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MEXICO

GLOBAL CREDIT PROGRAM TO SUPPORT ECONOMIC RECOVERY IN MEXICO

(ME-L1300)

SECOND OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PROGRAM TO FINANCE PRODUCTIVE INFRASTRUCTURE AND SUSTAINABILITY IN MEXICO

(ME-O0004)

LOAN PROPOSAL

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ABBREVIATIONS	
AOP	Annual Operating Plan
BANCOMEXT	*Banco Nacional de Comercio Exterior, S.N.C.*
BANXICO	Central Bank of Mexico
CCLIP	Conditional Credit Line for Investment Projects
CIF	Climate Investment Funds
COP21	Conference of the Parties
CTF	Clean Technology Fund
DPSP	Dedicated Private Sector Programs
EA	Executing Agency
ESMR	Environmental and Social Management Report
E&S	Environmental and Social
FI	Financial Intermediaries
GDP	Gross Domestic Product
GHG	Greenhouse Gas
IDB	Inter-American Development Bank
INEGI	*Instituto Nacional de Estadística y Geografía*
LAC	Latin American and the Caribbean
MSME	Micro, Small and Medium Enterprises
MW	Megawatts
NAFIN	*Nacional Financiera S.N.C. Institución de Banca de Desarrollo*
NDB	National Development Banks
NPL	Non-performing Loans
OC	Ordinary Capital
OR	Operating Regulations
PCR	Project Completion Report
SME	Small and Medium Enterprises
TC	Technical Cooperation
T-MEC	United States, Mexico, and Canada Agreement

PROJECT SUMMARY
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Financial Terms and Conditions

Borrower and Executing Agency (EA):		
Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT)		
Guarantor:		
United Mexican States		
Source	**Amount (US$ million)**	**%**
IDB (Ordinary Capital (OC)):	310	97
IDB (Clean Technology Fund (CTF)): [a]	9	3
Total:	319	100

	Flexible Financing Facility[b]	**IDB CTF**
Amortization Period:	25 Years	20 Years
Disbursement Period:	3 Years	3 Years
Grace Period:	5.5 Years [c]	10.5 Years
Interest rate:	LIBOR Based[d]	N/A
Credit Fee:	[e]	N/A
Inspection and supervision fee:	[e]	N/A
Weighted Average Life (WAL):	15.25 Years	N/A
Service Charge:[f]	N/A	0.75% Fixed
Administrative Commission:	N/A	0.45%
Currency of Approval:	Dollars of the United States of America	

Project at a Glance

Project Objective/Description: The objective of the multisector CCLIP is to facilitate access to long term financing for investment in infrastructure to promote productivity and sustainability. The general objective of the second program under the CCLIP is to support the sustainable recovery of Mexico's economy and jobs during the COVID-19 pandemic crisis. The specific objective is to support the inclusive economic recovery of Small and Medium Enterprises (SME) in the manufacture and tourism sectors, and its dependent firms, through long term financing for productive investment, including investment for energy efficiency. This program is the second individual operation under the CCLIP for the Program to Finance Productive Infrastructure and Sustainability in Mexico (ME-O0004) approved by the Board of Executive Directors under Resolution DE-89/18.

Special Contractual Clauses prior to the first disbursement: It will be a special contractual condition prior to the first disbursement of the loan that BANCOMEXT provides evidence of approval and entry into effect of the program's Operating Regulations (OR) in the terms previously agreed with the IDB, which will include Environmental and Social (E&S) provisions detailed in Annex B of the Environmental and Social Management Report (ESMR) (¶3.4).

Exceptions to Bank Policies: None.

Strategic Alignment

Challenges[g]:	SI ☐	PI ☒	EI ☐
Cross-Cutting Issues[h]:	GE ☒ and DI ☐	CC ☒ and ES ☐	IC ☐

[a] Document GN-2571. Proposal for the Establishment of the CTF in the IDB.
[b] Under the Flexible Financing Facility (Document FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. In considering such requests, the Bank will take into account operational and risk management considerations.
[c] Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.
[d] Consistent with document FN-729 "(Strategy and operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet") and document CF-257-1 "(Base Rate Replacement for Sovereign Guaranteed Libor Based Loans)," this Loan will be subject to the SOFR based interest rate either based upon notice to the Borrower by the Bank, or upon the request by the Borrower, in accordance with the provisions of the Loan Contract.
[e] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.
[f] This will be a one-time fee due 60 days after loan effective date.
[g] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
[h] GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. Project Description and Results Monitoring

A. Background, problem addressed, and justification

1.1 **Context of the Conditional Credit Line for Investment Projects.** On November 14th, 2018, the multisector Modality II (MMM-II) Conditional Credit Line for Investment Projects (CCLIP) Program to Finance Productive Infrastructure and Sustainability in Mexico (ME-O0004) was approved by the Board of Executive Directors by Resolution DE-89/18, for a total amount of US$1 billion. Weak productivity was identified as the main cause of Latin America's lagging economic growth, with Mexico being no exception, partly due to existing gaps in infrastructure. The ability to overcome this lag was considered a way to help make production processes more efficient and generate positive externalities in terms of society, technology, and environmental sustainability. In view of the constraints on long-term financing in Mexico, National Development Banks (NDB) have been playing an increasingly crucial role in complementing the private market. This is particularly true in projects with significant positive externalities (technological, environmental, or social), that the private market cannot internalize in its price-profitability approach. In this context, the CCLIP was conceived as a flexible instrument with a multisector approach and with the objective to facilitate access to long-term financing for investment in infrastructure to promote productivity and sustainability, by channeling medium and long-term financing for projects in different sectors and market segments. Projects eligible under CCLIP financing,[1] include those related to energy efficiency, renewable energy, combined cycle plants, productive enhancement of Small and Medium Enterprises (SME), and strategic sectors for the country (including transport, telecom and tourism). The CCLIP is also aligned with other *Banco Nacional de Comercio Exterior, S.N.C.* (BANCOMEXT)initiatives, such as programs to finance infrastructure for productivity in industry, commerce, services, logistics, energy, and telecommunications. The CCLIP is considered a major source of support to BANCOMEXT's financing for productive investment and the institution's financing strategy. The first individual loan under the CCLIP (4666/OC-ME) focused on supporting the enhancement of mobile broadband services. This second individual loan expands on that experience, setting the goal on providing targeted financing for productive and sustainable investments by SME in relevant sectors such as industry and tourism to support the country's economic recovery post COVID-19 crisis.

1.2 **Macroeconomic context.** The COVID-19 pandemic generated unprecedented impacts in Mexico that drove the economy into an 8.2% fall in Gross Domestic Product (GDP) in 2020. While challenges prevail, such as the general uncertainty surrounding the pandemic, the administration of vaccines, the reopening of economies worldwide and the better-than-expected performance of the United States have led to a rebound of the Mexican economy, which grew 19.5% in the second quarter of 2021 (against the same period of the 2020), and an upward revision in Mexico's economic growth expectations to 6.3% for 2021 and 4.2% for 2022.[2]

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1 See paragraph 2.3 of 4666/OC-ME First Operation under the CCLIP for the Financing of the Shared Telecommunications Network.

2 International Monetary Fund.

1.3 Monetary policy initially supported the reactivation of the economy, but inflation pressures have led to an increase in the Central Bank of Mexico (BANXICO)'s base interest rate. Inflation is expected to remain above BANXICO's objective (3% +/- 1%) for the rest of 2021, and expectations are that the last quarter figures will still have readings of 5.5% or more, leaving little room for monetary policy going forward. Meanwhile, the fiscal response has been relatively constrained compared to other G20 countries, in line with government efforts to maintain fiscal discipline. Despite this, the overall deficit is expected to be 4.2% of GDP in 2021, surpassing the government's original estimate of 3.3%, and it is expected to reach 3.5% of GDP in 2022.

1.4 There has been an easing in the third wave of COVID-19 in Mexico, and both the number of new daily cases and deaths have slowed down.[3] Health authorities have commented that there will no longer be a return to the total closure of non-essential activities. Vaccine contracts have been announced for 244 million doses, making Mexico one of the leading countries in the region. About 111 million doses have been received, and 99 million doses have been applied, with 44.5 million adults in Mexico already having a complete vaccination schedule.

1.5 In July 2020, the Trade Agreement between the United States, Mexico, and Canada (T-MEC), which replaces the North American Free Trade Agreement, entered into effect. The T-MEC allows the integration of North American industries and is expected to enhance the competitiveness of the region as an export power for high-quality products, as well as an optimal destination for developing foreign direct investment. The T-MEC will contribute greater dynamism to the Mexican economy by strengthening the rules and procedures to achieve greater liberalization of the market, fairer trade, and strong economic growth in the region.

1.6 With most of reopening measures already in place and as the world economy continues in the recovery phase, Mexican firms affected by the crisis will have to finance their immediate investment needs, such as those related to the adoption of preventive measures and new protocols and certifications to guarantee safety of workers, reorganizing production, and building digital skills, implementing marketing strategies or introducing technology innovations to generate ways to improve efficiency and productivity of their businesses. Firms will inevitably have to weather unprecedented conditions and the availability of timely financing with longer terms for repayment becomes ever more crucial to support the recovery.

1.7 Along this line, the global challenge of climate change and the search for greater efficiency in response to the economic crisis pose as an opportunity to stimulate viable green investments, such as energy efficiency technologies. There is global consensus on how government efforts to rebuild the economy should be consistent with their pre-COVID-19 commitments to tackle climate change, prioritizing industries and activities that can help promote sustainability further [1].[4] Mexico has been a pioneer in the region for the mainstreaming of climate action. In 2015, Mexico ratified the Paris Agreement at the Conference of the Parties (COP21) and

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[3] As of November 17th, 2021, there have been 3,847,243 confirmed cases of COVID-19 and 291,241 deaths in Mexico. Coronavirus Impact Dashboard. IDB.

[4] See Bibliography (OEL#4).

was among the first countries to publish its commitments through the Nationally Determined Contributions, submitted in 2016.

1.8 **Financial limitations for the recovery of SME.** The economic downturn, as expected, has had a significant impact on businesses, and within those, on Micro, Small and Medium Enterprises (MSME) in particular.[5] These firms form the bulk of Mexico's economy and the most important source of employment across various sectors. As of 2020 there were approximately 4.4 million MSME [2], which accounted for 99.8% of the number of economic units and 68.4% of total jobs in the country. Since 2020, over one million MSME dissolved, showing how smaller firms are more vulnerable to economic shocks. Due to their relatively fragile financial structure, they are more dependent on liquidity financing in the face of fluctuations in the economic cycle. In times of crisis, such as the current scenario, credit restrictions increase due to uncertainty in a deteriorating environment, which can have a significant effect in that they are no longer able to sustain production or employment. The dual effect of reducing economic activity and increasing restrictions in access to credit substantially increases risks for SME.

1.9 Domestic credit to the private sector by banks in Mexico has been traditionally low relative to other major economies in Latin American and the Caribbean (LAC) (see Figure 1) and, as in the rest of the region, Mexican SME face greater credit constraints. In addition to these contextual conditions and particularly for SME, the COVID-19 crisis brought about an increase in overall credit restrictions. Worsening financial conditions for SME is mainly due to the fact that, in times of macroeconomic contraction, the financial sector: (i) reduces overall credit supply [3]; (ii) this reduction is more so in the MSME segment compared to big enterprises [4]; and (iii) pre-crisis credit levels take time to recover [5].

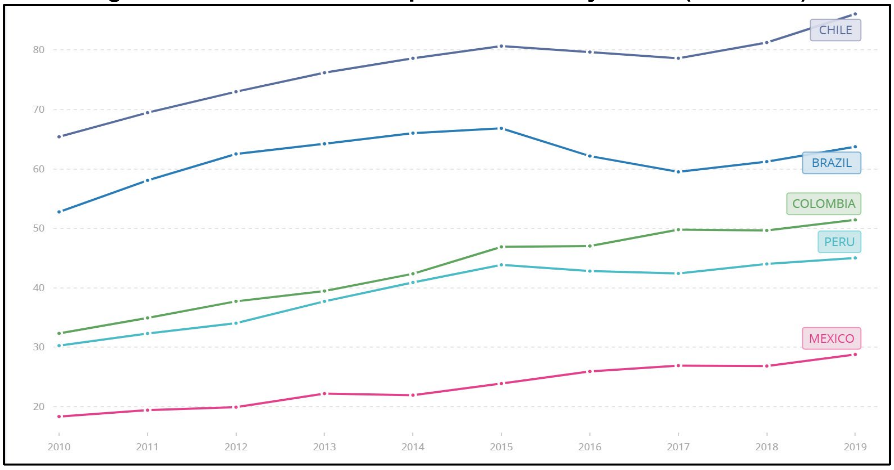
1.10 Total financing to Mexican private non-financial firms contracted in real annual terms during the first semester of 2021, including development banks loans and debt markets. Among internal sources, bank financing was the one that decreased the most, and more markedly in the case of smaller companies. The annual flow of resources to finance the private sector continues to be markedly lower than that observed before the pandemic. In terms of its annual real variation, this credit aggregate contracted by 5.4% during the second quarter of 2021, a slightly lower contraction than that observed in the first quarter (of 6.5%) [6]. In particular, the portfolio of credit to smaller companies continued to shrink, a trend that has been observed since the first quarter of 2019, affecting all major economic sectors.

1.11 The weak loan activity to SME has exacerbated these firms low share with respect to banking credit to enterprises of all sizes, which stands at only 17.8% [7], significantly low in light of the relative importance of this group of firms in the country's economy. Moreover, only 15% of loans were destined for capital investments. This deficiency in SME credit is largely the result of these firms facing: (i) shorter business cycles with higher short-term liquidity needs; (ii) lack of risk management tools associated with its project cycle; (iii) greater limitations on available collateral and their execution, due to the lack of existing capital; (iv) high

[5] Existing literature supports the idea that SME are more sensitive to economic fluctuations because they face higher credit restrictions. Gertler, M. y Gilchrist, S., "Monetary Policy, Business Cycles, and the Behavior of Small Manufacturing Firms", Quarterly Journal of Economics, Vol. 109, N°2, 1994.

operating costs of financial institutions to lend on small scales; and (v) lower profitability than other business segments [8].

Figure 1. Domestic credit to private sector by banks (% of GDP)



Source: World Bank Indicators. Average for LAC in 2019 is 51.1%.

1.12 Financial regulation will be scaled back to normal from the exceptional measures enacted in 2020 to deal with the pandemic. In general, providing liquidity and improving access to credit have been the most frequent policies taken by governments to sustain productive structure and avoid layoffs and company closures across their economies. These involve some regulatory changes,[6] as well as greater allocation of public resources for credit lines or guarantees, including special credit lines to finance working capital, interest rate cuts, extended grace periods and more favorable conditions for productive investment, particularly for SME. Within these, credit mechanisms have provided the most significant resources regionwide, although identified credit measures are in many cases still considered insufficient to address the magnitude of the problem. Mexico has not been the exception, and although these measures may have helped in preserving adequate liquidity, they were not sufficient for an expansion of credit. Looking forward, banks will be mandated to return to standard accounting and reporting mechanisms, which may create more stringent conditions for loans.

1.13 The role of NDB have been quite significant in this regard, as they can assume by mandate higher risks than commercial intermediaries, especially in the case of loans to smaller firms. NDB traditionally have played a crucial countercyclical role in response to global financial crises, contributing to support investment and mobilize broader financial resources in times of recession, helping governments in the pursuit of economic recovery [9]. In addition, NDB have played a crucial part in facilitating access to national and international climate finance funds, and in efficiently combining all available sources of funding, within the framework of the energy transformation process [10], which is consistent with the globally expected green recovery goals (¶1.7).

1.14 **Gender financial gap.** Although the lack of sex-disaggregated data and analyses at MSME level prevents an accurate diagnosis of the specific barriers faced by women MSME in Mexico, the available international and regional literature shows

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[6] This refers to changes in banking regulations that, for instance, allow for rescheduling, restructuring, and refinancing of loans.

that women entrepreneurs face more barriers from both the demand and supply side [11]. For example, women tend to own or accumulate fewer assets that can be used as collateral, and their businesses are often concentrated in sectors where the collateral is less available, such as the services sector. There are also supply-side constraints, such as gender biases (conscious and unconscious) in the practices of financial institutions and the lack of financial products and services with a suitable value proposition for women entrepreneurs [12]. In addition to the systemic difficulties faced by firms in the country, women entrepreneurs face a more severe impact due to the COVID-19 crisis and more limitations to access credit. From a productive perspective, women MSME are more present in the commerce and service sectors in the country, which are the economic sectors most affected by the crisis [13]. Although Mexico is one of the leading countries in terms of producing sex disaggregated data at the individual level, the country still lacks adequate data disaggregated by the sex of the owner or leader of firms. Nonetheless, available data from surveys suggest that 30% of MSME are owned by women, a figure that more than doubles that of LAC's average of 13% [14]. Regarding their financial constraints, 35% of women MSME are partially or fully credit constrained versus 28% of their male counterparts. By sector, the gender data gap is more pronounced for firms in the industrial and services sectors, impeding an adequate assessment of women participation in the relevant portfolios and the specific barriers they face [15]. Finally, the proportion of women MSME reporting the use of banks to finance investments is significatively lower than that of men's: 3.9% vs. 17.4% [16].

1.15 **Sector prioritization.** Manufacturing has been boosting Mexico's industrial GDP in recent years [17]. However, during the 2020 economic downturn, the secondary sector was the most affected with a 10.0% fall, impacted by a 20.9% drop in transport equipment manufacture [18]. There has been a strong rebound during this year and by the second trimester, the secondary sector, guided by manufacturing, was leading overall GDP growth with a 27.9% increment compared to same period a year earlier, although overall manufacturing output is still below pre-pandemic levels.[7] Manufacturing also represents more than 80% of total exports in a context of an economy highly integrated into global trade, where exports represent 37% of the country's GDP (80% of which go to the United States, with the T-MEC supporting further growth).[8] Most of these industries are essential in changing the productive structure to help close productivity gaps. The automotive industry, for instance, contributes 35% of total manufacturing exports in Mexico and the country ranks fifth in automobile exports, globally [19].

1.16 On the other hand, confinement measures and mobility restrictions impacted tertiary activities with an annual 7.7% drop, particularly those related to trade and tourism, where international tourists' arrival dropped by 46% during 2020. As of March 2021, the tourism GDP fell 23.3% with respect to March 2020 [20]. Before the crisis, tourist arrivals in Mexico had been growing at some 10% per year. Tourism represents close to 9% of total GDP and is a strategic sector due to the high contribution to foreign exchange generation and its impact on value chains and the creation of jobs as it is highly labor-intensive. Moreover, the tourism

7 *Instituto Nacional de Estadística y Geografía (INEGI)*.

8 Overall, in 2020, exports registered a 9.3% annual decrease, mainly as a result of the collapse in electronics, plastics, and machinery and equipment industries shipments.

economy[9] offers key opportunities for women, which account for almost 60% of employment in the accommodation and food services sector in Latin America. About half of all tourism businesses in the region are owned by women and 99.8% of tourism-related businesses in Mexico are MSME. Tourism also offers an opportunity to support energy efficiency investments of SME. In preparation for the economic recovery, the tourism sector can be key to enhance diversification as well as environmental and social sustainability [21]. The services sector in general is likely to experience slower but sustainable growth. In this regard, BANCOMEXT (¶1.19) has a tourism sector model focused on developing investment projects, relating, and identifying investment corridors and competitive tourism centers, and destinations where hotel infrastructure is being developed.

1.17 **Intervention proposed.** As a result of the COVID-19 crisis, credit supply in general has been more restricted and even more in the case of financing for productive investments, essential to stimulate rapid economic and employment recovery in the country, as resources available have mainly been directed to supporting efforts to sustain activity of SME via short-term funding injections for liquidity. Loans for investment purposes represent around 15% of the total outstanding loan balance to SME in Mexico. To address these restrictions, and consistent with the overall objective of the CCLIP (¶1.1), the proposed program will channel long-term financing to SME in mainly two sectors (manufacture and tourism) that have been heavily affected by the crisis but that are essential in the economic recovery (¶1.15 and ¶1.16). The financing will promote productive investments needed to improve their operational efficiency and respond to the surge in demand during the recovery. This includes investments in energy efficiency in the target sectors, which present an opportunity to tackle climate change mitigation goals, as well as a particular focus on reducing the gender financial gap.

1.18 The program will provide financing through financing lines of BANCOMEXT, one of Mexico's largest NDB, increasing its capacity to assume their critical role in filling the financing gap. The program funding will increase the capacity of BANCOMEXT to provide financing to eligible SME with longer maturities and terms that will allow them to cope with the negative effects of the current crisis. By providing timely access to credit with longer repayment periods, the program intends to ease the impact of reduced income produced by the subdued demand, as well as induce the development of investments needed for a rapid, inclusive and sustainable recovery. While the program is open to all SME in priority sectors (manufacture and tourism), high participation of exporter SME in the portfolio is expected, consistent with BANCOMEXT's mandate to support exports and foreign trade.

1.19 **BANCOMEXT strategic focus on SME.** BANCOMEXT is a Mexican state-owned bank[10] that provides credit and guarantee instruments with the objective of increasing the productivity of Mexican firms. BANCOMEXT operates as the national export credit agency, focusing on financing export and import activities to the private sector, both directly and via other financial institutions, with more than

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9 Which includes all sectors that are dependent on it.

10 BANCOMEXT is a solvent financial institution with all relevant ratios, such as capital, non-performing loans, and coverage, well above minimum standards required. By year-end 2020, its outstanding loan portfolio reached approximately US$12.2 billion.

80% of the financing being first tier. As of 2020, 88% of firms financed by BANCOMEXT were SME, and its total portfolio is distributed in the following sectors: tourism (25%), energy (24%), industrial infrastructure (18%), transport and logistics (9%), automotive (8%), telecommunications (7%), chemical-pharmaceutical (5%) and others (4%). The institution's strategic focus on SME includes offering specialized products in defined priority sectors, particularly tourism and manufacture. Among the institution's goals, related to the financing of SME, are: (i) to foster the expansion of SME productive and export capacity, in order to contribute to the country's economic development; (ii) to promote the increase of national content in production, so that SME can be inserted in global value chains; (iii) to foster diversification of SME activity, especially in exports and trade; (iv) to promote technological development and the adoption of best practices to mitigate their impact on climate change; and (v) to provide training and technical assistance to SME and non-banking financial institutions, in order to increase credit penetration in the private sector. In the context of the T-MEC (¶1.5), BANCOMEXT is well positioned to boost value chains in export sectors through SME. The program is also aligned with and complements BANCOMEXT's position as a sustainable development institution.

1.20 **IDB value added.** IDB resources will attend a major market failure which is the low penetration of SME credit in the financial system, even in relative terms with the rest of the region. Moreover, it will support these firms in a context where resources are particularly restrictive as the economy continues to recover from the pandemic induced economic crisis that has not been accompanied with access to credit. However, IDB's value added is enhanced significantly by the fact that it supports the strengthening of two very nascent markets which are the segment of women SME and energy efficiency of SME in general. This support not only will be realized through specific ringfencing of program resources for these two markets, but also by the development and implementation of a pipeline of viable projects to be financed by the program through complementary activities from: (i) the Clean Technology Fund (CTF)-funded Technical Cooperation (TC),[11] ATN/TC-18688-ME, related to institutional strengthening for evaluation and management of energy efficiency projects (¶1.30), much relevant due to the relative novelty of the sector and difficulties related to the risk assessment of these projects; and (ii) the regional TC ATN/OC-18036-RG, which will support BANCOMEXT's efforts to develop policies specifically directed to women, which contributes to national and IDB goals related to gender inclusion (¶1.27). Finally, it should be mentioned that program resources are intended to support productive investments by increasing the availability of medium and long-term funding for BANCOMEXT, thus enabling Financial Intermediaries (FI) and SME to have access to resources with repayment periods that better match their cash flows. This is particularly relevant in the case of energy efficiency investments, where access to long-term concessional loans can contribute to ease the impact of upfront investment costs in the overall project return profile. The proposed scheme of intermediation via FI serves a dual purpose by promoting access to finance of SME while also supporting the development of local financial markets, helping to catalyze an independently local SME sustainable lending industry.

[11] Activities under this complementary TC will aid the structuring and implementation of risk mitigation mechanisms, provide capacity building and/or program operational support for the energy efficiency investments.

1.21 **IDB experience and lessons learned.** There is substantial literature that suggests that well-targeted financing policies aimed at supporting SME in the region can lead to positive development outcomes. In 2014, IDB's Office of Evaluation and Oversight published the results of an empirical analysis of the various types of programs through which the IDB supports SME in Brazil [22]. The evaluation, which focuses on SME in the manufacturing sector, provides insight on the effectiveness of models of interventions or financial instruments implemented by Brazilian institutions with IDB support. Out of the various interventions analyzed, credit support is the only one observed to significantly affect all outcome variables, showing the most positive impact on employment and wages. Evaluators found evidence that firms participating in a credit support program experienced a 13% increase in their number of workers, a 1.4% increase in wages and significant gains in the value of exports and trademark registrations. Estimations on the duration of program support effects also show credit as the most positive type of intervention, with durations of some 15 and 9 years on the effect on jobs and wages, respectively. Also in Brazil, De Negri et al. [23] found that SME access to Brazilian public credit lines has a significant positive impact on employment. Another study by the Brazilian National Bank for Economic and Social Development on its overall SME activity, analyzed ten financing instruments via its newly implemented system, *Modelo Automatizado em R para Verificação de Impacto*. Results show robust positive impacts on employment and gross income (close to 5% larger) [24]. Eslava et al. [25] found evidence of more than 19% growth in employment and 22% growth in productivity in firms benefitting from Colombian Bank of Foreign Trade credit resources. Thus, credit support emerges as a valuable tool to support employment and growth. During the 2008-2009 financial crisis, Mexico's NDB proved to be an effective vehicle for the implementation of countercyclical policies (OEL#2), further building experience in operating a large set of instruments to meet the financing needs of relevant productive actors.

1.22 IDB experience with SME interventions in LAC, through sovereign and non-sovereign-guaranteed lending and TC, is extensive. Sovereign-guaranteed loan programs via financial intermediaries have been implemented both in expansive economic cycles, where support focuses on access to long-term financing for productive investments, and on recessionary cycles, where support focuses on providing access to liquidity to sustain SME economic activity.

1.23 More specifically, in recent years, the IDB successfully implemented several operations of second-tier financing for SME in different sectors via NDB, including in Colombia (4439/OC-CO), Chile (3677/OC-CH), El Salvador (3271/OC-ES), Nicaragua (3042/OC-NI), Paraguay (3354/OC-PR), and Brazil (2236/OC-BR). In Mexico, the CCLIPs ME-X1021 and ME-X1024 each supported three programs that financed SME in the primary and agro-industrial sectors.[12] This program is consistent with previous efforts to support SME, adapted to the current COVID-19 context. Three programs were also carried out under the CCLIP ME-X1010 (US$1,200 million), (2226/OC-ME, 2671/OC-ME and

[12] ME-X1021 (US$300 million, approved in 2014) and ME-X1024 (US$1,000 million, approved in 2014).

2843/OC-ME),[13] to provide medium and long-term financing for renewable energy projects. Derived from the government's drive towards Greenhouse Gas (GHG) reduction and complemented with resources allocated from the CTF, these programs showed exceptional results. The previous loan under the current CCLIP with BANCOMEXT (4666/OC-ME) (¶1.1) increased the long-term penetration of 4G mobile broadband or higher through the development of the shared network in Mexico and was fully and successfully disbursed. Coordination activities with the Executing Agency (EA) and increased knowhow on the procedures for design and execution in the context of the CCLIP have been substantially valuable in the preparation of this operation. Also, loan 3563/OC-ME, (Financing Program for Investment and Risk Management in Gas and Clean Energy), previous to the CCLIP, was fully and effectively disbursed. The Project Completion Report (PCR) of both programs have been published with successful results, demonstrating BANCOMEXT excellent level of performance in its execution.[14] This prior experience has set the grounds for developing capacities in BANCOMEXT in the financial management of clean energy projects, closely linked to and expected to be applied in the handling of energy efficiency projects to be financed under this operation.

1.24 Building up on this experience, lessons and good practices have been incorporated in the design of the proposed program, including: (i) the inclusion of proper supervision of financial conditions at which resources are provided to final beneficiaries, in order to avoid market distortions and ensure additionality is not exhausted throughout the intermediation chain; (ii) guaranteeing institutional capacity of the NDB and FI for adequately assessing and monitoring subloans, including risk management practices; (iii) establish proper coordination within the NDB to encourage high-quality execution of the program, with support of staff specifically responsible for program activities; (iv) the encouragement of a formal monitoring and evaluation system so that local capacity is developed; and (v) related to the latter, a systematic collection, management and maintenance of data on the program, so that results can be properly analyzed and evaluated[15] More concretely, these lessons will be implemented as follows: (i) for the first consideration, specific requirements for information and reporting on financial conditions are included in the Operating Regulations (OR); (ii) for the second and third considerations, resources from the complementary TC ATN/TC-18688-ME and ATN/OC-18036-RG will support activities related to the financing of energy efficiency projects within the program, as well as women SME (¶1.30); and (iii) the fourth and fifth considerations, continuous supervision from the IDB team during execution, will support data collection and monitoring systems that will allow for an adequate revision of the results of the program in terms of its development objectives. The program design incorporates the importance of properly targeting and identifying an instrument (funding) to meet

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[13] 2226/OC-ME Program to Promote the Development of SME Suppliers and Contractors National Oil Industry (US$301 million approved in 2009); 2671/OC-ME Second Individual Operation for Entrepreneurial Development in Mexico (US$50 million approved in 2011), 2843/OC-ME Third Individual Operation for Entrepreneurial Development in Mexico (US$100 million approved in 2012).

[14] See 4666/OC-ME PCR and 3563/OC-ME PCR.

[15] A more extensive set of lessons can be found in the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-7).

the specific needs (financial support for economic recovery) of strategic sectors (SME in the manufacture and tourism sectors).

1.25 **Coordination with other IDB projects.** The program harmonizes with other initiatives in Mexico that intend to respond to the increasing financing needs arising from the pandemic. In particular, on June 30th, 2020, the IDB approved the program 5063/OC-ME (US$100 million), under the Global Credit Program for the Defense of Productive Fabric and Employment, to support MSME in the agro-industrial sector. In addition, the loan 3178/OC-ME (US$54,3 million), executed by *Nacional Financiera S.N.C., Institución de Banca de Desarrollo (NAFIN)*, was reformulated to support MSME affected by the crisis, with a multisector approach, channeling financing for their liquidity needs (working capital). An additional program to be executed by NAFIN is currently under preparation, the Global Credit Program for the Defense of Productive Fabric and Employment, to support productive investment of SME in Mexico. The proposed program seeks to complement these efforts, expanding access and complementing the financing with additional funding for productive investments to support economic recovery. While both NAFIN's and BANCOMEXT's interventions focus on providing financing for productive investment for economic recovery, these two institutions serve different markets. NAFIN's program focuses on smaller SME, including in services and commerce sectors, while BANCOMEXT's traditional market is larger SME in exports and currency-generating activities. The various programs will be complementary in the sector and market segments they attend to, increasing the overall supply of financing for SME.

1.26 **Strategic alignment.** The program is consistent with the Second Update of the Institutional Strategy (UIS) (AB-3190-2) and is aligned with the challenge of Productivity and Innovation, as it promotes access to finance by SME for productive investments needed to improve their operational efficiency. The program is also aligned with the cross-cutting themes of: (i) Gender Equality, as it will contribute to addressing credit access gaps facing women SME by the targeted allocation of 20% (US$63 million) of the Ordinary Capital (OC) program's resources (¶1.30), as well as provide greater information of existing gaps with the support of ATN/OC-18036-RG (¶1.27), in accordance with Operational Policy on Gender Equality in Development (OP-765). The operation is consistent with the Update to the Gender Action Plan for Operations 2020-2021 (GN-2531-19), through the line of action of promoting women's financial inclusion by strengthening the capacity of financial regulators/supervisors and NDB to include them; and (ii) Climate Change, specifically via the investments of US$92 million in energy efficiency projects. According to the joint Multilateral Development Banks approach on climate finance tracking methodology, 28.84% of the program (equivalent to US$92 million) result in climate finance mitigation due to the support to energy efficiency measures. This contributes to the IDB's climate finance goal of 30% of annual approvals. The program will contribute to the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12) through the following indicators: (i) increasing the number of SME financed; (ii) emissions avoided; and (iii) installed power generation capacity from renewable sources. The program is also consistent with the Support to SME and Financial Access/Supervision Sector Framework Document (GN-2768-7), which underlines the importance of promoting access to financing by the productive sector in the region. It is also aligned with the IDB Country Strategy for Mexico 2019-2024 (GN-2982), in its priority area of

boosting investment, specifically contributing to the strategic objective of strengthening access to credit and the expected outcome of increased bank lending to the private sector by development banks. Finally, the operation is included in the Update of the Annex III of the 2021 Operational Program Report (GN-3034-2).

1.27 **Gender considerations.** Financing women SME in Mexico presents various obstacles (¶1.14). Financial intermediaries, including commercial and development banks, have limited experience offering financial products designed for these SME and moreover, do not have the institutional capacity to collect sex disaggregated data that would support developing said financial products. With the TC ATN/OC-18036-RG, the Bank will support BANCOMEXT to define, collect, monitor and analyze sex disaggregated data according to the leader or owner of the firm, following international best practices. This exercise will serve as a diagnostic to strengthen BANCOMEXT's institutional capacity to improve credit access of women entrepreneurs and their loan instruments. It will allow BANCOMEXT to: (i) identify international best practices to define women SME; (ii) validate which information is available in BANCOMEXT's internal databases that is sex disaggregated, and to propose alternatives and strategies to collect this information for women SME; and (iii) define a set of variables and gender indicators that BANCOMEXT would use at an institutional level. Additionally, given the fact that BANCOMEXT lacks a Gender Action Plan, it will help design one. These activities will be executed during the initial year of the proposed loan's disbursement period, which would allow for determining a baseline on which to measure BANCOMEXT's efforts in improving women SME access to credit and prepare its value proposition. By the end of the program's execution, it is expected that 20% of the resources will be allotted to this segment (¶1.30). This target allows for the required time for cultural, legal and electronic system modifications necessary in first tier institutions to adapt to new operating requirements and collect the sex disaggregated data, the characteristic of women SME and the sectors they participate that imply low amounts of credit, and the incipient women SME credit market.

B. Objective, components, and cost

1.28 **Objective of the second program under the CCLIP.** The general objective of the second program under the CCLIP is to support the sustainable recovery of Mexico's economy and jobs during the COVID-19 pandemic crisis. The specific objective is to support the inclusive economic recovery of SME in the manufacture and tourism sectors, and its dependent firms, through long term financing for productive investment, including investment for energy efficiency.

1.29 **Single component: Long-term repayment credit lines.** The program will be implemented through a single financing component under which BANCOMEXT will use program resources to provide medium and long-term financing for eligible SME in the manufacture and tourism sectors, and its dependent firms,[16] with high participation of firms in exporting value chains. The financing will promote productive investments needed to respond to the surge in demand during the

[16] Dependent firms are those that depend on these sectors as they are part of their value chains, including firms that provide industrial or commercial services to firms in these sectors and hence are important for currency generation.

economic recovery, while investments in energy efficiency and a strategic focus on women SME will support a sustainable and inclusive growth. Resources will be allocated by the EA directly to subborrowers or through eligible FI, and will be utilized exclusively for productive investment needs, under the conditions established in the OR.

1.30 Productive investment needs to be financed may include acquisition of machinery, equipment, parts, industrial systems, IT and automation goods, new vehicles (buses, trucks) and other production goods and services (such as software, innovation services, or certifications to support improvements in the overall quality of products or services provided by SME), as well as investment projects mainly related to minor construction, expansion or reform of facilities (store, warehouse, storage, factory, office, etc.). Following the principle that the need for greater efficiency in SME is an opportunity to align recovery investments climate change mitigation goals, CTF resources (US$9 million, ¶2.1), in conjunction with IDB resources, will be used to finance energy efficiency investments, representing a total of 28.84% of the program's resources, namely in distributed generation from renewable sources, in eligible SME. Productive investments in energy efficiency have high upfront costs and long payback periods, which translates into more complex financial structures and/or risks that are hard for the financial system to assess. These concessional blended loan resources will be used to offset the incremental risk profile of this type of investments to induce the implementation of this type of efficiency measures. An installed capacity of 62 Megawatts (MW) is estimated to reduce or avoid 61,101 tons of GHG emissions per year.

1.31 **Beneficiaries.** Direct beneficiaries of the program will be SME in the manufacture and tourism, mainly automotive, maquila and transport equipment firms, and hotels, at a national level. This includes all SME that are dependent on these sectors, either directly or indirectly, and there will be a special focus on women SME. It is expected that final beneficiaries will benefit from the program with better financial conditions, especially the energy efficiency projects which will benefit from the concessional terms of CTF funding. Based on the assumptions used for the economic evaluation of the program (¶1.34), some 520 SME are expected to benefit from the program. This is an indicative number and may change depending on the actual portfolio financed, which will be reported periodically during execution.

1.32 **Eligibility criteria.** Specific eligibility criteria will be established in the OR of the program, including: (i) the definition of SME, as per the standard used by BANCOMEXT[17], which categorizes as: (a) small firms those with 11 to 50 employees and MXN$4.01 to MXN$100 million in annual sales; and (b) medium firms those with 51 to 250 employees and MXN$100.01 to MXN$250 million in annual sales; (ii) a minimum allocation of US$92 million from the program for energy efficiency projects;[18] (iii) eligible sectors of activity (manufacture and tourism, and its dependent firms), in line with BANCOMEXT's criteria for categorizing productive and sustainable projects under their *Programas de Fomento*; (iv) the definition of eligible FI which will be those regulated under the

[17] BANCOMEXT's criteria is aligned with those under the agreement that establishes the stratification of micro, small and medium sized firms of the *Secretaría de Economía*.

[18] Consistent with the overall leverage ratio requirement by which CTF resources must be matched with at least equal amounts of co-financing from other sources.

applicable financial regulations and accredited and supervised according to BANCOMEXT accreditation and risk management policies and procedures;[19] and (v) exclusions as per the Environmental and Social exclusion list (see Environmental and Social Management Report (ESMR) (¶2.5), among others (¶3.3). Based on the considerations of the OR, BANCOMEXT will select a portfolio of projects that meets the pre-established criteria. Due to the size of medium firms in Mexico, as per government categorization (up to approximately US$12.5 million in annual sales), and the nature of the export-related sectors being financed (automotive, in-bond assembly and medium scale tourism), program resources may support loans of up to US$3 million. Yet, in order to promote diversification in the use of funds and increased focus on smaller firms, the amount of resources allocated to individual loans over US$1 million will be limited to 30%. Also, to ensure the proper support to address the gender gap and support an inclusive recovery, 20% of the program's resources will be allocated to financing women SME.[20]

C. Key results indicators

1.33 The Result Framework (Annex II) outlines the indicators and targets associated with program objectives. These include: (i) as specific development objectives: (i) total portfolio value of BANCOMEXT's loans to SME in the manufacture and tourism sectors; (ii) average tenor of BANCOMEXT's loans to SME in the manufacture and tourism sectors; (iii) Non-performing Loans (NPL) ratio of BANCOMEXT's loans to SME in the manufacture and tourism sectors divided by NPL ratio of BANCOMEXT's total portfolio of loans to SME; (iv) amount of additional resources mobilized by the program to finance the investments; (v) averted GHG emissions achieved by investments financed by the program; and (vi) percentage of relevant portfolio dedicated to women SME financing; and (ii) as general development objective: average annual percentage change of revenue of SME benefited by the program.

1.34 **Economic evaluation.** A cost-benefit analysis was carried out to assess the viability of the program. The analysis calculates program net benefits and costs assumed to not otherwise accrue to the economy in the absence of the program. Consistent with existing literature on similar interventions by NDB and IDB in the region (¶1.21-¶1.23), this analysis validates the program's creation of significant net benefits. Net benefits are projected for a 10-year period, using a 12% discount rate, yielding a net present value of US$19 million. The internal rate of return is 13.2%. Variations in key assumptions in a sensitivity analysis led to the same conclusion, namely that program benefits outweigh its costs. See Economic Analysis.

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19 FI will sign loan contracts with each eligible sub-borrower establishing the precise terms and conditions (i.e., maturity, rates, and costs) of the financing, which will depend on the characteristics of the investment, its internal rate of return and risk profile.

20 A woman SME definition will be incorporated in the scope of work of the TC ATN/OC-18036-RG, which will contemplate both ownership and leadership aspects: women's ownership greater than or equal to 51%; or at least 20% belong to a woman or women, and also has a woman as general manager, operations manager or risk manager, and at least 30% of the board is made up of women (if one).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The proposed program is the second individual loan operation under the CCLIP (MM-II) to finance productive infrastructure and sustainability in Mexico (ME-O0004). This program consists of a Global Credit Operation to be executed by BANCOMEXT, due to its mandate of supporting Mexican enterprises, including SME and through financial intermediation channels. It consists of a sole financing component (¶1.29). Total financing for the program will be US$319 million, including resources from IDB's OC (US$310 million) and reimbursable resources from the CTF (US$9 million).[21]

Table 1. Summary of program costs (US$ million)

Components	IDB	CTF	Total	%
Single Component. Long-term repayment credit lines	310	9	319	100
Total	**310**	**9**	**319**	**100**

Note: Implementation, auditing, monitoring and evaluation costs will be covered by BANCOMEXT with own administrative funds and with support from the TC ATN/OC-18688-ME.

2.2 Program resources are to be disbursed within 36 months from the date of signature of the loan contract between the IDB and BANCOMEXT. The disbursement schedule was built based on similar experiences with this type of programs in the country (¶1.23) albeit, considering that energy efficiency projects contemplate infrastructure and technical developments that are more difficult to plan and execute (¶1.20) and the implementation period of a Gender Action Plan that would allow for the collection of data (¶1.27), disbursements towards these investments and segment are projected for Years II and III. Other type of investments, especially machinery and equipment also are long term projects that require time for planning and execution.

Table 2. Disbursement plan (US$ million)

Components/ Output indicators	Year I	Year II	Year III	Total
IDB	55	121	134	310
CTF	0	0	9	9
Total	55	121	143	319

2.3 The CTF[22] provides scaled-up financing for public and private sector projects that contribute to the demonstration, deployment, and transfer of low-carbon technologies with significant potential for GHG emission reductions. Investments for the promotion of renewable energy, sustainable transport, and energy efficiency are eligible under the CTF. The allocation of CTF resources for this program would be part of the 3rd phase of the Dedicated Private Sector Programs (DPSP), an endowment with a flexible and cross-sector approach. Consistent with

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21 Additional resources from the CTF in the form of a grant have been approved in parallel to support activities related to the financing of energy efficiency projects within the program.

22 The CTF is part of the Climate Investment Funds (CIF), a collaborative effort among multilateral development banks and countries to bridge the climate financing and learning gap in the context of the global climate change agreement. The CIF are governed by a balanced representation of donors and recipient countries, with active observers from the United Nations, the Global Environment Facility, civil society, indigenous peoples, and the private sector.

CTF practice, DPSP is intended to make use of a range of financing instruments taking risks that commercial lenders are not able to bear.

2.4 The CTF is governed by a Trust-Fund Committee, with representatives of the donors and the recipient countries. The World Bank is the Trustee of the funds and hosts the administrative unit. CTF financing is channeled through five multilateral development banks, including the IDB, which was designated Implementing Entity in June 2010. Resources from the CTF are transferred to the IDB, under a financial procedures agreement, signed between the IDB and the World Bank, and are administered in a trust fund created at the IDB.

B. Environmental and social risks

2.5 According to Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the proposed program is classified as a financial intermediary operation and as such is not categorized ex ante. Based on the Environmental and Social (E&S) due diligence conclusions, as well as the intended use of proceeds, this operation is classified as moderate risk financial intermediation. BANCOMEXT's capacity in the management of E&S risks is considered high. Potential E&S risks and impacts of eligible projects are low to moderate and will be managed through a specific set of requirements that will be implemented by BANCOMEXT and including: (i) the application of an exclusion list; (ii) the compliance with BANCOMEXT policies and processes; and (iii) the compliance with local legislation and additional specific requirements for subprojects between US$1 and US$3 million. A small proportion of subprojects will finance solar panels (small scale – maximum 0.5 MW of installed capacity). The risks of forced labor in the supply chain of polysilicon solar panels have been assessed and are mitigated properly by BANCOMEXT policies and processes along with the Mexican regulation. The E&S strategy and the measures contemplated to address the risk of forced labor in the supply chain of polysilicon solar panels in this operation, are fully aligned with: (i) the document "IDB Group Measures to Address Risk of Forced Labor in the Supply Chain or Silicon-based Solar Modules" (GN-3062-1); (ii) the new requirements of the IDB's E&S Policy Framework (GN-2965-23); and (iii) IDB Procurement Policies (GN-2340-15 and GN-2350-15) (see Annex D of the ESMR).

2.6 Resources from the program will not be used to finance any activities/sectors that involve higher social environmental risk or activities that entail among other things: (i) having a potential negative impact on established protected areas and cultural sites, on vulnerable groups or located on indigenous or communally held lands; (ii) involving involuntary resettlement or economic displacement of population; (iii) involving the acquisition of land and the use of land that is the object of demands; and (iv) involving higher risk sectors. Category "A" subprojects will be excluded. All these requirements will be integrated into the OR, whose approval by the IDB is a contractual condition prior to first disbursement (¶3.4) (see ESMR).

C. Fiduciary risk

2.7 BANCOMEXT has a satisfactory level of development and a low fiduciary risk for project execution. The design of this second operation under the CCLIP started in 2020, and in accordance with the Framework for Risk Management in Sovereign Guaranteed Projects OP-1519-5, an institutional capacity assessment

was carried out in February 2021, which allowed the team to evaluate and confirm the institutional capacity previously assessed in 2017, in which the internal control environment, as well as their systems, are adequate for the management of this new operation. The findings of the institutional analysis are confirmed by the implementation of the first operation under the CCLIP, which demonstrates BANCOMEXT excellent level of performance in its execution (¶1.23).[23]

D. Other risks and key issues

2.8 **Economic and financial.** A medium-high risk has been identified that a deterioration in macroeconomic conditions could reduce the demand for loans for energy efficiency projects by SME, which in times of crisis tend to prioritize other types of investments, causing delays or reviews in the execution of resources for these purposes. To mitigate, ATN/TC-18688-ME will aid the structuring and implementation of risk mitigation mechanisms, provide capacity building and/or program operational support for the energy efficiency investments (¶1.20).

2.9 **Internal processes.** A medium-high risk has been identified that a delay in the implementation of BANCOMEXT's Gender Action Plan, aggravated by factors of auto exclusion of women SME, may have a negative impact on the execution of program resources towards closing the gender gap. To mitigate, the regional TC ATN/OC-18036-RG will support BANCOMEXT's efforts to develop policies specifically directed to women SME (¶1.27).

2.10 **Sustainability.** The program is expected to play an important role to fill the long-term financing gap and mobilize FI intervention, helping reduce the credit constraints faced by SME, especially amidst heightened restrictions as a result of the COVID-19 crisis, providing necessary support to SME productive investments unable to obtain suitable financing in the current market and macroeconomic situation. It offers the country the opportunity to keep support mechanisms in place. Over time, through its second-tier structure and increased access to credit in strategic sectors for the economy, the program is expected to have a positive demonstrative effect on private sector financing sources, local FI and SME, particularly towards energy efficiency projects and women SME. In turn, results in terms of maintaining levels of income and employment, and hence of further access to credit, should be sustained after program implementation.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 The borrower and EA will be BANCOMEXT, with the guarantee of the United Mexican States. BANCOMEXT will execute the program under its current organizational structure. No substantial changes in its current operation are envisioned to successfully carry out activities under the proposed program.

3.2 The EA, through its human and technological resources, will be responsible for the execution and supervision of the proper use of the resources destined to the eligible subloans, and will have as functions the following: (i) to make the disbursements to the eligible FI for the placement of the resources to eligible subborrowers for the fulfillment of the objectives of the program, under the

[23] See 4666/OC-ME PCR.

stipulations of the OR; (ii) prepare performance and financial progress reports for the Bank; (iii) monitor compliance with environmental and social safeguards in accordance with the provisions of the OR; and (iv) carry out the follow-up, monitoring and evaluation of the program.

3.3 **Operating Regulations.** The conditions and requirements for the use of program resources, financial products, intermediation scheme and accreditation of intermediary financial institution, and eligibility of projects will be established in the OR, to be agreed between the IDB and BANCOMEXT in accordance with their policies and procedures, and with Mexican norms and legislation. This includes: (i) eligibility requirements for subborrowers; (ii) activities eligible to finance with the subloans; (iii) criteria and processes for identifying eligible FI; (iv) credit limits to each SME; (v) eligible credit types; (vi) financial conditions of the subloans financed with resources of the program, including market conditions in accordance with the credit policies of BANCOMEXT and the FI and in Mexican Pesos; (vii) disbursement mechanisms; (viii) the Bank's supervisory mechanisms; (ix) monitoring, evaluation and reporting requirements; and (x) the program's environmental and social management commitments.

3.4 **Special contractual clauses prior to the first disbursement. It will be a special contractual clause prior to the first disbursement of the loan that BANCOMEXT provides evidence of approval and entry into effect of the program's OR in the terms previously agreed with the IDB, which will include E&S provisions detailed in Annex B of the ESMR**. This condition will allow BANCOMEXT to adapt its internal processes to program requirements and is justified on the criticality of the OR to the overall execution of the program**.**

3.5 **Procurement of goods and services.** The program will follow the Procurement Policies established in documents GN-2349-15 and GN-2350-15, as it will be executed in the form of an investment global credit operation (intermediation scheme that operates upon demand) and no procurement of works, goods, services, or consulting services are expected for the program.

3.6 **Retroactive financing.** The Bank may retroactively finance from the resources of the loan, up to the sum of US$63.8 million (20% of the proposed loan amount), eligible expenses incurred by the Borrower prior to the date of approval of the loan (subloans to SME eligible under the program) provided that requirements shall be in accordance with those set out in the loan contract. Such expenses must have been incurred from June 1st, 2021. The need for retroactive financing is justified by the countercyclical role that BANCOMEXT has been playing since this date as the economy's growth paused,[24] particularly in sectors that the project aims to support, due to diminished global demand and supply chain disruptions (that particularly affected automotive manufacturing (¶1.15)). SME require financing to support their productive activities and maintain their capacity as the recovery continues.

3.7 The IDB will disburse OC resources or CTF resources via advances based on a scheduled portfolio or reimbursements of a portfolio undertaken by

[24] GDP in the third quarter of 2021 suffered its first quarterly decline since recovery from the pandemic. See GDP data by INEGI.

BANCOMEXT. The exchange rate for conversions of expenditures made in local currency to US Dollars shall be the one used by BANCOMEXT on the day of transfer to the intermediary or final borrower (official exchange rate in Mexico on the effective date of payment). Returns from the program, including payments, prepayments, cancellations, or terminations of sub loans shall be used by BANCOMEXT to repay the loan to the IDB or to finance new projects consistent with the objectives of the program. The IDB may request a special audit or review of this requirement.

3.8 BANCOMEXT will prepare and present to the IDB Annual Financial Statements and expenses of the program duly audited by an independent firm acceptable to the IDB and designated by the *Secretaría de la Función Pública*. Annual audited reports will be presented to the IDB within 180 days after the end of the program's fiscal year. The last report shall be submitted within 180 days after the end of the disbursement period. BANCOMEXT audited financial statements are published on their website, so its submission is not deemed necessary.

B. Summary of arrangements for monitoring results

3.9 BANCOMEXT shall prepare the Annual Operating Plan (AOP) for each calendar year and present it to the IDB until November 30th of the previous year throughout the disbursement period of the loan. The first AOP shall be presented before the first disbursement. These reports will contain projections on the expected disbursements to be made throughout the following calendar year, including the schedule and estimated costs.

3.10 Over the course of program execution, BANCOMEXT shall gather and compile all information needed for reporting on operational and development indicators included in the Results Matrix, as established in the Monitoring and Evaluation Plan and the OR.

3.11 **Monitoring.** The Monitoring and Evaluation Plan will follow standard procedures from the IDB and the CTF for investment loans. Periodical reports on the execution of the program (annual, mid-term and final) shall be submitted by BANCOMEXT within pre-determined timeframes, including all required operational and results data, plus any additional information that could be relevant to the overall assessment of the achievement of program goals and objectives. In general, these reports will provide evidence at least on: (i) the overall state of execution of activities under the program, problems and/or risks identified and recommended actions for mitigating and overcoming these; (ii) fulfillment of E&S safeguards and risk management of the program; (iii) achievement of targets for indicators included in the Results Matrix (Annex II), agreed between the IDB and BANCOMEXT; and (iv) operational and financial assessment of the portfolio of sub loans financed under the program, including but not limited to characteristics of the sub loans and of final beneficiaries. The IDB will conduct supervision visits, in coordination with BANCOMEXT to accompany and monitor the execution of the program.

3.12 Following the terms established in the Monitoring and Evaluation Plan, the methodology proposed for the ex post evaluation is a before-and-after comparison on the indicators included in the Results Matrix, incorporating a thorough analysis to aid conclusions on the attribution of results. This also

includes a qualitative analysis on the performance of BANCOMEXT in the overall execution and lessons learned throughout implementation.

IV. ELIGIBILITY CRITERIA

4.1 **Eligibility of the second individual loan operation under the CCLIP.** This second individual program under the CCLIP (ME-O0004) approved by the Board of executive Directors on November 14th, 2018 under Resolution DE-89/18 complies with the eligibility criteria for individual loan operations under CCLIP (GN-2246-9):[25] (i) it is envisaged in the CCLIP's objective and sectors such as energy efficiency, renewable energy, productive improvement of SME and empowerment of strategic sectors, including tourism as one of the strategic sectors that BANCOMEXT supports due to its high contribution on foreign exchange generation in Mexico (¶1.1); (ii) it was included in the Update of Annex III of the 2021 Operational Program Report (GN-3034-2); (iii) it has the same EA as the previous operation (4666/OC-ME), which is in the process of closing, and was fully and successfully disbursed; and (iv) it was satisfactorily executed according to the last PCR[26], is likely it will achieve its development objectives, 100% of the resources of the program were committed and disbursed, it complied with the contractual conditions, and the disbursement policies of the loan and the financial and operational reports, including the audited financial statements, are being prepared on time and with an acceptable quality level, and no important issues are expected to arise.

[25] This program was prepared in accordance with the eligibility criteria established in the Proposed Modification to the Conditional Credit Line for Investment Projects (document GN-2246-9), as determined by paragraph 3.12 of the Proposed Amendments to the Conditional Credit Line for Investments Projects (document GN-2246-13).

[26] See 4666/OC-ME PCR.

Development Effectiveness Matrix		
Summary	ME-L1300	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Gender Equality and Diversity -Climate Change	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Micro / small / medium enterprises financed (#) -Emissions avoided (annual tons CO2 equivalent) -Installed power generation capacity from renewable sources (MW)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2982	In its priority area of boosting investment, specifically contributing to the strategic objective of strengthening access to credit and the expected outcome of increased bank lending to the private sector by development banks.
Country Program Results Matrix	GN-3034-2	The intervention is included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	9.3	
3.1 Program Diagnosis	2.5	
3.2 Proposed Interventions or Solutions	3.2	
3.3 Results Matrix Quality	3.7	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	1.5	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	2.5	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	9.5	
5.1 Monitoring Mechanisms	4.0	
5.2 Evaluation Plan	5.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium Low	
Environmental & social risk classification	B.13	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, External Control, Internal Audit. Procurement: Information System.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Complementary to the program, resources from the complementary TC ATN/TC-18688-ME and ATN/OC-18036-RG will support BANCOMEXT efforts to improve female participation in its portfolio.

The COVID-19 pandemic generated unprecedented impacts in Mexico that caused a decline of -8.2% in GDP in 2020. The crisis has had a toll on businesses that rely heavily on exports and transit, like manufacturing and tourism, and especially SMEs in these sectors. SMEs are a main provider for jobs in Mexico and are more vulnerable to shocks than their larger counterparts given that they are more dependent on liquidity financing and tend to lack collateral. Furthermore, the COVID-19 crisis has also signified an increase in overall credit restrictions given reductions in the overall credit supply with a lower share of credit for companies of smaller size. This has left SMEs doubly impacted – both from a decline in economic activity and in the availability of financing. The Mexican fiscal response has been relatively weak compared to other G20 countries and SMEs require productive capital including toward the financing of mandatory sanitary measures for reopening. Domestic credit to private sector in Mexico has also been relatively low compared to other major LAC economies and the SME share in total banking has declined. BANCOMEXT, a national development bank that caters to SMEs is well positioned to play a countercyclical role during crises. As a pioneer in the region for mainstreaming climate action, catalyzing growth and recovery while honoring pre-COVID19 environmental commitments is important to the Mexican government. In this context, the general objective of this Second Program under the CCLIP is to support the sustainable recovery of Mexico's economy and jobs during the COVID-19 pandemic crisis. The specific objective is to support the inclusive economic recovery of Small and Medium Enterprises (SME) in the manufacturing and tourism sectors through long term financing for productive investment, including investment for energy efficiency. The program will channel US$319 million toward long-term financing through BANCOMEXT for productive investment of the prioritized sectors to help support recovery. Of this, 28.8% of program resources are specifically earmarked for energy efficiency investments by SMEs in the prioritized sectors and 20% of financing is earmarked with a gender focus. The Results Matrix is coherent with the project's vertical logic. Outcome indicators are properly defined to measure the program's achievement and fulfillment of its specific objective. One of the main results is centered on measuring the program's counter-cyclical role by analyzing the evolution of the targeted portfolio. Another outcome indicator will measure greenhouse gas emissions avoided. The economic analysis shows that the operation is of net benefit with an IRR of 13.2% and monetizes the benefits in mitigating losses in firm revenue and employment. The monitoring and evaluation plan proposes a reflexive analysis of outcome indicators in the Results Matrix.

RESULTS MATRIX

Project objective	The specific objective is to support the inclusive economic recovery of SME in the manufacture and tourism sectors, and its dependent firms, through long term financing for productive investment, including investment for energy efficiency. The general objective of the second program under the CCLIP is to support the sustainable recovery of Mexico's economy and jobs during the COVID-19 pandemic crisis.

General Development Objective

Indicators	Unit of Measurement	Baseline Value	Intermediate Value	Expected Year for Achievement	Target	Means of Verification	Comments
General development objective: Support the sustainable recovery of Mexico's economy and jobs during the COVID-19 pandemic crisis							
Indicator 1: Average annual percentage change of revenue of SME benefited by the program	%	-16	-8	2027	2	INEGI-BANCOMEXT	The provision of credit will allow SME to realize the necessary investments in order to recover from the COVID-19 crisis. This is expected to lead to a recovery in sales (and, proportionally, in the number of employees) in the medium to long run. The baseline is derived from the expected decrease of Mexican GDP for 2020, estimated by the IMF and the year-to-year fall in the industrial and services economic activity indicator in May 2020. Given the nature of the initial shock, it is expected that this objective will not be possible to observe during the lifetime of the program.

Specific Development Objectives[1]

Indicators	Unit of Measurement	Baseline	End of Project (2024)	Means of Verification	Comments
Specific development objective: Support the inclusive economic recovery of SMEs in the manufacture and tourism sectors through financing for productive investment, including investment for energy efficiency.					
Result 1: Total portfolio value of BANCOMEXT's loans to SME in the manufacture and tourism sectors	US$ million	1,667	1,986	BANCOMEXT monitoring reports	This indicator measures the total portfolio value of BANCOMEXT's loans to SME in the manufacture and tourism sectors, including the ones financed by the program as well as others financed with other resources. It is projected that in a scenario with program, BANCOMEXT's portfolio for industrial

[1] Result indicators 1, 2, 3 and 6 are portfolio-based indicators. These will be measured on all investments facilitated by the program plus similar investment financed by BANCOMEXT using other funds. Result indicators 4 and 5 will be measured only for the investments financed with program resources.

Indicators	Unit of Measurement	Baseline	End of Project (2024)	Means of Verification	Comments
					manufacture and services will grow from the baseline value in an amount at least equal to the program resources. A decrease in capital availability and competing needs for short-term financing due to the COVID-19 crisis was observed during the period of the baseline data (June 2020). Hence, expectations of growth are reasonable. While there is available data after June 2020, this is considered an appropriate cohort due to the fact that refinancing programs and flexibilization initiated in the third trimester of that year as a response to the crisis and thus later data could be distorted. Baseline corresponds to the *cartera de crédito vigente, entidades financieras*, from BANCOMEXT's *Balance General Consolidado*, which reflects overall portfolio of second-tier operations for target SME (MXN$33,352 million using an exchange rate of MXN$20 per US$1).
Result 2: Average tenor of BANCOMEXT's loans to SME in the manufacture and tourism sectors	Months	36	36	BANCOMEXT monitoring reports	In the absence of BANCOMEXT and IDB support, the average loan tenor for SME is expected to decrease as a result of the negative effects of the COVID-19 crisis in long term credit supply, particularly due to the increase in competing needs for short-term financing. The program will contribute to maintain the average loan tenor for SME in the target sectors.
Result 3: NPL ratio of BANCOMEXT's loans to SME in the manufacture and tourism sectors divided by NPL ratio of BANCOMEXT's total portfolio of loans to SME	Number	0.33	0.33	BANCOMEXT monitoring reports	This indicator measures the NPL of the program's relevant portfolio compared to the NPL of SME loans in BANCOMEXT total portfolio. The indicator is measured against a benchmark, since it is unfeasible to accurately predict the absolute value of the NPL rate. It is expected that the relevant portfolio NPL rate will not deviate significantly from the total average rate of BANCOMEXT portfolio, hence the target value is the same as the baseline. The baseline is calculated by dividing the NPL rate for the BANCOMEXT relevant portfolio (0.42%) by the NPL of the total BANCOMEXT portfolio (1.27%). These values were obtained from the *cartera de creédito vigente* and *cartera de crédito vencida*

Indicators	Unit of Measurement	Baseline	End of Project (2024)	Means of Verification	Comments
					from BANCOMEXT's *Balance General Consolidado*, which reflects overall portfolio of second-tier operations for target SME. Any level below 0.33 would represent an overachievement of the indicator.
Result 4: Amount of additional resources mobilized by the program to finance supported investments	US$ million	0	79.75	BANCOMEXT monitoring reports	Based on previous experience, it is expected that the program will mobilize additional resources to finance in average 20% of the total investment value of the supported projects. The target is then calculated by dividing the total program value (US$319 million) by 0.8 to obtain total investment, and then subtracting the total program value.
Result 5: Averted GHG emissions achieved by energy efficiency investments financed by the program	Thousands of tCO_2e	0	30.2	BANCOMEXT monitoring reports and calculations by the IDB	Energy efficiency investments constitute a subset of the program's portfolio, which includes financing with CTF resources. The indicator will be verified based on the number of MW that are installed with the US$92 million allocation of program resources, and then corresponding clean electricity generation (in MWh) produced by these MW. In order to obtain the amount of GHG emissions averted, the methodology used corresponds to the international standard based in applying a standard emission factor (0.45 tCO_2e/MWh for Mexico) that measures the amount of CO_2 equivalent per unit of electricity produced by the national power system as a whole.[2] The target value is cumulative but includes only the first two cohorts of beneficiaries (projects financed in Year I and II), so that an adequate timeframe exists for the results to materialize. As a reference, the value of GHG emissions averted for the entire program portfolio is estimated in 60.4 thousand of tCO_2e. See Analysis of Project Cost and Economic Viability.
Result 6: Share of SME owned or led by women within the relevant portfolio	%	To be defined	Baseline + 10%	BANCOMEXT monitoring reports	Pro-Gender Indicator. A firm will be considered owned or led by women when it involves either

[2] In general, this factor is calculated on the basis of internationally-accepted practices, by which the "production" of a certain amount of reduction of emissions is subtracted from a hypothetical baseline of CO_2 emissions.

Indicators	Unit of Measurement	Baseline	End of Project (2024)	Means of Verification	Comments
					ownership or leadership aspects, such as: women ownership equal or higher than 51%; at least 20% owned by women in addition to having women in Chief Executive Officer, Chief Operations Officer or Risk Manager positions, and at least 30% of the board composed by women (when a board exists). No information on SME owned or led by women currently exists at BANCOMEXT. The baseline and target values will be defined as part of the support activities from the Regional TC ATN/OC-18036-RG (collection, monitoring and analysis of sex disaggregated data), currently under implementation. The target is defined as a 10% growth over the baseline.

Outputs

Indicators	Unit of Measurement	Baseline	Year I	Year II	Year II	End of Project	Means of Verification	Comments
Component 1: Long-term repayment credit lines								
Product 1: Program funds provided for productive investments of SME in the target sectors	US$ million	0	55	55	54	164	BANCOMEXT monitoring reports	Annual allocation of program funds for financing SME productive investments in the target sectors, which may or may not include energy efficiency projects or women-owned or -led SME. The end-of-project value is cumulative.
Cost of product 1	US$ million		55	55	54	164		
Product 2: Program funds provided for energy efficiency investments of SME in the target sectors	US$ million	0	0	46	46	92	BANCOMEXT monitoring reports	Annual allocation of program funds for financing energy efficiency investments by SME in the target sectors. This includes the US$9 million from CTF exclusively allocated for this type of investments. The end-of-project value is cumulative.
Cost of product 2	US$ million		0	46	46	92		
Product 3: Program funds provided for productive investments of SME in the target sectors owned or led by women	US$ million	0	0	20	43	63	BANCOMEXT monitoring reports	Pro-Gender Indicator. Annual allocation of program funds for financing productive investments of SME owned or led by women in the target sectors. The end-of-project value is cumulative.
Cost of product 3	US$ million		0	20	43	63		

Country: Mexico **Division:** IFD/CMF **Operation No.:** ME-L1300 **Year:** 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing Agency (EA): Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT)

Operation Name: Global Credit Program to Support Economic Recovery in Mexico (ME-L1300). Second Operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Program to Finance Productive Infrastructure and Sustainability in Mexico (ME-O0004)

I. FIDUCIARY CONTEXT OF EXECUTING AGENCY

1. Use of country system in the operation (Any system or subsystem that is subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation)

☒ Budget	☐ Reports	☒ Information System	☐ National Competitive Bidding (NCB)
☒ Treasury	☒ Internal Audit	☐ Shopping	☐ Others
☐ Accounting	☒ External Control	☐ Individual Consultants	

2. Fiduciary execution mechanism

Particularities of the Fiduciary Execution	BANCOMEXT will identify eligible subloans according to the program's OR, which will be transferred to eligible sub borrowers once they have met the eligibility conditions. The Borrower will, therefore, send these eligible subloans to the Bank for analysis and disbursement through the reimbursement method or using the advance of funds method. The findings of the institutional analysis are confirmed by the implementation of the first operation under the CCLIP, which demonstrates BANCOMEXT excellent level of performance in its execution.

3. Fiduciary Capacity

Fiduciary Capacity of the EA	BANCOMEXT has a satisfactory level of development and a low fiduciary risk for project execution. The design of this second operation under the CCLIP started in 2020, and in accordance with the Framework for Risk Management in Sovereign Guaranteed Projects OP-1519-5, an Institutional Capacity Assessment was carried out in February 2021, which allowed the team to evaluate and confirm the institutional capacity previously assessed in 2017, in which the internal control environment, as well as their systems, are adequate for the management of this new operation.

4. Fiduciary risks and risk response

Risk Taxonomy	Risk	Risk Level	Risk Response
Internal Processes	Difficulty on hiring qualified finance personnel due to budget constraints.	Medium-Low	The Bank could help strengthen BANCOMEXT institutional capacity with qualified personnel or training.
Internal Processes	The execution of the loan operation could be delayed due to the lack of fiduciary capacity of the executing agency.	Low	See previous section 3 regarding the fiduciary capacity of the EA.

5. Policies and guides applicable to operation: GN-2349-15, GN-2350-15, OP-273-12.

6. Exceptions to policies and rules: N/A.

II. Aspects to be Considered in the Special Conditions of the Loan Agreement

Exchange Rate. Exchange rate applicable to justify expenses made in a currency different from the one of the operation will be the exchange rate of the payment date to sub-borrowers, published in Banco de México. (Option (b)(i) of Article 4.10 of the General Conditions of the Loan Contract apply).
Audited Financial Statements. BANCOMEXT will present annual financial statements during the execution period within 180 days after the end of the program's fiscal year, and a final annual financial statement 180 after the last disbursement and its extensions, according with the terms of reference harmonized with the *Secretaría de la Función Pública*.

III. Agreements and Requirements for Procurement Execution

☒	Projects with Financial Intermediaries	In the case of a loan for global credit programmes and other transactions in which resources are provided to financial intermediaries for the granting of subloans or other form of subfinancing, it shall be indicated that agreements between BANCOMEXT and its financial intermediaries, and the final beneficiaries, the Bank's prohibited practice clauses shall be included. Alternatively, if the effective inclusion of these clauses in those contracts is not possible or practical, given the circumstances of the project, the project team may analyse other mechanisms to adopt acceptable controls and properly link them to the sanctions procedures the third parties that it is appropriate to link. The design of such mechanisms will be coordinated with the Office of Institutional Integrity with LEG's support and will be contemplated in the OR.
☒	Advanced Contracting Retroactive Financing	The Bank may retroactively finance from the resources of the loan, up to the sum of US$63.8 million (20% of the proposed loan amount), eligible expenses incurred by the Borrower prior to the date of approval of the loan (subloans to SME eligible under the program) provided that requirements shall be in accordance with those set out in the loan contract. Such expenses must have been incurred from June 1st, 2021. The need for retroactive financing is justified by the countercyclical role that BANCOMEXT has been playing since this date as the economy's growth paused,[1] particularly in sectors that the project aims to support, due to diminished global demand and supply chain disruptions (that particularly affected automotive manufacturing (paragraph 1.15 of Loan Proposal)). SME require financing to support their productive activities and maintain their capacity as the recovery continues.

IV. Agreements and Requirements for Financial Management

☒	Programming and Budget	The budget is subject to the budget ceiling assigned to BANCOMEXT by the Secretary of Finance.
☒	Treasury and Disbursement Management	BANCOMEXT will receive the funds in a concentrating bank account, automatically connected to its subcredit fund dispersal system.

[1] GDP in the third quarter of 2021 suffered its first quarterly decline since recovery from the pandemic. See GDP data by INEGI.

☒	Accounting, Information Systems and Reporting	**Specific Accounting Standards.** *"Ley de Contabilidad Gubernamental"* Government Accounting System, partially based on International Accounting Reporting Standards. **Reports for Accountability.** List of transfers made for eligible credits according to the OR approved by the Bank. **Accounting Method and Currency.** Cash Basis Accounting. Reports will be presented in local currency and U.S. Dollars.
☒	Internal Control and Internal Audit	The internal audit function applied to the project will be exercised by the *Secretaría de la Función Pública* by the internal control department.
☒	Project Financial Supervision	The operation requires financial supervision once a year only at Borrower level.

GLOBAL CREDIT PROGRAM TO SUPPORT ECONOMIC RECOVERY IN MEXICO

ME-L1300

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation[1] will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
Clean Technology Fund	CTF	USD	9,000,000

Certified by: (Original signed)
Maria Fernanda García
Chief
Grants and Co-Financing Management Unit
ORP/GCM

March 10th, 2021
Date

[1] In case of Project Specific Grants (PSG) or Financial Intermediary Fund (FIF), the availability of resources is contingent upon the signature of the agreement between the Donor and the Bank and the receipt of the resources.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Mexico. Loan ____/OC-ME to the Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT)
Global Credit Program to Support Economic Recovery in Mexico
Second Operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Program to Finance Productive Infrastructure and Sustainability in Mexico ME-O0004

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT), as Borrower, and with the United Mexican States, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of a Global Credit Program to Support Economy Recovery in Mexico, which constitutes the second operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Program to Finance Productive Infrastructure and Sustainability in Mexico (ME-O0004) approved by Resolution DE-89/18 dated November 14, 2018. Such financing will be in the amount of up to US$310,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2021)

LEG/SGO/CID/EZSHARE-1240513901-14004
ME-L1300

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/21

Mexico. Loan ____/TC-ME to the Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT)
Global Credit Program to Support Economy Recovery in Mexico
Second Operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Program to Finance Productive Infrastructure and Sustainability in Mexico ME-O0004

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, in its capacity as Implementing Entity for the Clean Technology Fund, to enter into such contract or contracts as may be necessary with the Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT), as Borrower, and with the United Mexican States, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of a Global Credit Program to Support Economy Recovery in Mexico, which constitutes the second individual operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Program to Finance Productive Infrastructure and Sustainability in Mexico (ME-O0004) approved by Resolution DE-89/18 dated November 14, 2018. Such financing will be for the amount of up to US$9,000,000 from the resources of the Clean Technology Fund, administered by the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ___________ 2021)

LEG/SGO/CID/EZSHARE-1240513901-14006
ME-L1300