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MULTILATERAL INVESTMENT FUND

**MEXICO**

**PROGRAM TO OPEN MARKETS TO SMES  
THROUGH COMPETITION POLICY**

**(ME-M1022)**

**DONORS MEMORANDUM**

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## **BASIC SOCIOECONOMIC DATA**

For basic socioeconomic data, including public debt information, please refer to the following address:

[http://www.iadb.org/res/externallink\\_list.cfm?language=en&parid=1&item1id=1&detail=Box1#b1](http://www.iadb.org/res/externallink_list.cfm?language=en&parid=1&item1id=1&detail=Box1#b1)

## **INFORMATION AVAILABLE IN THE RE2/SC2 FILES**

### **PREPARATION:**

Program to support the Mexico-EU Free Trade Agreement (PROTLCUEM)

### **EXECUTION:**

## **ABBREVIATIONS**

|           |   |
|-----------|---|
| AWP       | Annual Work Plan  |
| CESI      | Committee on Environment and Social Impact                                |
| CFC       | Federal Competition Commission of Mexico                                  |
| EU        | European Union  |
| LFCE      | Federal Economic Competition Act  |
| MEUFTA    | Mexico-EU Free Trade Agreement  |
| PCR       | Project completion report   |
| PPMR      | Project performance monitoring report                                     |
| PROFECO   | Procuraduría Federal del Consumidor [Mexico's consumer protection agency] |
| PROTLCUEM | Program to support the Mexico-EU Free Trade Agreement                     |
| SMES      | Small and medium-sized enterprises  |

**PROGRAM TO OPEN MARKETS TO SMEs  
THROUGH COMPETITION POLICY**

**(ME-M1022)**

**EXECUTIVE SUMMARY**

|   |   |
|---|---|
| <b>Executing agency:</b>                | Ministry of Economy, acting through the Federal Competition Commission of Mexico (CFC).   |
| <b>Beneficiary:</b>                     | United Mexican States.  |
| <b>Direct beneficiaries:</b>            | The program's direct beneficiaries will be consumers and entrepreneurs.   |
| <b>Financing:</b>                       | MIF (Window II, Human Resources Facility): US\$ 828,900<br>Local: US\$ 828,900<br>Total: US\$1,657,800  |
| <b>Objectives:</b>                      | The program's general objective is to help reduce monopolistic and anticompetitive practices that act as barriers to entry, expansion, and exit for small and medium-sized enterprises (SMEs) in a number of Mexican markets. The specific objective is to better implement competition policy, so as to safeguard free competition for SMEs in a number of sectors.  |
| <b>Terms and conditions:</b>            | Execution period: 36 months<br>Disbursement period: 42 months   |
| <b>Special contractual conditions:</b>  | As conditions precedent to the first disbursement, the Federal Competition Commission (CFC) will submit evidence that: (i) the program coordinator has been selected; (ii) the Evaluation and Monitoring Committee has been established; and (iii) the program Operating Regulations are in effect. As a condition precedent to the first disbursement, the CFC must have renewed its cooperation agreement with Mexico's consumer protection agency, PROFECO. As a condition precedent to the disbursement of resources for the second component, the CFC must have entered into a cooperation agreement with the Federal Judiciary Council. |
| <b>Exceptions to Bank policies:</b>     | None.   |
| <b>Environmental and social review:</b> | The Committee on Environment and Social Impact (CESI) reviewed the project abstract on 6 October 2006, issuing no observations.   |

**Benefits:**

The program's direct beneficiaries will be consumers and entrepreneurs, who will gain a clearer understanding of aspects of the competition policy that affect them; the CFC, which will become more effective at issuing and defending decisions; and the Judiciary Branch, which will be better enabled to understand the economic aspects of legal decisions in the area of competition.

**Coordination with other agencies:**

This program was designed to complement the PROTLCUEM program to support the Mexico-EU Free Trade Agreement. The CFC is executing agency for the competition component of that project.

## I. FRAME OF REFERENCE AND RATIONALE

### A. Problems with competition policy implementation in Mexico

- 1.1 The Federal Competition Commission of Mexico (CFC) was created in 1993 as a deconcentrated<sup>1</sup> agency of the Ministry of Economy, tasked with enforcing the Federal Economic Competition Act (LFCE), which entered into force on 22 June 1993. The CFC is a technically independent entity whose commissioners are elected for a 10-year term and can only be removed for cause,<sup>2</sup> a provision that protects them from being influenced by the prevailing political climate. The CFC successfully pushed through a number of reforms to simplify and enhance several procedures associated with enforcement of the LFCE, and these became effective on 28 June 2006. These reforms include: (i) shortening of the time to review market concentrations, and clarification of the persons to whom the law applies; (ii) expansion of the CFC's authority; and (iii) issuance of binding opinions by the CFC, enforceable on agencies of the federal public administration with respect to programs and policies whose effects may thwart the competitive process and free competition.<sup>3</sup>
- 1.2 **Initiating a CFC investigation.** In order to safeguard free competition, the CFC may act on its own initiative to investigate markets that show signs of absolute or relative monopolistic practices, or take action in response to consumer and/or business complaints. Complaints may be lodged by several different routes: (i) contacting the CFC directly on its toll-free number, or going to its offices in the Mexico's Federal District; (ii) through the local offices of the Ministry of Economy in each state; and (iii) referrals from other agencies about cases where competition issues in all likelihood exist. Bringing cases to the CFC's attention through the latter two mechanisms will greatly depend on the knowledge of persons receiving the complaints.
- 1.3 **The Judiciary Branch and economic competition.** The CFC investigates complaints and cases, then brings them before the Federal court system. However, the courts' heavy case load and a lack of specialized knowledge of the subject-matter keep judges and magistrates from conducting a substantive review of the cases under their jurisdiction. This translates into slow processing of cases, as clearly illustrated by the proliferation of amparo proceedings brought on procedural grounds for the sole purpose of protracting the CFC action and prolonging the monopolistic incomes of certain powerful economic interests in the country.<sup>4</sup> In the

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<sup>1</sup> A "deconcentrated" agency is one that is technically, but not administratively, independent.

<sup>2</sup> Article 27 of the Federal Economic Competition Act (known by its Spanish-language acronym: LFCE).

<sup>3</sup> Only the executive of record, i.e., the constitutional President, may object these opinions, and both the opinion and the objection must be disclosed to the public.

<sup>4</sup> Amparo proceedings under Articles 103 and 107 of the Constitution are intended to protect to any person against unconstitutional acts of a government authority. They may be brought by anyone who believes an unconstitutional statute has been applied, or that proper regulatory procedures were not observed.



last five years, for example, 277 amparo actions were brought against final and binding decisions of the CFC, and 315 against procedural steps.

- 1.4 **The SME sector and the CFC.** According to the 2004 Economic Census prepared by the National Institute of Statistics, Geography, and Informatics (INEGI), there were 2,911,688 small and medium-sized enterprises (SMEs) in Mexico in 2003,<sup>5</sup> out of a total of 3,005,157. SMEs are particularly vulnerable to the anticompetitive practices of many economic agents, including abuse of market power and collusion among competitors, especially in relation to competitive bidding processes.<sup>6</sup> To a large extent, these behaviors arise through municipal and state regulations that are themselves in violation of the LFCE, and ignorance about illegal conduct by state and municipal authorities, as well as by associations, chambers of commerce, and local unions.
- 1.5 Until now, the CFC has focused its resources on analysis of sectors or industries that impact a majority of consumers across the board, particularly in the so-called regulated sectors: transportation, energy, telecommunications, and, more recently, financial services. The CFC is aware of monopolistic practices that hurt SMEs, but which it has been unable to investigate, owing either to the SMEs' ignorance of the law's purpose or difficulty of reviewing such cases.<sup>7</sup> They require more effort to investigate and gather supporting evidence, since they generally involve detailed analysis of the conduct and market power held by the economic agent subject to the complaint.
- 1.6 **The proposed project.** The proposed project seeks to expand and facilitate SME access to CFC services, through a pilot project targeting three Mexican states. The program aims not only to raise awareness and train SMEs in these three states on the law and services provided by the CFC, but to pursue advocacy and competition training activities on other fronts: (i) the court system, with courses for judges and magistrates of the federal circuits in these states; (ii) within the CFC itself, to improve internal investigation, monitoring and evaluation processes for cases in markets with a preponderance of SMEs; and (iii) through partnerships with the Ministry of Economy and Mexico's consumer protection agency, PROFECO, to make CFC actions in the states more effective. Since this is a pilot project, it will aim to maximize the demonstration effect by disseminating the experience to other

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<sup>5</sup> Micro, small and medium-sized enterprises (MSMEs) are those with fewer than 251 employees for the manufacturing sector, and fewer than 101 for the trade and services sectors.

<sup>6</sup> "The reason for competition policy is to be found in the existence of anticompetitive practices that impair market efficiency. These practices are especially harmful to small and medium-sized enterprises as they are kept out of the market and from growing. There is a wide array of practices, and they are especially prevalent in markets where there are enterprises with market power." Annual Report 2001, Federal Competition Commission, Chapter I, p. 16, Mexico.

<sup>7</sup> A widely publicized case in Mexico is that of Mrs. Raquel Chávez, a Mexico City grocery store owner, against Coca-Cola. She went to the PROFECO office because Coca-Cola refused to supply her unless she stopped selling a cheaper cola (Big Cola). PROFECO referred her to the CFC, which took the case, and imposed a multimillion-dollar fine on Coca-Cola for violation of the LFCE.

interested states, as well as to other competition authorities in the region faced with similar problems, or that were established recently and would benefit from such experience. The proposed project is **innovative** because it seeks to improve access by SMEs and the general public to services provided by the CFC to ensure efficient market operation, safeguard the competitive process and free competition, and address LFCE violations committed by state and municipal authorities out of ignorance of the competition policy.<sup>8</sup>

## **B. Similar Bank and MIF projects**

- 1.7 In February 2003, the CFC and the Inter-American Development Bank (IDB) agreed to implement the program, “Support for strengthening the capacity to implement competition policy,” financed with U.S. Evergreen Fund resources. The program supported institutional strengthening of the CFC through a training program, development of mechanisms for human resources management, coordination with other regulatory agencies, and a pilot training program for the judicial sector. Activities financed under the program included 13 training workshops, three of them for the Judiciary Branch. This activity revealed the courts’ lack of knowledge in the area of economic competition.
- 1.8 The MIF has approved five projects in the area of defense of competition.<sup>9</sup> Lessons learned from these projects pointed to the importance of: (i) involving the business sector and civil society in project implementation; and (ii) an effective institutional framework, and making institutional strengthening a top priority in the project objectives. In relation to point (i), the project focuses not only on SME access to CFC services, but includes a specific training and dissemination component directed at the SME sector, consumer associations, and PROFECO.
- 1.9 In relation to point (ii), experience shows that the institutional weakness of beneficiary entities has weighed negatively on their capacity to execute projects. Such weaknesses are due to the novelty of the field itself, a lack of independence of the relevant officials—the commissioners in this case—and a lack of institutional capacity resulting in insufficient budget resources as counterpart resources for this type of project. To support execution of this program, the project team carefully assessed the CFC’s institutional capacity during project preparation, and was able to confirm the commissioners’ independence, the existence of an institutional framework strengthened by the recently approval reforms to the LFCE, the technical capacity of CFC staff, and the availability of local counterpart contribution resources. All these factors mitigate the institutional risk.<sup>10</sup>

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<sup>9</sup> The five projects approved by the Bank are: ATN/MT-6574-AR; ATN/MT-6880-BR; ATN/MT-5761-PE; ATN/MT-5772-VE, and ATN/MT-8453-UR.

<sup>10</sup> The CFC budget in 2005 was approximately US\$15 million.

## **II. PROGRAM**

### **A. Objectives and description**

- 2.1 The program's general objective is to help reduce monopolistic and anticompetitive practices that act as barriers to entry, expansion, and exit for small and medium-sized enterprises (SMEs) in a number of Mexican markets. The specific objective is to better implement competition policy, so as to safeguard free competition for SMEs in a number of sectors.
- 2.2 The expected outcomes at the conclusion of program implementation are: (i) improved information and case management capacity to ensure follow-through in all CFC areas of action, and in particular better information on the SME segment, making the institution more efficient and effective; (ii) a 10% reduction in amparo actions relating to procedural steps in the cases brought before the judicial system; and (iii) an increase in the number of cases or inquiries on competition issues affecting SMEs outside the capital.

### **B. Components**

#### **1. Competition policy training for SMEs (US\$108,160)**

- 2.3 The objective of this component is to increase the scope and dissemination of the economic competition policy to SMEs and federal and state authorities. To achieve this, the program will support actions to: (i) provide training for Mexico's consumer protection agency, PROFECO, the Ministry of Economy (at the federal level and in three state offices), and three state governments; (ii) provide training for at least three chambers of industry and commerce in three states; (iii) train SMEs directly in competition policy through programs organized by the Office of the Deputy Secretary for SMEs at the Ministry of Economy; and (iv) design a competition policy manual for the private sector. A total of nine workshops will be financed in three years for PROFECO, the Ministry of Economy, three state governments, and SMEs (including business associations). The workshops will have a three-day duration (one day for the Ministry of Economy and PROFECO, one day for state governors, and one day for direct training to SMEs and chambers of industry and commerce) and an average of 40 participants. All workshop participants will receive a copy of the manual on economic competition designed by the CFC. Paragraph 4.6 describes the criteria for selection of the states. Promotional messages will be placed in media outlets to expand the scope of the workshops. As a condition precedent to the disbursement of resources for this component, the CFC must have entered into a cooperation agreement with PROFECO. The Operating Regulations describe the substance of this framework agreement.

#### **2. Training to help the Judiciary Branch determine economic competition cases (US\$309,264)**

- 2.4 The objective of this component is to improve Judiciary Branch training and knowledge on substantive economic competition issues, including their effect on

SMEs. To achieve this, the CFC will form partnerships with universities and/or research centers in the selected states to provide training for the judiciary. The idea is to design a certification course for magistrates, judges, and court clerks who hear and review CFC competition cases.

- 2.5 Three specific activities will be financed: (i) preparation of an economic competition manual to serve as guide and reference for judges and magistrates who review competition cases; (ii) training courses for federal and state judicial system officials, offered through 24 workshops held in the Federal District and at least three states (two workshops per year per state) with 20 participants at each workshop. These courses will present the economic concepts contained in the economic competition legislation, in addition to information that must be presented, examined, interpreted, and evaluated in each case, in order to perform a proper assessment; and (iii) sharing of experiences with judicial authorities in other countries, so that Mexican federal judges can learn firsthand about the experience of their international peers in enforcement of competition legislation. As a condition precedent to the disbursement of resources for this component, the CFC must have entered into a cooperation agreement with the Federal Judiciary Council.

### **3. Knowledge management (US\$630,836)**

- 2.6 This component seeks to document and integrate information for tracking, consultation, and sharing of knowledge among CFC departments, in order to strengthen the CFC's analytical and investigative capacity. To accomplish this, the following activities will be financed: (i) a study of the effectiveness of CFC decisions, primarily in areas affecting SMEs; (ii) a diagnostic assessment of competition in several sectors with very little openness, identifying at least three sectors with these characteristics and conducting a sector diagnostic assessment; (iii) technical assistance on best practices to investigate absolute and relative monopolistic practices in areas affecting SMEs; (iv) design and implementation of a complaint tracking system, including conceptual design, procurement and implementation of hardware and software, entering of historical data, and user training; and (v) technical assistance to conduct an analysis of CFC actions brought before the courts.

### **4. Dissemination of outcomes (US\$250,800)**

- 2.7 This component seeks to enhance the program's demonstration effect by financing activities to make its benefits known, especially in states not involved in the program activities. These activities will include: (i) design and implementation of a communications strategy targeting SMEs and consumers; (ii) media promotion of outcomes; (iii) preparation of a report documenting the program experience for dissemination purposes; and (iv) workshops to report on the experiences and outcomes to other states and countries that may be interested in replicating the program activities. These workshops will be part of international workshops organized by the CFC in other parts of the country, and will also provide

information about the scope of the program activities to other competition agencies in the region that may wish to replicate them in their own countries.

### III. COST AND FINANCING

- 3.1 The estimated total program cost is US\$1,657,800. Of that total, the MIF Window II will finance US\$828,900 under the Human Resources Facility. The Ministry of Economy, acting through the Federal Competition Commission (CFC), will contribute US\$828,900, with at least half of that amount in cash. The local contribution will include US\$245,300 in cash for activities financed by a European Union (EU) project to support implementation of the Mexico-EU Free Trade Agreement (MEUFTA). These activities include designing the knowledge management database, training workshops for civil society and government agencies (including the Judiciary Branch), sector studies, and support for dissemination workshops. The MIF resources may be used to finance travel and per diem for CFC staff serving as trainers under Components 1 and 2.

Table I – Cost and financing (US\$)

| Components and activities   | MIF            | Counterpart    |                | Total            |
|---|----------------|----------------|----------------|------------------|
|   |                | MEUFTA         | CFC            |                  |
| <b>Component 1. Competition policy training for SMEs</b>  | <b>37,500</b>  | -              | 70,660         | <b>108,160</b>   |
| <b>Component 2. Training to help the Judiciary Branch determine cases of economic competition</b> | <b>153,824</b> | 72,000         | 83,440         | <b>309,264</b>   |
| <b>Component 3. Knowledge management</b>  | <b>392,936</b> | 140,800        | 97,100         | <b>630,836</b>   |
| <b>Component 4. Dissemination of outcomes</b>   | <b>115,000</b> | 32,500         | 103,300        | <b>250,800</b>   |
| Program management  | <b>88,000</b>  | -              | 229,100        | <b>317,100</b>   |
| Midterm evaluation  | 10,000         |                |                | 10,000           |
| Final evaluation  | 15,000         |                |                | 15,000           |
| Audit   | 15,000         |                |                | 15,000           |
| Contingencies   | 1,640          |                |                | 1,640            |
| Management and evaluation subtotal  | <b>41,640</b>  | -              | -              | <b>41,640</b>    |
| <b>Total</b>  | <b>828,900</b> | <b>245,300</b> | <b>583,600</b> | <b>1,657,800</b> |

- 3.2 **Sustainability.** Program sustainability is linked to the CFC's capacity to promote and increase its impact. It is hoped that future demand for CFC services by SMEs and consumers, and their availability, will be consolidated through this program. The program seeks to promote market openness at the national, state, and municipal levels by better enabling the CFC to reach out to competition policy stakeholders that have not truly availed themselves of this tool to prevent anticompetitive practices.

## **IV. PROGRAM EXECUTION**

### **A. Executing agency**

- 4.1 The Ministry of Economy, acting through the Federal Competition Commission of Mexico (CFC), will be the executing agency for this technical cooperation operation. The CFC's mandate is to safeguard the competition process and free competition through the prevention and elimination of monopolies, monopolistic practices, and other constraints on the efficient operation of markets for goods and services.<sup>11</sup> This is expected to enhance market competitiveness through greater productive efficiency, better distribution, and elimination of economic behaviors that keep businesses out of the market, decrease the incentive for innovation, and limit consumer options. Competition policy also governs the relationship of individuals with municipios and states, inasmuch as it guarantees an environment free of entry barriers and restrictions among states and municipios, and ensures equal treatment in the issuance of permits and licenses by federal authorities.

### **B. Program execution and management**

- 4.2 The CFC planning unit will be the designated project coordinator. In order to strengthen the unit's execution capacity, the program calls for a coordinator, an assistant, and a part-time accountant. The coordinator will be responsible for administrative management of program activities, supported by the assistant. The accountant will be in charge of program-related accounting and financial operations. The CFC will appoint a technical coordinator from among its technical staff, to serve as permanent liaison with the coordinator. The technical coordinator's chief duties will include reviewing the consultant terms of reference, technical quality control of program activities, and reviewing the semiannual statement progress reports and action plans.
- 4.3 The project will have an execution period of 36 months, and a disbursement period of 42 months. A revolving fund will be established in the amount of 10% of the MIF contribution, to be disbursed and administered through a separate bank account. The program coordination unit will submit semiannual financial reports on the revolving fund to the Bank's Country Office in Mexico. The CFC will work in close cooperation with the Office of the Deputy Secretary for SMEs at the Ministry of Economy to ensure that SME-related actions will have the greatest possible impact.
- 4.4 The CFC will establish a Monitoring and Evaluation Committee, made up of professional staff from the different departments within the institution, and chaired by the CFC's President, to ensure that project activities take the views of civil society representatives into account (business and academic sectors, and consumer associations). The program coordinator will be responsible for gathering the information for review by the committee.

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<sup>11</sup> Article 2 of the Federal Economic Competition Act (known by its Spanish-language acronym: LFCE)

**C. Program readiness**

- 4.5 The program design, budget, and planned activities were prepared in coordination with the CFC. Agreement has been reached on the budget, logical framework, and procurement plan. In addition, counterpart resources from the EU program have been approved, and the remainder of the local contribution has been set aside in the CFC's 2007 budget.
- 4.6 **Criteria for the selection of states.** The criteria for selecting the three participating states will be: (i) Ministry of Economy and PROFECO capacity in the state; (ii) importance of the SMEs to the state economy; and (iii) number of LFCE-related cases brought before the federal circuit courts in the state.
- 4.7 **Special conditions.** As conditions precedent to the first disbursement: (i) the program coordinator must have been selected; (ii) the Evaluation and Monitoring Committee must have been established; and (iii) the program Operating Regulations must be in effect. As a condition precedent to the disbursement of resources for Component I, the CFC must have renewed its cooperation agreement with PROFECO. As a condition precedent to the disbursement of resources for Component II, the CFC must have entered into a cooperation agreement with the Federal Judiciary Council. These cooperation agreements must include at least: (i) a statement of purpose; (ii) a mechanism for cooperation on operations; (iii) types of training; and (iv) a mechanism for disseminating information. A model agreement is attached as an annex to the program Operating Regulations.

**D. Procurement**

- 4.8 Goods and consulting services will be procured in accordance with Bank procurement policies and procedures, documents GN-2349-7 and GN-2350-7, and the MIF Guidelines of 8 August 2006. Annex III contains the program procurement plan prepared by the executing agencies. The executing agencies will update the procurement plan as part of the semiannual reports.

**V. MONITORING AND EVALUATION**

- 5.1 **Monitoring.** The Bank's Country Office in Mexico will be responsible for supervision and control activities, monitoring of compliance with the contractual clauses, processing of disbursement requests, and acceptance of audited financial statements. The Federal Competition Commission of Mexico (CFC) will deliver semiannual progress reports to the Bank through the program coordinator. The reports will be based on the logical framework objectives and indicators, and presented in a format acceptable to the Bank no later than 30 days after the end of the calendar semester. The CFC will also prepare a final program report to be delivered to the Bank 60 days after the date of the last disbursement, for use as a frame of reference for the project completion report. The CFC will have a **program monitoring system** based on a timeline of activities, the logical framework indicators, and the annual work plan (AWP). This system will be the key

- instrument for monitoring the progress of program execution, attainment of objectives, and impact achieved.
- 5.2 **Audits.** Annual audits and one final audit of the financial statements will be conducted by an independent accounting firm acceptable to the Bank.
- 5.3 **Evaluation.** The **midterm evaluation** will be performed 18 months into program execution or once 50% of the resources have been disbursed, whichever comes first, in order to make necessary adjustments to ensure compliance with the program targets and objectives. The **final evaluation** will be conducted three months after the last disbursement. The final evaluation will review: (i) the extent to which activities were completed; (ii) compliance with the objectives and indicators described in the logical framework; (iii) executing agency performance; and (iv) quality of seminars and workshops.
- 5.4 At the end of program execution, a closing workshop will be organized with representatives from the CFC, the Judiciary Branch, PROFECO, the Office of the Deputy Secretary for SMEs at the Ministry of Economy, participating subnational agencies, and Bank staff, to evaluate the outcomes and propose actions to enhance program sustainability.

## VI. BENEFICIARIES AND RISKS

- 6.1 **Beneficiaries.** The SMEs are particularly vulnerable to anticompetitive practices, including collusion among competitors to fix prices, restriction of supply, market sharing, or bid rigging. The program's direct beneficiaries will be consumers and entrepreneurs, who will gain a clearer understanding of aspects of the competition policy that affect them; the CFC, which will become more effective at issuing and defending decisions; and the Judiciary Branch, which will be better enabled to understand the economic aspects of its decisions in the area of competition.
- 6.2 **Risks.** The chief risk in operations of this kind is the institutional weakness typical of competition agencies in the region. The CFC has several things in its favor: (i) the mechanism for appointing commissioners for long periods without discretionary authority to remove them, thus ensuring their independence from political influence; (ii) the high qualifications its technical staff, evident from their participation in international competition forums and their success in sectors known for monopolistic practices; and (iii) the new legal framework approved in June 2006, which more clearly defines its scope of action and facilitates the conduct of investigations.

## VII. ENVIRONMENTAL AND SOCIAL REVIEW

- 7.1 The program will have no adverse environmental or social impact. Indeed, the project is expected to have a positive impact on society, because protecting economic competition gives consumers more options at lower prices, workers have better job options, and SMEs are not unfairly squeezed out of the market.



- 7.2 The Committee on Environment and Social Impact reviewed the operation on 6 October 2006.

**MEXICO**  
**PROGRAM TO OPEN MARKETS TO SMEs THROUGH COMPETITION POLICY**  
**(ME-M1022)**  
**LOGICAL FRAMEWORK**

| Objectives   | Indicators  | Means of verification  | Assumptions  |
|--|---|--|--|
| <b>Goal</b>  |   |  |  |
| To help reduce monopolistic and anticompetitive practices that act as barriers to entry, expansion, and exit for small and medium-sized enterprises (SMEs) in a number of Mexican markets. | <ul style="list-style-type: none"> <li>Free market entry and exit in Mexico improves through a better competition environment, especially in sectors where SMEs are predominant.</li> </ul>   | <ul style="list-style-type: none"> <li>Index of economic freedom<br/>Baseline 2006: Mexico's ranking 60, score 2.83; category: mostly free.</li> </ul>   |  |
| <b>Purpose</b>   |   |  |  |
| To better implement competition policy, so as to safeguard free competition for SMEs in a number of sectors.   | <p>After 24 months:</p> <ul style="list-style-type: none"> <li>10% reduction in average time to process a case that does not result in penalties, from time of entry. Baseline: average time <math>\geq 300</math> days per case (without management system).</li> </ul> <p>Upon project completion:</p> <ul style="list-style-type: none"> <li>10% reduction in amparo actions per case, relating to procedural steps in the cases brought before the judicial system. Baseline 2005: 19.</li> <li>25% increase in the number of cases or inquiries by SMEs in participating states compared to other states. Baseline: 0.</li> <li>15% reduction in average time to process a CFC action, from time of entry.</li> <li>20% increase in the number of calls to the commission on the toll-free line, using the average monthly calls in 2006 as baseline.</li> </ul> | <ul style="list-style-type: none"> <li>CFC management system reports</li> <li>Final evaluation</li> <li>Midterm evaluation</li> <li>Project completion report (PCR)</li> <li>Project performance monitoring report (PPMR)</li> <li>Semiannual reports</li> </ul> | <ul style="list-style-type: none"> <li>The government remains interested in promoting a competitive environment in the country.</li> </ul> |

| Objectives  | Indicators   | Means of verification  | Assumptions  |
|---|--|--|--|
| <b>Components</b>   |  |  |  |
| <b>Component 1:</b><br><b>Competition policy training for SMEs</b><br>Increase the scope and dissemination of the economic competition policy to SMEs and federal and state authorities.  | After 18 months: <ul style="list-style-type: none"> <li>At least three training workshops held in three states.</li> <li>At least 150 SMEs trained in competition policy through programs offered by the Office of the Deputy Secretary for SMEs and the CFC in three states.</li> </ul> Upon project completion <ul style="list-style-type: none"> <li>PROFECO, Ministry of Economy, and three state governments trained.</li> <li>400 SMEs trained in competition policy through programs offered by the Office of the Deputy Secretary for SMEs and the CFC in three states.</li> </ul> | <ul style="list-style-type: none"> <li>Training course reports</li> <li>Course evaluations</li> <li>Final evaluation</li> <li>Midterm evaluation</li> <li>PCR</li> <li>PPMR</li> <li>Semiannual reports</li> </ul> | <ul style="list-style-type: none"> <li>The CFC maintains its independence</li> <li>The Mexico-EU Free Trade Agreement (MEUFTA) is implemented as planned.</li> </ul> |
| <b>Component 2:</b><br><b>Training to help the Judiciary Branch determine economic competition cases</b><br>Improve Judiciary Branch training and knowledge on substantive economic competition issues, including their effect on SMEs. | After 18 months: <ul style="list-style-type: none"> <li>Training provided to 160 federal judges and court clerks, distributed in the federal circuit courts of three states and the Federal District.</li> </ul> Upon project completion <ul style="list-style-type: none"> <li>Judges are exposed to the competition experiences of at least two countries.</li> <li>80% of participants pass the course and receive a certificate.</li> </ul>  | <ul style="list-style-type: none"> <li>Course evaluation tests</li> <li>Final evaluation</li> <li>Midterm evaluation</li> <li>PCR</li> <li>PPMR</li> <li>Semiannual reports</li> </ul>                             |  |

| Objectives   | Indicators   | Means of verification  | Assumptions |
|--|--|--|-------------|
| <b>Component 3:</b><br><b>Knowledge management</b><br>Document and integrate information for tracking, consultation, and sharing of knowledge among CFC departments, in order to strengthen the CFC's analytical and investigative capacity. | At the end of the first year: <ul style="list-style-type: none"> <li>The case tracking and management system is up and running.</li> <li>Statistical information on CFC actions is generated for historical and ongoing cases. Baseline: 0</li> <li>Documentation helps to identify sectors and markets where SMEs are predominant but the CFC has had little involvement.</li> </ul> Upon project completion: <ul style="list-style-type: none"> <li>Methodologies and procedures to fulfill the CFC mandate are standardized.</li> </ul> | <ul style="list-style-type: none"> <li>System reports</li> <li>User training reports</li> <li>CFC report on changes to its processes resulting from the documentation of information</li> <li>Final evaluation</li> <li>Midterm evaluation</li> <li>PCR</li> <li>PPMR</li> <li>Semiannual reports</li> </ul> |             |
| <b>Component 4:</b><br><b>Dissemination of outcomes</b><br>Enhance the program's demonstration effect.   | Upon project completion <ul style="list-style-type: none"> <li>At least one state is interested in replicating the training experience of the selected states.</li> <li>Six seminars have been held, with an average of 300 participants.</li> <li>The first 12 months of the CFC dissemination plan have been implemented.</li> </ul>   | <ul style="list-style-type: none"> <li>Training request from one state</li> <li>Final evaluation</li> <li>Midterm evaluation</li> <li>PCR</li> <li>PPMR</li> <li>Semiannual reports</li> </ul>   |             |
| <b>Activities</b>  | <b>Milestones of principal activities</b>  |  |             |

| Objectives  | Indicators   | Means of verification   | Assumptions   |
|---|--|---|---|
| <b>Component 1</b><br><b>Competition policy training for SMEs</b><br>1.1 Design the training courses<br>1.2 Design a competition policy manual for the private sector.<br>1.3 Economic competition courses given to SMEs, PROFECO, the Ministry of Economy, state government, and chambers of industry and commerce in at least three states. | <ul style="list-style-type: none"> <li>• Course designed and approved by the CFC.</li> <li>• Manual designed and approved by the CFC, and published.</li> <li>• 9 courses given in at least three states (1 course per state, per year) with 400 participants from SMEs, PROFECO, the Ministry of Economy, state government, and chambers of industry and commerce.</li> </ul>   | <ul style="list-style-type: none"> <li>• Consultant reports</li> <li>• Record of events</li> <li>• Questionnaires</li> <li>• PPMR</li> <li>• Semiannual reports</li> </ul>  | <ul style="list-style-type: none"> <li>• The Ministry of Economy maintains the CFC budget allocation at least equal to the level approved for 2006.</li> <li>• Cooperation agreements are signed with the Federal Judiciary Council and PROFECO.</li> </ul> |
| <b>Component 2</b><br><b>Training to help the Judiciary Branch determine cases of economic competition</b><br>2.1 Preparation of an economic competition manual.<br>2.2 Training course design.<br>2.3 Training course delivery.<br>2.3 Sharing of experiences with judicial authorities in other countries.                                  | <ul style="list-style-type: none"> <li>• Manual approved by the CFC and published.</li> <li>• 18 courses on competition policy given to 360 judges and court clerks in the federal judicial circuits of the 3 selected states.</li> <li>• 6 courses on competition policy given to 120 magistrates, judges, and court clerks in the Federal District. Baseline: 40 magistrates and judges.</li> <li>• Exchange of experiences with judges in two countries.</li> </ul> | <ul style="list-style-type: none"> <li>• Consultant reports</li> <li>• Course curriculum</li> <li>• Questionnaires</li> <li>• PPMR</li> <li>• Semiannual reports</li> </ul> |   |

| Objectives   | Indicators   | Means of verification   | Assumptions |
|--|--|---|-------------|
| <b>Component 3</b><br><b>Knowledge management</b><br>3.1 Study of the effectiveness of CFC decisions, primarily in areas affecting SMEs.<br>3.2 Diagnostic assessment of competition in several sectors with very little openness.<br>3.2.1 Identification of at least 5 sectors.<br>3.2.2 Sector diagnostic assessments.<br>3.3 Technical assistance on best practices to investigate absolute and relative monopolistic practices in areas affecting SMEs.<br>3.4 Design and implementation of a complaint tracking system.<br>3.4.1 Conceptual design of system.<br>3.4.2 Procurement of hardware and software.<br>3.4.3 Software implementation.<br>3.4.4 Entry of historical data.<br>3.4.5 User training.<br>3.5 Analysis of CFC actions brought before the courts.. | <ul style="list-style-type: none"> <li>• Study delivered and approved, with recommendations for improvement</li> <li>• 5 sectors identified for study.</li> <li>• Sector studies delivered and approved.</li> <li>• Consultant reports.</li> <li>• System up and running.</li> <li>• Consultant report and recommendation plan.</li> </ul> | <ul style="list-style-type: none"> <li>• Consultant report</li> <li>• System reports</li> <li>• PPMR</li> <li>• Semiannual reports</li> </ul> |             |

| Objectives   | Indicators   | Means of verification   | Assumptions |
|--|--|---|-------------|
| <b>Component 4</b><br><b>Dissemination of outcomes</b><br>4.1 Media promotion of outcomes.<br>4.2 Report documenting the program experience for dissemination to other commissions, states, etc.<br>4.3 Workshops to disseminate the experience in other states that may be interested in replicating the program. | <ul style="list-style-type: none"> <li>• 10-20 articles a year in trade press outlets, press items, newscasts, etc.</li> <li>• Report is published.</li> <li>• Total of 6 events.</li> <li>• One event in 3 states other than the selected states.</li> <li>• 1 event in the Federal District to launch the campaign (media awareness), and a closing workshop to present outcomes.</li> </ul> | <ul style="list-style-type: none"> <li>• Consultant report</li> <li>• System reports</li> <li>• PPMR</li> <li>• Semiannual reports</li> </ul> |             |

**MEXICO**  
**PROGRAM TO OPEN MARKETS TO SMES THROUGH COMPETITION POLICY (ME-M1022)**

| BUDGET  |               |           |               |           |          |                   |    |
|---|---------------|-----------|---------------|-----------|----------|-------------------|----|
|   |               | 828,900   |               | 1,657,800 | 36.5%    | 828,900           |    |
|   |               | 50.0%     | 14.8%         | 21.7%     | 13.5%    |                   |    |
| Program to Open Markets to SMEs through Competition Policy  | PROJECT TOTAL |           |               |           |          | PROPONENT         |    |
|   | MIF           | PROTLCUEM | CFC Proponent |           | Subtotal | Total Counterpart |    |
|   |               |           | Cash          | Kind      |          | Amount            | %  |
| COMPONENT 1. Competition policy training for SMEs   |               |           |               |           |          |                   |    |
| 1.1. Training course design   |               |           |               |           |          | 0                 |    |
| 1.1.1 CFC   |               |           |               | 5,120     | 5,120    | 5,120             |    |
| 1.1.2 Course adjustments based on teaching experience   |               |           |               | 1,280     | 1,280    | 1,280             |    |
| 1.2. Design a competition policy manual for the private sector, focusing on SMEs  |               |           |               |           |          | 0                 |    |
| 1.2.1 Contracting of a national consultant  | 5,000         |           |               |           | 5,000    | 0                 |    |
| 1.3. Economic competition courses for SMEs, PROFECO, the Ministry of Economy, state government, and chambers of industry and commerce in at least 3 states. |               |           |               |           |          |                   |    |
| 1.3.1 Travel and per diem (instructors and support staff, CFC)  |               |           | 29,700        |           | 29,700   | 29,700            |    |
| 1.3.2 Cost of CFC staff serving as trainers   |               |           |               | 14,400    | 14,400   | 14,400            |    |
| 1.3.3 Room rental and refreshments for workshop   | 7,500         |           |               |           | 7,500    | 0                 |    |
| 1.3.4 Workshop logistics (communication and announcements)  |               |           |               | 20,160    | 20,160   | 20,160            |    |
| 1.4 Materials (printing, support textbooks, graphic design of materials)  | 25,000        |           |               |           | 25,000   | 0                 |    |
| Total Component 1   | 37,500        | 0         | 29,700        | 40,960    | 108,160  | 70,660            | 4% |
| COMPONENT 2. Training to help the Judiciary Branch determine economic competition cases   |               |           |               |           |          |                   |    |
| 2.1. Training course design and delivery  |               |           |               |           |          |                   |    |
| 2.1.1 CFC design  |               |           |               | 10,240    | 10,240   | 10,240            |    |
| 2.1.2 Two international trainers (Spain, USA with interpretation)   | 48,000        | 42,000    |               |           | 90,000   | 42,000            |    |
| 2.1.3 Simultaneous interpretation   |               | 12,000    |               |           | 12,000   | 12,000            |    |
| 2.1.4 Room rental and refreshments for workshop   |               | 18,000    |               |           | 18,000   | 18,000            |    |
| 2.1.5 Workshop logistics (communication and announcements)  |               |           |               | 10,240    | 10,240   | 10,240            |    |
| 2.1.6 Travel and per diem for 2 instructors   | 38,400        |           |               |           | 38,400   | 0                 |    |
| 2.1.7 Travel and per diem for support staff   | 40,400        |           | 60,400        |           | 100,800  | 60,400            |    |
| 2.2. Preparation of an economic competition manual  |               |           |               |           |          | 0                 |    |
| 2.2.1 CFC monitoring  |               |           |               | 2,560     | 2,560    | 2,560             |    |
| 2.2.2 Contracting of a national consultant  | 8,000         |           |               |           | 8,000    | 0                 |    |



**MEXICO**  
**PROGRAM TO OPEN MARKETS TO SMES THROUGH COMPETITION POLICY (ME-M1022)**

|  |                |                |               |               |                |                |            |
|--|----------------|----------------|---------------|---------------|----------------|----------------|------------|
| 2.3. Materials (publication of manual, CD-ROM for the course, support textbooks, photocopies)                                    | 19,024         |                |               |               | 19,024         | 0              |            |
| <b>Total Component 2</b>   | <b>153,824</b> | <b>72,000</b>  | <b>60,400</b> | <b>23,040</b> | <b>309,264</b> | <b>155,440</b> | <b>9%</b>  |
| <b>COMPONENT 3. Knowledge management</b>   |                |                |               |               |                |                |            |
| 3.1.Design and implement an integrated competition information and complaint tracking system                                     |                |                |               |               |                | 0              |            |
| 3.1.1 Conceptual design of system: international advisory and consulting support   |                | 90,000         |               | 4,800         | 4,800          | 94,800         |            |
| 3.1.2 Procurement of hardware and software   | 200,000        |                |               | 1,600         | 1,600          | 1,600          |            |
| 3.1.3 Software implementation  |                | 8,000          | 12,000        |               | 0              | 20,000         |            |
| 3.1.4 Hiring of staff to enter historical data   |                |                | 20,000        | 800           | 800            | 20,800         |            |
| 3.1.5 User training  |                |                | 20,000        | 4,800         | 4,800          | 24,800         |            |
| 3.1.6 Drafting of a procedures manual  |                |                | 20,000        | 1,600         | 1,600          | 21,600         |            |
| 3.2. Diagnostic assessment of competition in three sectors with very little openness, including SME analysis.                    |                |                |               |               |                | 0              |            |
| 3.2.1 Hiring of an international consultant to identify a least 3 sectors with possible competition problems                     | 30,000         |                |               |               | 30,000         | 0              |            |
| 3.2.2 Hiring of 3 international consultants to study the 3 sectors identified  | 65,000         | 25,000         |               |               | 90,000         | 25,000         |            |
| 3.3. Technical assistance on best practices to investigate absolute and relative monopolistic practices                          |                |                |               |               |                | 0              |            |
| 3.3.1 Hire an international consultant   | 36,000         |                |               |               | 36,000         | 0              |            |
| 3.3.2 Travel allowance and ticket  | 9,300          | 9,300          |               |               | 18,600         | 9,300          |            |
| 3.4. Analysis of CFC legal actions   |                |                |               |               |                | 0              |            |
| 3.4.1 Use database to generate statistics on amparos, appeals for reconsideration, and challenges to fines. National consultant. | 15,000         |                |               |               | 15,000         | 0              |            |
| 3.4.2 International consultant to analyze CFC legal actions  | 20,000         | 8,500          | 11,500        |               | 40,000         | 20,000         |            |
| 3.5 Materials  | 17,636         |                |               |               | 17,636         | 0              |            |
| <b>Total Component 3</b>   | <b>392,936</b> | <b>140,800</b> | <b>83,500</b> | <b>13,600</b> | <b>630,836</b> | <b>237,900</b> | <b>14%</b> |
| <b>COMPONENT 4. Dissemination of outcomes</b>  |                |                |               |               |                |                |            |
| 4.1. National communications strategy targeting SMEs and consumers   |                |                |               |               |                |                |            |
| 4.1.1 Strategy design  |                |                |               | 9,600         | 9,600          | 9,600          |            |
| 4.1.2 Implementation plan including materials, etc.  | 30,000         |                |               | 3,200         | 3,200          | 3,200          |            |
| 4.2. Report documenting the program experience for dissemination to other commissions, states, etc.                              | 10,000         |                |               |               |                | 0              |            |
| 4.3. Workshops to disseminate the experience in other states that may be interested in replicating the program                   | 75,000         | 32,500         | 42,500        |               | 150,000        | 75,000         |            |
| 4.3.1 Travel and per diem  |                |                |               |               |                | 0              |            |
| 4.3.2 Meeting room, interpretation, etc.   |                |                |               |               |                | 0              |            |
| 4.3.3 Workshop logistics   |                |                |               | 48,000        | 48,000         | 48,000         |            |
| <b>Total Component 4</b>   | <b>115,000</b> | <b>32,500</b>  | <b>42,500</b> | <b>60,800</b> | <b>250,800</b> | <b>135,800</b> | <b>8%</b>  |

**MEXICO**  
**PROGRAM TO OPEN MARKETS TO SMES THROUGH COMPETITION POLICY (ME-M1022)**

|  |                |                |                |                |                  |                |            |
|--|----------------|----------------|----------------|----------------|------------------|----------------|------------|
| <b>PROJECT MANAGEMENT</b>  |                |                |                |                |                  |                |            |
| Technical coordinator  |                |                |                | 16,800         | 16,800           | 16,800         |            |
| Project coordination   | 88,000         |                | 59,000         |                | 147,000          | 59,000         |            |
| Project assistant  |                |                | 84,000         |                | 84,000           | 84,000         |            |
| Materials  |                |                |                |                |                  |                |            |
| Part-time accountant   |                |                |                | 33,600         | 33,600           | 33,600         |            |
| Logistics (communications, office lease, electricity, etc.), equipment (computer, printer) |                |                |                | 35,700         | 35,700           | 35,700         |            |
| <b>Program management subtotal</b>   | <b>88,000</b>  | <b>0</b>       | <b>143,000</b> | <b>86,100</b>  | <b>317,100</b>   | <b>229,100</b> | <b>14%</b> |
| Midterm evaluation   | 10,000         |                |                |                | 10,000           | 0              |            |
| Final evaluation   | 15,000         |                |                |                | 15,000           | 0              |            |
| Audit  | 15,000         |                |                |                | 15,000           | 0              |            |
| Contingencies  | 1,640          |                |                |                | 1,640            | 0              |            |
| <b>Program management and evaluation subtotal</b>  | <b>41,640</b>  | <b>0</b>       | <b>0</b>       | <b>0</b>       | <b>41,640</b>    | <b>0</b>       |            |
| <b>TOTAL</b>   | <b>828,900</b> | <b>245,300</b> | <b>359,100</b> | <b>224,500</b> | <b>1,657,800</b> | <b>828,900</b> |            |
| <b>MIF and counterpart percentages:</b>  | <b>50%</b>     | <b>15%</b>     | <b>22%</b>     | <b>14%</b>     | <b>100%</b>      | <b>50%</b>     |            |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

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11/15/06

PROPOSED RESOLUTION MIF/DE-\_\_\_/06

Mexico. Nonreimbursable Technical Cooperation ATN/MH-\_\_\_\_-ME.  
Program to Open Markets to SMEs through Competition Policy

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the United Mexican States, and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-\_\_\_ with respect to a nonreimbursable technical cooperation for a program to open markets to SMEs through competition policy.
2. That up to the amount of US\$828,900, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Human Resources Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

(Adopted on \_\_\_\_\_)

LEG/OPR/RGII/IDBDOCS#841805  
ME-M1022