after the effective date of the contract, except for the hospitals, in which case the term shall expire 2-1/2 years after the effective date of the contract; the term for disbursement of the financing shall expire 4 years after the effective date of the contract.

7. Physical Initiation and Disbursement: The term for physical initiation of all the works of the Program shall expire on July 22, 1991, except for the hospitals, in which case such term shall expire on January 22, 1989; the term for disbursement of the financing shall expire on July 22, 1992.

Resolution DE-56/86 (Loan 788/SF-ME)

6. Physical Initiation and Disbursement: The term for physical initiation of all the works of the Program shall expire 3 years after the effective date of the contract, except for the hospitals, in which case such term shall expire 2-1/2 years after the effective date of the contract; the term for disbursement of the financing shall expire 4 years after the effective date of the contract.

6. Physical Initiation and Disbursement: The term for physical initiation of all the works of the Program shall expire on July 22, 1991, except for the hospitals, in which case such term shall expire on January 22, 1989; the term for disbursement of the financing shall expire on July 22, 1992.

A. STATUS OF THE LOANS

1. Dates

(a) Approval by the Board:	26 June 1986
(b) Signature of the loan contract:	22 July 1986
(c) Eligibility for disbursement:	28 January 1987
(d) In effect for start of construction:	22 January 1990
(e) In effect for disbursement in full:	22 July 1990

According to the authority vested in the Field Office, a six-month extension had been granted to the deadline for the start of construction work. Therefore, this request actually covers only 18 months.

2. Amounts at December 31, 1989:

	<u>202/IC-ME</u>		<u>788/SF-ME</u>	
	<u>Amount in</u> <u>US\$ thousands</u>	<u>%</u>	<u>Amount in</u> <u>US\$ thousands</u>	<u>%</u>
(a) Of the loan:	30,000.0	100.0	11,300.0	100.0
(b) Disbursed:	6,203.0	20.7	2,333.0	20.7
(c) Committed:	14.6	0.1	-	-
(d) Available:	23,782.4	79.2	8,967.0	79.3

B. WORK ADVANCE

The weighted material advance of the program as of December 31, 1989 was 51% compared with 48% at the end of the first semester of that year. Investments in the program amount to US\$39.6 million, of which of US\$24.2 million are from the IDB loan and the rest are from the local counterpart funding through Mexican Federal Government appropriations for the Ministry of Health for this program. Of that total, investments of only US\$14.2 million, approximately, have been submitted to the Bank for recognition under the loan. Of that amount US\$8.5 million correspond to the IDB loan and US\$5.7 million to the local counterpart funding. The difference represents investments that the borrower has not yet submitted to the Bank for recognition.

The program was satisfactorily started up in 1987. In that year, 44 invitations for bids were let for construction of 119 health centers and 10 hospitals. The aim was then to start work on 35% of the proposed goals for the health center component and 100% of the work for the hospitals component. However, Mexico's economic and financial difficulties as of 1988 began to have a considerable effect on the execution of the program, for under the Economic Solidarity Pact signed by the government at the end of 1987 with a view to reducing

inflation and stabilizing the economy, public investment was substantially reduced and, therefore, so was the allocation of funds for the program.

[REDACTED] (\*) So, the scarce funds allocated to the Program in 1988 were set aside to complete work already in progress, which led by the end of that year to a very small construction advance in respect of work completed (16 health centers).

Although budgetary appropriations for 1989 were insufficient to speed the pace of the program, changes at the executive level of the Ministry of Health (the executing agency) at the beginning of that year brought welcome results in the orientation and direction of the Program. The change was reflected not only in better and more effective programming of the use of budgetary resources appropriated for 1989 but also in the negotiations, conducted by the executing agency with the Ministry of Finance and Public Credit (SHCP) and the Ministry of Planning and Budget (SPP), to obtain a greater budgetary appropriation for the program in the ensuing years.

The executing agency's decision to use the available funds on a priority basis to complete work in progress provided for the completion in 1989 of 99 health centers and one hospital, in addition to enabling work to advance on the rest of the facilities. The priority accorded by the executing agency to the completion of the works did not allow starting up of work on all health centers in the Program within the term prescribed in the contract. Therefore, the start-up of construction on 213 centers, accounting for 63% of the original goals, was still pending. Following is a summary of the status of program execution.

Type of work	120-bed hospitals	60-bed hospitals	Health centers
Original goals	2	8	340
Work finished	0	1	99
Work in progress	2	7	28
Units not yet started	-	-	213

#### C. NATURE OF THE ISSUE

Extension of the following contractual deadlines:

(\*) At the request of the borrowing country, the information contained in page 3 will not be disclosed. The non-disclosure of this information is in accordance with the country-specific information exception in paragraph 4.1 i of the Bank's Access to Information Policy, document GN-1831-28.

1. Physical initiation of works:

- Original deadline: 22 July 1989
- Current deadline: 22 January 1990
- Request for extension: 2 years 1/

2. Disbursement in full:

- Original deadline (in effect): 22 July 1990
- Request for extension: 2 years

D. JUSTIFICATION

The start up of the program coincided with the downturn of the Mexican economy, marked chiefly by high inflation and growing government deficits. That situation led the Mexican authorities to implement an economic stabilization program at the end of 1987. The program took on concrete form with the signing of the Economic Solidarity Pact in December of that year. That pact and its successor, the Plan for Stabilization with Economic Growth (PECE), were designed to bring inflation under control by means of a policy based on price controls and control over aggregate demand, especially by reducing government spending. Therefore, the measures taken under the Stabilization Program affected the appropriation of Federal Government funds for different programs. That explains the small appropriation of funds for the health program over its term of execution, a fact reflected in its slow progress.

The improved economic conditions now being reported in Mexico, as shown by a decline in inflation and a better Federal Government financial position, added to the renewed priority accorded the program by the authorities, suggests that with the 1990 budgetary appropriation, the government's commitment to support the program in 1991, with a sufficient budgetary appropriation and better management of the program by the executing agency, will make it possible to complete the facilities and accomplish the aims of the program in the next two years.

According to information supplied by the borrower and reviewed by the Field Office, the Mexican Federal Government appropriation approved for 1990 amounts to US\$29.1 million and for 1991 to US\$21 million. The funds would be used as follows: (1) for 1990: (a) completion and setting in operation of 9 hospitals pending completion; (b) completion of 28 health centers pending completion and the start-up of work on and completion of 42 additional health centers; (2) For 1991: the start-up and completion of the 171 remaining health

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1/ Two years, including the six months authorized by the Field Office.

centers. To construct those facilities, bids would be invited according to the schedule given in Annex I herein which shows the timetable for construction work.

The delay in construction work will mean an increase estimated at 18% in the cost of the program, from the US\$76.3 million originally scheduled to US\$80.7 million. The increase will be absorbed by the executing agency, without altering the dimensions or the original specifications of the program. Unit prices drawn from invitations for bids let in 1989 were used in bringing the cost up to date.

The construction plan considered in Annex I is regarded as technically and financially feasible, for the executing agency has at its disposal the requisite financial assets and the capability needed to invite bids and supervise construction work. The construction plan reflects the priority to be accorded in 1990 to completion of the hospitals, for the construction is now at a standstill and if that situation is prolonged further, the work already done on the facilities will deteriorate substantially and the construction costs will increase. According to the proposed construction schedule, construction of the 213 health centers would begin before expiration of the new deadline proposed for the start of construction work on the facilities, which would be completed before expiration of the new deadline for disbursement proposed herein.

For the reasons given and considering the firm determination of the Federal Government to allocate the required funds for completion of the program, and in light of the technical and administrative capabilities of the executing agency, approval of the extension requested by the borrower would provide for accomplishing all of the objectives and goals originally specified in the program.

Pursuant to the Operations Administration Manual, Chapters OA-400-III.A.3 and OA-400-III.A.5(a)(ii), the authority to grant the extensions proposed herein rests with the Manager, Operations Department, after consultation with the Board of Executive Directors.

#### E. CONSULTATION

Therefore, the Management of the Bank proposes to grant extensions to the deadlines for physical initiation of work and for disbursement in full of the loan proceeds, and to that end the Board of Executive Directors is consulted in advance pursuant to Resolution DE-35/72 of March 30, 1972, as amended. Attached herewith is the proposed authorizing memorandum which Management would approve.

AUTHORIZING MEMORANDUM

MEXICO. LOAN 202/IC-ME TO NACIONAL FINANCIERA, S.N.C.  
(Adjustment of the provision relating  
to the terms for physical initiation  
and disbursement)

Pursuant to the provisions of Resolution DE-35/72, as amended, the following adjustment is made in the provision relating to the terms for physical initiation and disbursement set forth in Resolution DE-55/86, of June 26, 1986:

- "7. Physical Initiation and Disbursement: The term for physical initiation of all the works of the Program shall expire on July 22, 1991, except for the hospitals, in which case such term shall expire on January 22, 1989; the term for disbursement of the financing shall expire on July 22, 1992."

AUTHORIZING MEMORANDUM

MEXICO. LOAN 788/SF-ME TO NACIONAL FINANCIERA, S.N.C.  
(Adjustment of the provision relating  
to the terms for physical initiation  
and disbursement)

Pursuant to the provisions of Resolution DE-35/72, as amended, the following adjustment is made in the provision relating to the terms for physical initiation and disbursement set forth in Resolution DE-56/86, of June 26, 1986:

- "6. Physical Initiation and Disbursement: The term for physical initiation of all the works of the Program shall expire on July 22, 1991, except for the hospitals, in which case such term shall expire on January 22, 1989; the term for disbursement of the financing shall expire on July 22, 1992."