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MEXICO

PUBLIC MANAGEMENT AND TRANSPARENCY FOR COMPETITIVENESS

(ME-L1299)

LOAN PROPOSAL

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REQUIRED <ol style="list-style-type: none">1. Policy letter2. Means of verification matrix3. Monitoring and evaluation plan OPTIONAL <ol style="list-style-type: none">1. Regulatory Improvement Act2. Fostering Public Trust Act3. National Regulatory Improvement Strategy4. Climate change annex5. Bibliography

ABBREVIATIONS

CNARTyS	Catálogo Nacional de Trámites y Servicios [National Catalog of Government Transactions and Services]
CNMR	National Regulatory Improvement Council
CONAMER	National Commission for Regulatory Improvement
ECG	Evaluation Cooperation Group
ENMR	Estrategia Nacional de Mejora Regulatoria [National Regulatory Enhancement Strategy]
ETS	Expediente de trámites y servicios [Government Transactions and Services File]
ICT	Information and communications technology
IMF	International Monetary Fund
IMPI	Mexican Institute of Industrial Property
LGMR	Regulatory Improvement Act
MSMEs	Micro, small, and medium-sized enterprises
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PROREFORMA	Programa de Reforma a Sectores Prioritarios [Priority Sector Reform Program]
PROSECO	Programa Sectorial de Economía [Economic Sector Program]
PROSIMPLIFICA	Programa de Simplificación de Cargas Administrativas [Program to Streamline Administrative Responsibilities]
SARE	Sistema de Apertura Rápida de Empresas [Expedited System for Starting a Business]
USMCA	United States-Mexico-Canada Trade Agreement
VECS	Ventanilla de construcción simplificada [Streamlined construction window]
WEF	World Economic Forum

PROJECT SUMMARY
MEXICO
PUBLIC MANAGEMENT AND TRANSPARENCY FOR COMPETITIVENESS
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Financial Terms and Conditions				
Borrower:			Flexible Financing Facility ^(a)	
United Mexican States			Amortization period:	20 years
Executing Agency:			Disbursement period:	12 months
Ministry of Economy			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based ^(c)
IDB (Ordinary Capital):	700,000,000	100	Credit fee:	(d)
			Inspection and supervision fee:	(d)
Total:	700,000,000	100	Weighted average life:	12.75 years
			Approval currency:	U.S. dollar
Project at a Glance				
Project objective/description: The general development objective of the programmatic series is to help increase the country's competitiveness. The specific development objectives are to: (i) reduce the cost of interactions between the government, individuals, and entrepreneurs; and (ii) promote a more inclusive business climate. This operation is the first of two contractually independent but technically linked operations under the programmatic policy-based loan modality.				
Special contractual conditions precedent to the first and only disbursement of the loan proceeds: The first and only disbursement of the first operation in the programmatic series will be contingent on: (i) fulfillment of the policy reform conditions as established in the policy matrix; and (ii) fulfillment of the other conditions set out in the respective loan contract (paragraph 3.3).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges: ^(e)	SI <input checked="" type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
Crosscutting themes: ^(f)	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

- (a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- (b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- (c) In keeping 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, upon notification to the borrower by the Bank or at the borrower's request, pursuant to the provisions of the loan contract.
- (d) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.
- (e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (f) GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** In recent years, the Mexican economy has been severely affected by external and domestic forces, yet the country's macroeconomic policies have preserved fundamentals consistent with the objectives established for this programmatic series. GDP grew at an average rate of 2.3% between 2016 and 2018 but contracted 0.3% in 2019. The economy was weakened by the severe impact of the COVID-19 pandemic in 2020, triggering an 8.2% contraction in GDP, but should rebound 6.2% in 2021 and 4% in 2022 according to estimates from the International Monetary Fund (IMF) [1].¹ Until now, economic momentum has been stronger in primary activities and export-related sectors, but other sectors anchored in domestic demand should perform better in 2021 as the post-COVID-19 economic recovery continues.
- 1.2 **Fiscal policy has sought to support economic reactivation while maintaining prudent expenditure levels.** The public deficit rose to 3.9% of GDP in 2020 (from 2.3% of GDP in 2019) due to higher levels of spending on health and other support activities. The overall deficit is projected to increase to 3.3% of GDP in 2021 to then fall to 2.6% of GDP in 2022. Mexico continues to pursue a fiscal policy that addresses domestic economic needs without neglecting macroeconomic equilibrium. Driven by the crisis and the impact of the valuation of its debt, public debt jumped to 52.2% of GDP in 2020 (from 44.8% in 2019) even though the country borrowed no more than the amount authorized by Congress in the budget. According to the authorities, that increase should be followed by a gradual settling of the debt to 51.4% of GDP in 2021 and 51.1% of GDP in 2022.
- 1.3 The pandemic has made the need to pursue reforms aimed at national economic recovery even more evident, but there are structural factors inhibiting sustainable economic growth that extend beyond the impact of the public health crisis. Along those lines, the objectives of the Economic Sector Program (PROSECO) 2020-2024 include “boosting domestic competition and regulatory improvements and facilitating the creation and consolidation of productive micro, small, and medium-sized enterprises (MSMEs) and entrepreneurs (...) for greater productive inclusion” [2]. Some of the structural factors inhibiting development emphasized in PROSECO include “low productivity,” “lagging innovation,” and “scant domestic competition stemming from excessive or ineffective regulation at the three levels of government.” To address these challenges, PROSECO focuses public policies around four priority objectives: (i) fostering innovation and the economic development of production-related sectors; (ii) boosting domestic competition and regulatory improvements; (iii) facilitating the creation and consolidation of productive MSMEs; and (iv) fostering economic diversification for greater equality across regions and sectors. Against this backdrop, this program would support these efforts by creating the institutional conditions needed to improve competitiveness and enrich the business climate.

¹ See bibliographic references in [optional link 5](#).

- 1.4 **Competitiveness, institutions, and the business climate.** Leading international indicators point to significant shortcomings in the country's competitiveness and business climate. The World Economic Forum (WEF) ranks Mexico 48th out of 141 countries on its 2019 Global Competitiveness Report. According to the report, the pillar that was the most detrimental to Mexico's performance was "institutions," in which Mexico is ranked 98th with a score of 48.3 out of 100. Reasons for this low score include the country's poor performance in "transparency" (116th), "burden of government regulation" (116th), and "intellectual property protection" (67th). Meanwhile, Doing Business 2020 ranks Mexico 107th on the "cost of starting a business" indicator and 105th on the "registering property" indicator [3].
- 1.5 By and large, these weaknesses stem from the high cost of interactions between the government, individuals, and entrepreneurs. The National Commission for Regulatory Improvement (CONAMER) estimates that the administrative cost of government transactions in Mexico amounts to approximately 8% of GDP, with more than half of that cost linked to municipal governments (4.2%) [4]. Furthermore, the average time required for an individual to complete a government transaction in Mexico is 6.9 hours, versus a regional average of 5.4 hours [5]. The most recent Survey of Regulatory Quality and Government Impact on Businesses (2016) found that 20.2% of companies in Mexico view the regulatory framework as an obstacle to their business goals. In view of the approximately 113,000 regulations countrywide and the nearly 76.5 million government transactions conducted each year, the economic cost of compliance can entail steep economic and social impacts.
- 1.6 A regulatory framework that hinders the ability of new businesses to enter the market is bound to reduce domestic competition and adversely affect a country's competitiveness. In fact, on a survey that asks businesses how they would describe the productive structure on a scale from 1 (dominated by a handful of groups) to 7 (spread out across many companies), Mexico scored just 3.5 [6]. According to a study on competition in the modern channel of retail food and drink trade,² government regulation is an obstacle to the creation and/or expansion of small retail businesses in several federative entities. Entrepreneurs also have to contend with a wide array of regulations, government transactions, and agencies in the various municipios in which they operate, which is another obstacle to market entry for new competitors. Moreover, businesses already on the market have to comply with poorly defined municipal requirements for renewing operating permits and licenses, which encourages arbitrary behavior on the part of the authorities.
- 1.7 Barriers to market entry and business operation stifle microenterprises and small businesses the most, holding back the productive inclusion of more vulnerable social groups, as well as hindering competition and giving rise to market informality, which has a negative impact on competitiveness at the national level. The WEF 2018 Global Gender Gap Report ranks Mexico 122nd out of 144 countries on the "Economic Opportunity and Participation" subindex. In 2018, only 25.5% of MSMEs were women-led, a 2.6-percentage-point drop from

² [Federal Commission on Economic Competition \(COFECE\)](#). Consulted on 1 December 2020.

2015. The larger the business, the less likely it is to have a woman at the helm: in 2018, 13% of medium-sized enterprises and 9% of large enterprises were women-led.³ According to a study by the Mexican Institute for Competitiveness (IMCO) prepared with data from the National Survey of Occupation and Employment (ENOE, March, 2021)[7], 82% of women-led MSMEs lack formal status, in fact, there are more than 4 million women in this situation. This is because women entrepreneurs face three main challenges to formalizing their businesses: the high cost of administrative procedures, both in terms of time and money; the lack of access to finance; and the lack of training opportunities in areas such as finance, accounting, and business development [8]. For these reasons, women entrepreneurs in the informal sector earn 2.5 times less than women entrepreneurs whose businesses operate in the formal sector (Mex\$3,707 versus Mex\$9,535).
- 1.8 A country's competitiveness is affected not only by domestic conditions but also by its trade relations abroad [9].⁴ In recent years, Mexico has made enormous strides in trade integration, including 13 free trade agreements with 50 countries [10]. Yet the country's ability to harness the opportunities arising from these agreements will depend on its ability to create the institutional conditions for increasing productivity and attracting foreign investment. For example, even with those agreements, Mexico's information and communications technology (ICT) goods exports have slumped since 2010 [11], and its ICT services exports have slowed since 2000 [12], which demonstrates that nontraditional sectors have become less competitive, as those sectors are moving faster in other countries and regions, like East Asia and the Pacific. Nonetheless, trends in Mexico's main export sectors have remained favorable. Notably, transportation equipment exports have increased in terms of share of their largest export market (North America) from 19% in 2011 to 28% in 2020.
- 1.9 To maximize the benefits of this network of trade agreements, Mexico needs to "bring down the cost of economic activity, tracking and eliminating regulatory and tax barriers"[13]. The new provisions of the United States-Mexico-Canada Trade Agreement (USMCA), signed in November 2018, recognize that practices to promote digital trade, transparency, social buy-in, and regulatory quality can facilitate international trade, investment, and economic growth. The USMCA also creates obligations for the country in such areas as labor regulations and domestic content.
- 1.10 The USMCA replaced the North American Free Trade Agreement (NAFTA),⁵ which brought clear benefits for economic growth in Mexico during the 26 years it was in effect, chief among them the increase in both trade and financial flows and the significant impact on human capital formation. Yet NAFTA's benefits were uneven in geographic and sector terms, reaped mostly by "entities located in Northern Mexico or the Bajío region," according to PROSECO. NAFTA was

³ National Survey of Business Financing (ENAFIN, 2018) [14].

⁴ Variables like human capital formation, fixed capital accumulation, total factor productivity, and international trade interact to boost economic growth.

⁵ Mexico has proven to be a champion, and a trailblazer in the region, of trade agreements that facilitate international trade [10].

also falling behind in comparison to more recent trade agreements, like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which addresses such topics as e-commerce, the integration of small and medium-sized enterprises (SMEs), digital infrastructure, regulatory alignment, and anti-corruption. Therefore, one of PROSECO's priority objectives is economic diversification and one of its strategies is the diversification of investment flows, so Mexican exports reach more markets and investment flows reach more regions within Mexico.

- 1.11 International experience shows that countries, especially those belonging to the Organisation for Economic Co-operation and Development (OECD), have implemented institutional policies to support the good working order of markets and increase productivity through governance tools, technological resources, transparency, and quality regulations. Along those lines, the Mexican government recently approved legislation that promotes better interactions between entrepreneurs, individuals, and the government, including: (i) the Regulatory Improvement Act (LGMR), which aims to establish a foundation and principles for implementation of regulatory policy at all three levels of government; (ii) the Fostering Public Trust Act, which seeks to lessen the economic burden on individuals and companies subject to site visits or inspections; (iii) the Quality Infrastructure Act, which establishes technical and metrological criteria for the development of rules and standards; and (iv) the Federal Industrial Property Protection Act, which streamlines the process for issuing trademarks and patents.⁶
- 1.12 Despite the significant advances brought by the USMCA and the new legal frameworks, Mexico's level of competitiveness remains relatively low (paragraph 1.4). The general problem that this program will seek to address is this diminished competitiveness and, in particular, the underlying institutional issues. The program will focus on the institutional conditions that generate a business climate that is not conducive to competition or inclusion and that is known for the high cost of interactions between the government, individuals, and entrepreneurs. This is mainly due to the causal factors discussed below.
- 1.13 **Hurdles to coordination, institutional collaboration, and strategic alignment across agencies, levels of government, and the private sector.** Institutional fragmentation and a lack of strategic guidelines for public and private decision-making create barriers to entrepreneurship. According to the Federal Commission on Economic Competition, the sheer number of regulations, government transactions, and authorities from municipio to municipio discourages new competitors from entering the market [15]. Centro de Estudios Económicos del Sector Privado [16] has identified major disparities in implementation of the LGMR: in 2018, the average level of completion was 43% at the state level but just 27% at the municipio level [17]. This poor, uneven progress not only adds to regional imbalances but also adversely affects those entrepreneurs who struggle the most to fully comply with the legislation, such as MSMEs.

⁶ The Mexican Congress approved the LGMR in May 2018, the Fostering Public Trust Act in January 2020, and the Quality Infrastructure Act and the Federal Industrial Property Protection Act in July 2020.

- 1.14 In the past, alignment and coordination took place under collaboration agreements whose weight and sustainability were limited, thereby contributing to poor, uneven reform progress. Since 2019, the Mexican government has created reference frameworks for the country's strategic priorities, like the USMCA and PROSECO. However, governance tools are still needed to support full implementation of these frameworks.
- 1.15 **Shortcomings in the management and exchange of government information, which hinder service access and transactions between governments, companies, and individuals.** According to the Survey of Regulatory Quality and Government Impact on Businesses, in 2016 more than 25% of Mexicans ran into difficulties when trying to complete a government transaction, payment, or service request. In all, 82% of those individuals cited obstacles such as long lines, multiple windows, remote or inaccessible physical offices, or excessive requirements as the cause of the problem. All of this has an impact on the cost of government interactions and adversely affects a significant portion of company revenues, especially for MSMEs.⁷ As the fight against COVID-19 has shown, the time needed for a government transaction tends to decrease significantly when the transaction can be completed online. Yet just 4.7% of public service users said they used the Internet for a payment, government transaction, or request in 2019 [18]. In addition, the lack of interoperability across various government agencies leads to individuals and entrepreneurs submitting the same information several times.
- 1.16 MSMEs struggle to access information that would facilitate their operations and growth. According to the National Survey of MSME Productivity and Competitiveness, 85.2% of MSMEs said they were not aware of any federal government support and promotion programs, while 34.8% said they did not participate in value chains due to a lack of information. This clear market information asymmetry puts smaller businesses at a disadvantage. The 2018 National Survey of MSME Productivity and Competitiveness found that 61% of microenterprises did not use computer equipment and 58.8% had no Internet access [19].
- 1.17 **Complexity and misalignment of administrative rules and procedures for market regulation and the execution of government transactions and services.** According to Doing Business 2019, Mexico is not very competitive on relevant indicators such as “dealing with construction permits” (ranked 93rd of 190 countries) and “starting a business,” despite the country's efforts.⁸ The 2016 Survey of Regulatory Quality and Government Impact on Businesses found that regulatory compliance costs averaged nearly US\$2,200 per economic unit, while the National Survey of MSME Productivity and Competitiveness found that 47.2% of MSMEs cited excessive red tape as one of their largest problems. PROSECO also indicates that innovation in Mexico is inhibited by: (i) a “weak

⁷ In addition to these obstacles and costs, face-to-face government transactions generate greenhouse gas emissions due to the trips made to the offices and the use of paper and other materials.

⁸ CONAMER coordinates the Streamlined Construction Window program (VECS), which has led to significant progress in terms of timeframes and number of steps required, but only for works considered minor (up to 1,500m²).

- standardization, compliance evaluation, and metrology system;” and (ii) low levels of patents, especially among SMEs, “driven by a lack of awareness of industrial property protection mechanisms and complex application procedures.”⁹ According to the Mexican Institute of Industrial Property (IMPI), the time needed to approve and publish a patent was two to five years in 2020 [20].
- 1.18 The signing of the USMCA reinforces the need to update legislation and secondary regulations under criteria that establish standardization, compliance, and metrological guidelines and modernize and streamline procedures for issuing patents and trademarks, as a way to spark innovation and productivity in the country.
- 1.19 **A lack of trust, limited transparency, and arbitrary application of regulations, which adversely affect the business climate.** On a public consultation conducted by CONAMER in 2019, 22.6% of the regulatory problems cited by individuals and companies involved “authorities arbitrarily applying the regulations.” One sign of the arbitrary application of regulations is the fact that regulatory compliance verification systems emphasize random site visits over risk principles and rules that would foster trust. This leads to economic strain and opens up more room for corruption due to the discretion entailed in levying fines or facilitating certain government transactions. For example, 2.6 million inspections were conducted at 1.13 million establishments in 2016, and businesses reported at least one problem in 184,000 of those inspections (7.1%). In all, 82.2% of entrepreneurs feel that acts of corruption are rampant [21]. Despite Mexico’s efforts to promote a legal framework to strengthen public trust, just 44% of Mexicans surveyed by Edelman Trust Barometer say they trust their government.
- 1.20 Lastly, difficulties in accessing centralized information on business opportunities arising from international treaties reveal a need to create more transparency and communication tools and increase awareness of those tools. All of this speaks to the challenges to creating a climate that is conducive to starting new businesses, increasing domestic competition, and developing a more inclusive business structure.
- 1.21 **Rationale.** The program’s support will focus on building the institutional capacity needed for transparent and effective public management to foster competitiveness with a view to sustainable development. To that end, the program will support measures related to governance, digital services, regulatory improvements, and transparency that will foster a more efficient and more inclusive business climate. The first operation will give priority to the implementation of governance mechanisms and institutional tools to support service delivery, transparency, and participation envisaged under the new legal frameworks and the USMCA. These include: (i) establishment of the United States-Mexico-Canada Free Trade Commission and local regulatory improvement councils; (ii) development of digital tools like the Government Transactions and Services File (ETS), the National Catalog of Government

⁹ According to the Global Competitiveness Report, Mexico is ranked 59th on the “patent application” indicator and 52nd on the “trademark application” indicator.

Transactions and Services (CNARTyS), and the Mujer Exporta MX platform for women exporters; (iii) new legal provisions for regulating the technical quality of goods and services and registering trademarks and patents; (iv) the certification of states and municipios that participate in the regulatory improvement programs¹⁰ instituted by the LGMR; and (v) implementation of modules to support transparency and public participation in the CNARTyS. The second operation, to be designed in or after 2022, will continue to push forward implementation of measures at the federal level but will emphasize adoption of tools at the subnational level as a way to consolidate the institutional reforms the country needs. The support provided under this programmatic policy-based loan (PBP) reflects the Bank's long-term commitment to the country. That said, the program will also benefit vulnerable groups and MSMEs in the short and medium term, helping to mitigate the economic and social impact of the pandemic.

- 1.22 **Internal validity.**¹¹ There is considerable evidence supporting the importance of institutional conditions in laying the foundation for a business climate that boosts productivity, international trade, and economic growth. With regard to regulatory improvement and streamlining measures that help reduce the cost of interactions between the government, businesses, and individuals, Jalilian, Kirkpatrick, and Parker (2007) [22] explore the impact of regulation on economic results, and their conclusions point to a strong causal relationship between regulatory quality and economic returns. Loayza, Oviedo, and Servén (2004) [9] provide empirical estimates of the impact of regulatory policy on GDP growth, taking into account regulations on starting and closing businesses, international trade, the tax burden, and financial and labor markets. The authors find a negative causal relationship between economic growth and excessive regulation. Using the Doing Business database, Djankov, McLiesh, and Ramalho (2006) [23] find a statistically significant relationship between the regulatory burden on businesses and a country's economic growth. Their findings suggest that reducing the regulatory burden can lead to an increase in average annual growth of up to 2.3 percentage points. As for digital tools, a study conducted by Accenture in more than 30 countries in 2015 [24]¹² indicates that a 1% increase in digitalization leads to an average increase in GDP of 0.5% and an average increase in international trade of 1.9%, as well as a 0.08% decrease in unemployment. Digitalization of government processes tends to carry over significantly into international competitiveness indicators. With the support of an IDB project, digitalization of the business registration process in Jamaica led to the country

¹⁰ These certifications, issued by CONAMER, are tools to support implementation of the programs established by the LGMR to promote the streamlining and improvement of regulations, government transactions, and services. These programs include: the Expedited System for Starting a Business (SARE), the Program to Streamline Administrative Responsibilities (PROSIMPLIFICA), the VECS, and the Priority Sector Reform Program (PROREFORMA).

¹¹ This paragraph and the next discuss only regulatory, digital and governance topics because international trade issues are discussed above (see paragraphs 1.8 through 1.10 and the respective footnotes).

¹² To measure digitalization, this study uses the WEF's Networked Readiness Index, which analyzes the ICT environment of a given country, willingness to use ICTs among the country's largest stakeholders, and the use of ICTs by those stakeholders.

achieving a rank of seventh worldwide on the “starting a business” indicator in the Doing Business report.

- 1.23 Institutional quality and transparency are also key to satisfactory public service delivery and are an essential part of creating a business climate that incentivizes investment and supports private sector development [25]. Empirical evidence shows that a country’s productivity and economic growth can be adversely affected by a lack of transparency and integrity, which also impacts sovereign risk ratings [26]. As for institutional alignment, coordination, and governance mechanisms, Peru implemented Executive Problem-Solving Roundtables as a strategic alignment and governance mechanism for eliminating barriers to productivity increases. As a result, shrimp exports to China increased after the elimination of a series of obstacles to those exports.
- 1.24 **External validity.** In the last decade, implementation of regulatory improvement measures in Mexico led to a significant decrease in regulatory costs. According to CONAMER, the administrative burden of federal regulation was equivalent to 4.8% of the country’s GDP in 2010. By 2019, it had decreased to 2.4%, largely due to the implementation of such measures as the Expedited System for Starting a Business (SARE), Regulatory Quality Agreements, the Standard Costing Model,¹³ and the Regulatory Impact Statement.¹⁴ Studies of the SARE reveal an increase in the number of businesses established. For example, Bruhn finds that the number of businesses created increased by 5%, employment increased by 2.8%, and the competition brought by those new businesses cut prices by 0.6% [27]. Regarding international trade [28], it is worth noting how human capital formation, total factor productivity, and international trade interact in a dynamic way and how training measures promoted by the USMCA contribute to human capital accumulation in Mexico. Moreover, some studies have found a correlation between informality, gender, MSMEs, and productivity. According to Levy [29], informality tends to be associated with lower levels of productivity and lower salaries. This, according to the Mexican Institute for Competitiveness [8], would justify targeted policies that would support women entrepreneurs and enable their businesses to grow and access new markets. Lastly, the country’s experience shows how the work of the National Regulatory Improvement Council (CNMR) created by the LGMR has strengthened governance and intergovernmental and public-private dialogue on policies to support national competitiveness. Just a few months after being established in 2019, the CNMR struck agreements to implement more than 10 digital tools and programs envisaged by the LGMR.
- 1.25 **The Bank’s experience in the country/region.** The Bank has gained experience in service modernization and the strengthening of the institutional framework to support competitiveness through such programs as the

¹³ The Standard Costing Model is a method for estimating administrative costs for businesses and individuals arising from government regulations instituted by governments. The tool is endorsed by the OECD and implemented by CONAMER.

¹⁴ The Regulatory Impact Statement, or Regulatory Impact Analysis, is a policy tool that seeks to ensure that a regulation’s benefits outweigh its costs. In 2000, Mexico made use of the Regulatory Impact Analysis mandatory for all agencies that draft proposed laws, legislative decrees, and blanket government decisions wherever these entail compliance costs for private individuals [30].

Strengthening of Institutional Capacity for Regulatory Management program (loan [1811/OC-BR](#)); the Project to Improve and Expand Support Services for National Service Delivery to Citizens and Enterprises (loan [4399/OC-PE](#)); the Program to Improve Public Service Quality (loan [3073/OC-EC](#)); the Institutional Strengthening for Competitiveness Program (loan [4928/OC-EC](#)); the Digital Agenda Support Program (loan [4650/OC-PR](#)); the Productive Paraguay: Transparency and Financing project (loan [4401/OC-PR](#)); the Program to Support the Transparency Agenda in Paraguay (loans [4866/OC-PR](#) and [5244/OC-PR](#)); and the Programs to Boost Productivity in Mexico I and II (loans [2993/OC-ME](#) and [3739/OC-ME](#)) and through technical cooperation operations ATN/FI-13918-RG and ATN/OC-17057-RG, as well as through its support for the OECD's digital government and regulatory policy reviews in Chile, Colombia, and Argentina. Another operation of note is the Program to Improve the Quality of Employment in Mexico (loan [5026/OC-ME](#)), through which the Bank seeks to facilitate implementation of the reform of the Federal Labor Act in line with the commitments undertaken under the USMCA. The Bank has also promoted knowledge generation through such events and publications as "Governments That Serve," "Government at a Glance: Latin America and the Caribbean 2020," "Simplifying Lives," "Supporting Policy Reforms in Business Climate and Innovation in Latin America and the Caribbean," "Wait No More," and "Policies for Direct Foreign Investment"[5] [31]. The IDB and the OECD also support the Ibero-American and Caribbean Network of Regulatory Improvement, which brings together 14 countries.

- 1.26 **Lessons learned.** This program is informed by lessons learned by the IDB in PBP design and implementation [32]. These lessons learned include the importance of: (i) political support for the continuity of the reforms under a logic of gradual implementation that combines regulatory progress with technical capacity building at the various levels of government; (ii) establishing effective policy conditions that ensure the depth of the reform program; (iii) structuring the programmatic series in such a way that minimizes risk of the reform being unsustainable; (iv) coordination across the federal, state, and subnational levels of government for implementation of this type of reform; and (v) close Bank support for the government during implementation of institutional changes and policy measures through technical assistance that ensures the institutional capacity needed for sustainability. The program's emphasis on institutional capacity building captures these lessons learned. Other tangible applications of the Bank's lessons learned include the use of the programmatic structure to enable gradual reform and the systematic support provided through technical cooperation operations and technical assistance. Lastly, the institutional governance framework supported by the program incorporates lessons learned regarding the importance of political support and coordination mechanisms for ensuring the sustainability of the measures implemented.
- 1.27 **The Bank's value-added.** Since 2017, the IDB has supported the Ministry of Economy with several technical cooperation operations and direct assistance, which has contributed significantly to the design and implementation of legal frameworks and the policy measures included in this program, with a view to promoting competitiveness. Technical cooperation operation ATN/OC-16371-ME, on client support, has provided financing of US\$200,000 for the design and

implementation of the CNARTyS, a technology tool that compiles all government transactions, services, regulations, inspections, and inspectors countrywide, not only at the federal level but also for states, municipal governments, autonomous agencies, and judicial entities. In addition, the execution of technical cooperation operations ATN/AA-17774-ME and ATN/OC-17773-ME for US\$350,000, on client support, has been underway since 2019. One component of these operations entails supporting the design of a digital platform for the VECS, which will facilitate the process of obtaining construction permits for low-risk and low-impact commercial businesses. Moreover, the Bank has been supporting this program since 2020, through technical cooperation operation ATN/OC-18026-ME, which is providing US\$400,000 in operational support. This technical cooperation operation is providing technical assistance for implementation of several of the policy measures included in this program, such as consolidation of the CNARTyS, design of the ETS, and implementation of the Fostering Public Trust Act. Once the ETS is fully implemented, it will be a framework for digital transformation in Mexico since it will ensure that public agencies at all levels of government do not need to ask individuals for documentation to which the agencies already have access. Lastly, through regional technical cooperation operation ANT/OC-18241-RG, for research and dissemination activities in the amount of US\$300,000, the IDB financed the development of the business-focused social network ConnectAmericas, which in turn has provided direct support to the Ministry of Economy to bring the ComerciaMX platform¹⁵ and the Rueda de Negocios Mujer ExportaMX¹⁶ (ExportaMX Women's Round Table) platform online, which helps women entrepreneurs take advantage of opportunities created by international trade.

- 1.28 **Strategic alignment.** This project is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the development challenges of: (i) social inclusion and equality, in that it facilitates public access to public services at the various levels of government through a single platform and benefits vulnerable groups that are more dependent on government services in particular by cutting the cost of accessing those services; (ii) productivity and innovation, by improving the business climate through a reduction in transaction costs, enhanced information exchange and management, and less arbitrary transactions; and (iii) economic integration, in that it gives priority to implementation of governance mechanisms and institutional tools to support international trade and cooperation frameworks. The project is also aligned with the crosscutting themes of: (i) institutional capacity and rule of law, by improving government's regulatory and public service delivery capacity in an appropriate volume and with the requisite accessibility and quality. The operation also contributes to strengthening the rule of law, by promoting community participation and building a stable, transparent, and predictable legal framework that promotes the equitable and effective application of regulations for citizens and businesses; (ii) gender equity, in that it supports and gives shape to the policy of promoting gender equality and the empowerment of women, by reducing transaction costs that have prevented women entrepreneurs from formalizing their companies, and

¹⁵ Consulted on [ComerciaMX](#).

¹⁶ Consulted on [Mujer ExportaMX](#).

developing women's entrepreneurial competencies to strengthen the export capacity of women-owned and women-led SMEs; and (iii) climate change, through the streamlining of procedures and the expansion of digital services, since the greenhouse gas emissions produced by digital services are 82.4% lower than face-to-face transactions using paper.¹⁷ Approximately 11.11% of the operation's resources are invested in activities to strengthen transparent and effective public management through the expansion of digital services, thereby contributing to lowering greenhouse gas emissions, according to the [joint methodology of the multilateral development banks for tracking climate change finance](#). These resources contribute to the IDB Group target of increasing financing for climate-related projects to 30% of approvals in 2021 ([optional link 4](#)).

- 1.29 The operation will contribute to the following level 2 indicators from the Corporate Results Framework 2020-2023 (document GN-2727-12): (i) agencies with strengthened digital technology and managerial capacity; and (ii) agencies with strengthened transparency and integrity practices. The operation is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) through its promotion of government innovation. In addition, it is consistent with: (i) the Transparency and Integrity Sector Framework Document (document GN-2981-2) by supporting access to information and a reduction in corruption; (ii) the Gender and Diversity Sector Framework Document (document GN-2800-8) through the "expansion of economic opportunities for women," while also contributing to the lines of action set out in the Update to the Gender Action Plan for Operations 2020-2021 (document GN-2531-19) in the areas of: (a) women's economic opportunities and productivity; and (b) women's participation; and (iii) the Climate Change Sector Framework Document (document GN-2835-5) by contributing to the vision of "a world with net zero greenhouse gas emissions." The operation is also aligned with the IDB Group Country Strategy with Mexico 2019-2024 (document GN-2982) and specifically with its strategic objective of "strengthening the labor market" in that it will help reduce informality by decreasing regulatory costs. It will also contribute to the country strategy priority area of "encouraging more buoyant investment" through support for the crosscutting themes of strengthening transparency and application of technologies to simplify services (paragraph 3.31 of the country strategy). The operation is also included in Update to Annex III of the 2021 Operational Program Report (document GN-3034-2). Lastly, this PBP is consistent with the objective of achieving sustainable and inclusive economic growth set out in the Bank's Vision 2025 inasmuch as it supports the five opportunities for Latin America and the Caribbean identified in that document: regional integration, the digital economy, SMEs, climate change resilience and mitigation, and gender equality and diversity.

B. Objectives, components, and cost

- 1.30 The general development objective of the programmatic series is to help increase the country's competitiveness. The specific development objectives are

¹⁷ [Optional link 4](#), page 7.

- to: (i) reduce the cost of interactions between the government, individuals, and entrepreneurs; and (ii) promote a more inclusive business climate.
- 1.31 The policy matrix discusses the specific conditions to be met prior to disbursement of the first operation as well as the triggers for the second operation. The first operation has a balance of five measures related to the development of regulatory frameworks and 12 implementation measures, while the second operation will have 16 implementation measures and just one concerned with legal frameworks. Verification of these conditions is discussed in [required link 2](#).
- 1.32 **Component 1. Macroeconomic stability.** The objective of this component is to ensure the maintenance of a macroeconomic framework consistent with the program objectives and the sector [policy letter](#).
- 1.33 **Component 2. Institutional alignment, coordination, and governance.** The objective of this component is to implement an institutional governance framework to contribute to a better business climate. The component includes: (i) approval of the Ministry of Economy's PROSECO 2020-2024, which sets strategic benchmarks for economic development, innovation, domestic competition, regulatory improvements, MSME creation and consolidation, and economic equality across regions and sectors; (ii) establishment of the United States-Mexico-Canada Free Trade Commission, the highest governance body of the USMCA, pursuant to Article 30.1 of that treaty; (iii) establishment of local regulatory improvement councils in at least 15 of federative entities of the Mexican Republic; and (iv) publication by the National Regulatory Improvement Observatory of a methodology for a National Regulatory Enhancement Strategy (ENMR) progress indicator. The triggers for the second operation are: (i) commissioning of the digital PROSECO Institutional Monitoring System; (ii) establishment of the Committee on SME Issues and the Trilateral SME Dialogue, two USMCA mechanisms whose participants include Ministry of Economy officials, their counterparts from the United States and Canada, and representatives from the private sector, which will promote trade opportunities and exchanges of best practices for MSMEs; (iii) establishment of four specialized working groups at the subnational level for issues related to the streamlining of government transactions and services, regulatory improvement programs, municipal regulatory improvements, and priority sector reforms, which will support the objectives of the local councils; and (iv) application by the National Regulatory Improvement Observatory of the ENMR 2020 progress indicator.
- 1.34 **Component 3. Digital tools for information management.** The objective of this component is to promote the development and use of digital tools for information access and support for transactions between governments, companies, and individuals, through: (i) approval by the CNMR of the guidelines and the specialized working group for ETS operation; (ii) commissioning of the virtual

CNARTyS so data from authorities subject to the LGMR can be uploaded;¹⁸ (iii) commissioning of the first stage of the Data México digital platform, which consolidates, distributes, and displays data on the Mexican economy with over 13,000 geographic profiles in 10 industrial sectors, with a view to supporting decision-making; and (iv) design and commissioning of the Mujer Exporta MX digital platform, designed to support virtual business roundtables for women entrepreneurs in Mexico. The second operation includes: (i) design and development of the first version of the Expediente Electrónico Empresarial digital platform, an ETS module for carrying out two government transactions pertaining to business registration with the Ministry of Economy; (ii) integration of 15 federative entities into the CNARTyS; and (iii) commissioning of the second stage of the Data México and MIPYMES MX digital platforms, by adding data on the aerospace, automotive, textile, information technology, and trade industries to the former and a module designed specifically to support women entrepreneurs to the latter.

1.35 **Component 4. Administrative streamlining and regulatory improvements.**

The objective of this component is to promote regulatory improvements and streamlining through: (i) development of a legal framework for quality infrastructure that includes technical and metrological criteria for the development of rules and standards; (ii) development of a legal framework for industrial property protection that streamlines the process of issuing trademarks and patents; (iii) commissioning of the Calculadora de Origen digital platform, managed by the Ministry of Economy, to modernize and streamline access to tariff preferences under the USMCA; (iv) publication by CONAMER of guidelines for the VECS, and adoption thereof in four municipios, and of guidelines for the SARE, and adoption thereof in 15 municipios of the Mexican Republic; and (v) publication by CONAMER of guidelines and PROSIMPLIFICA certification for four states, as well as the guidelines of PROREFORMA for five municipios of the Mexican Republic. The second loan includes: (i) approval and publication of regulations for the legal framework for quality infrastructure; (ii) commissioning of a streamlined virtual process for issuing patents and trademarks as defined by the Federal Industrial Property Protection Act; (iii) expansion of the scope of the Calculadora de Origen digital platform to include tariff preferences and facilities under the Pacific Alliance Treaties and the Latin American Integration Association Agreements; (iv) implementation of the VECS in six municipios and implementation of the SARE in 20 municipios; and (v) implementation of PROSIMPLIFICA certifications in five states and PROREFORMA certifications in five municipios.

1.36 **Component 5. Transparency and trust.** This component aims to foster trust among individuals, entrepreneurs, and the government through greater transparency and less arbitrary government inspections. The component includes: (i) approval and publication of a legal framework for fostering public trust; (ii) commissioning of a digital platform for the National Site Visit Registry so

¹⁸ The expansion of digital services associated with the commissioning of the CNARTyS and the National Site Visit Registry virtual platforms will help reduce greenhouse gas emissions by 11.11% according to an analysis based on the methodology developed by the IDB. A summary of the analysis is available in [optional link 4](#).

data from all levels of government can be uploaded to the CNARTyS; (iii) design, development, and testing of the CNARTyS public complaint module so individuals can demand the correct implementation of government transactions and services; and (iv) commissioning and online implementation of the USMCA portal and the USMCA Consultation Center for information and user interaction with a view to fostering targeted transparency and responses to the concerns of businesses and individuals interested in trade opportunities. The second operation includes: (i) commissioning of a computerized system for the Public Trust Registry and enrollment of at least 2,500 individuals and companies; (ii) publication on the National Site Visit Registry of at least 300 inspections and 3,000 inspectors at the federal government level and of data on inspectors and inspections from 10 federative entities; (iii) commissioning of the CNARTyS public complaint module so it can be used by authorities subject to the LGMR; and (iv) expansion of the features of the USMCA Portal and Consultation Center, including data on revenue amounts and other trade statistics, greater accessibility of information for women entrepreneurs, classification of queries by type, and breakdown by sectors.

C. Key results indicators

- 1.37 **Results.** The expected outcomes of the two operations will be short-, medium-, and long-term changes arising from implementation of the envisaged reform measures. The first outcome expected by the end of this first operation is a decrease in the cost of interactions between the government, individuals, and entrepreneurs in Mexico stemming from a reduction in: (i) the aggregate regulatory burden of the federal government; (ii) the regulatory burden of state governments as a percentage of GDP; (iii) individuals who cite bureaucratic hurdles to a government transaction as the largest obstacle to carrying it out; (iv) the average time taken for the IMPI to issue a patent or register a trademark; and (v) the average time taken to issue a construction permit in municipios that are newly adopting the VECS program. The second expected outcome is that the country will have a more inclusive business climate, evidenced by: (i) an increase in the share of MSMEs owned by women or with a majority of shares held by women; (ii) a lower percentage of MSMEs that do not participate in a value chain due to a lack of information; and (iii) an improvement in the subnational indicator for regulatory improvement at the municipal level. To achieve these outcomes, the IDB will continue to support, through technical cooperation operations, the development of certain outputs related to this operation that contribute to the changes discussed above (paragraph 1.27). In the long term, the policies should result in a better score on the “institutions” pillar of the WEF Global Competitiveness Index, which will reflect the impact of the institutional capacity and governance strengthening measures supported by the program.
- 1.38 **Beneficiaries.** The main beneficiaries of the program will be entrepreneurs, especially those involved in MSMEs, who will benefit from streamlined regulations, better access to information, and lower transaction costs in their interactions with the government. The program will also benefit the employees of the participating government agencies, who will benefit from better regulations and technology tools for carrying out their duties. Lastly, it will benefit the public at large, and, in particular, more vulnerable social groups that depend on government services, through more online services and information.

- 1.39 **Economic analysis.** Based on the recommendations of the IDB's Office of Evaluation and Oversight set out in its 2011 Evaluability Review of Bank Projects,¹⁹ the findings of the review of evaluation practices and standards for policy-based loans (PBLs) conducted by the Evaluation Cooperation Group (ECG) (composed of the independent evaluation offices of the multilateral development banks) [33], and the provisions of paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-sovereign Guaranteed Operations (document GN-2489-5), which indicate that there is no need to include an analysis of efficiency in the use of financial resources,²⁰ it was determined that an economic analysis would not be conducted for this type of loan, and the Bank's Board of Executive Directors was informed accordingly. Thus, this loan operation does not include an economic analysis.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is the first of two contractually independent but technically linked loan operations under the PBP modality, in line with the provisions of the document "Policy-based Loans: Guidelines for Preparation and Implementation" (document CS-3633-2). The PBP modality was chosen because it responds to the Mexican government's interest in securing Bank support to advance policy reforms in the short and medium term. The programmatic modality is justified by: (i) the need to provide the required timeframes for implementation of complex reforms involving medium-term actions; (ii) the importance of evaluating the progress toward trigger mechanisms against the knowledge acquired; and (iii) the support and continuity of the policy dialogue in the country.
- 2.2 **Size of the operation.** This first operation will entail a single disbursement of US\$700 million from Ordinary Capital resources. This amount has no direct relationship with the cost of the program reforms but is justified by the public sector's financial requirements, pursuant to paragraph 3.27(b) of document "Policy-based Loans: Guidelines for Preparation and Implementation" (document CS-3633-2), which refers to a country's broad fiscal needs. Estimates indicate that the public sector's financial needs amount to US\$130.3 billion in 2021 while external financing will amount to US\$13.4 billion. This operation would be equivalent to 0.53% and 1.8% of those amounts, respectively.

B. Environmental and social risks

- 2.3 Pursuant to Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require ex ante classification of impacts. The operation supports the development of policies,

¹⁹ Document RE-397-1: "Currently, the economic analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. Yet neither a cost-benefit analysis nor a cost-effectiveness analysis is applicable to PBLs."

²⁰ According to the ECG, PBLs should be evaluated in terms of their relevance, effectiveness, and sustainability. Efficiency is not included as a criterion since the size of a PBL is linked to a country's financing gap and is independent from the operation's benefits.

standards, management tools, and other institutional strengthening actions, and therefore no significant direct socioenvironmental impacts are anticipated.

C. Fiduciary risks

- 2.4 No fiduciary risks associated with the operation have been identified. The proceeds will be deposited directly in the Single Treasury Account to cover the Mexican government's financing needs, and the executing agency has the necessary financial management tools and control systems.

D. Other key issues and risks

- 2.5 The project team has identified a medium-high institutional environment risk in that, if the involved agencies do not have the capacity required to execute Component 3, the responses needed to promptly address the operational demand arising from the new legal framework would be delayed, which would adversely affect timely implementation of the program. To mitigate this risk, the Bank will provide technical assistance for Component 3 with resources from technical cooperation operations ATN/OC-18026-ME, ATN/AA-17774-ME, and ATN/OC-17773-ME (paragraph 1.27) to help the Ministry of Economy strengthen its capacity.
- 2.6 **Sustainability.** The sustainability of the programmatic series will be ensured thanks to the institutional framework measures put in place through the governance, management, oversight, and public engagement mechanisms, which are firmly aligned with the Ministry of Economy's priorities set out in its PROSECO 2020-2024. Moreover, those measures are grounded in robust legal frameworks, guidelines, international treaties, decisions by legally mandated working groups, commissions, and councils, citizen observatories, and other transparency mechanisms, which support the public policy changes that form part of the commitment of the State to improving the country's competitiveness, which the Bank is supporting. Mexico has a history of ensuring the continuity of its policies even in the context of changes in its authorities. For example, the LGMR was approved in 2018 under the previous administration, whereas its implementation is being promoted by the country's current government. Therefore, effective implementation of the measures set out in the policy matrix is the primary method of ensuring project sustainability. Furthermore, the programmatic structure (PBP), with two separate yet technically linked operations, provides incentives for the country to continue implementing the agreed-upon policies. This structure also facilitates ongoing dialogue with the country and offers flexibility to make adjustments and updates to policies, as necessary. Lastly, some of the positive experiences Mexico has had using PBPs as instruments to support policy reforms should be noted,²¹ which favor the sustainability of the programmatic series and its results.

²¹ For example, the programmatic series comprising the operations: "Program to Strengthen Urban Development and Land-use Planning Reform" (4535/OC-ME) and Program to Strengthen Urban Development and Land-use Planning Reform" (4954/OC-ME); the programmatic series comprised of the operations: "Program to Support Social Equity and Fiscal Sustainability II" (3201/OC-ME), "Program to Support Social Equity and Fiscal Sustainability II" (3676/OC-ME); and "Program to Support the Consolidation of Fiscal Sustainability" (2378/OC-ME).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the United Mexican States, represented by the Ministry of Finance and Public Credit. Program execution will be carried out by the borrower, acting through the Ministry of Economy, which will serve as the executing agency, with support from CONAMER and the IMPI.²² The executing agency will be responsible for: (i) submitting evidence that the policy commitments for each of the loans have been fulfilled, as well as any other program-related evidence required by the IDB to approve the respective disbursements; (ii) supporting the activities needed to ensure continuity in program execution; and (iii) after the program proceeds have been disbursed, collecting data on the necessary performance indicators to evaluate program results. The reforms supported by this operation fall under the purview of the Ministry of Economy and its dependent agencies.
- 3.2 **Strategic/operational coordination mechanism.** The executing agency will receive support from the CNMR and CONAMER for effective interinstitutional coordination with government agencies, the different levels of government, and the private sector. In particular, the council will be legally responsible for developing mechanisms for coordinating with the Federative Entities' State Regulatory Improvement Councils to carry out the objectives of the LGMR. The involvement of the private sector, academia, and representatives from various institutions at the federal and state level, under the leadership of the Ministry of Economy, will ensure that this will be a substantive body for strategic program coordination. Technical cooperation resources will also be provided to strengthen the executing agency's capacity for coordination (paragraph 1.27). Additionally, the Ministry of Economy will sign a coordination instrument with the Ministry of Finance and Public Credit to define aspects related to the program's execution.
- 3.3 **Special contractual conditions precedent to the first and only disbursement of the loan. The single disbursement of the first operation in the programmatic series will be contingent on: (i) fulfillment of the policy reform conditions as established in the policy matrix; and (ii) fulfillment of the other conditions set out in the respective loan contract.**

B. Summary of arrangements for monitoring results

- 3.4 **Monitoring.** Program monitoring focuses on verification of the policy measures agreed upon as conditions. In addition, the outcomes of the reforms and policies included under the program will be monitored using the indicators set out in the results matrix and the additional indicators set out in the [monitoring and evaluation plan](#). The Ministry of Economy will coordinate monitoring meetings with the involved agencies and federative entities for program monitoring and evaluation, as needed. Prior to processing the second operation, the Bank will prepare a progress report to review program developments and the progress made on the reforms and trigger mechanisms and will identify any changes or adjustments that may be needed to achieve the program targets.

²² CONAMER and the IMPI are administratively autonomous agencies under the Ministry of Economy.

- 3.5 **Evaluation.** The [monitoring and evaluation plan](#) discusses the quasi-experimental impact evaluation to be conducted after disbursement of the second loan with a view to generating knowledge on the effectiveness of the institutional activities to strengthen the country's competitiveness, which will demonstrate attribution of the results achieved by the program.
- 3.6 The project team will prepare a project completion report upon completion of the second loan operation, in accordance with the Bank guidelines set out in document OP-1242-5. The project completion report will evaluate the results attained.

IV. POLICY LETTER

- 4.1 The [policy letter](#) reaffirms the Government of Mexico's commitment to implementing the policy reform measures proposed to achieve the program objectives.

Development Effectiveness Matrix		
Summary		ME-L1299
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	<div>-Social Inclusion and Equality</div> <div>-Productivity and Innovation</div> <div>-Economic Integration</div> <div>-Gender Equality and Diversity</div> <div>-Climate Change</div> <div>-Institutional Capacity and the Rule of Law</div>	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	<div>-Agencies with strengthened digital technology and managerial capacity (#)</div> <div>-Agencies with strengthened transparency and integrity practices (#)</div>	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2982	Strengthen the labor market
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		8.8
3.1 Program Diagnosis		1.9
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.5
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.4
5.1 Monitoring Mechanisms		3.4
5.2 Evaluation Plan		6.0
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	<div>Financial Management: Budget, Treasury, Accounting and Reporting, Internal Audit.</div> <div>Procurement: Information System, Price Comparison, Contracting Individual Consultant.</div>
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	Through the TCs ATN/OC-18026-ME, ATN/OC-16371-ME and ATN/AA-17774-ME, ATN/OC-17773-ME the IDB supports the implementation of many of the policy instruments foreseen in this operation, such as CNARTyS and the ETS.

Evaluability Note. Public Management and Transparency Program for Competitiveness (ME-L1299)

The general development objective of the programmatic series is to contribute to Mexico's competitiveness enhancement. This is the first of two consecutive operations under the PBP modality, whose specific development objectives are to reduce interaction costs between the business sector, the government and its citizens, as well as the promotion of a more inclusive business environment.

The loan proposal presents a solid diagnosis of the problem based on deficiencies in coordination, information exchange, and regulation of procedures and services, as well as citizen's distrust based on perceptions of a lack of governmental effectiveness and transparency. These determinants take on critical importance in the aim to attain the goal of an effective dynamism in primary activities and in the export sectors, particularly in the context of the post-COVID-19 pandemic environment.

The proposed solutions focus on improvements in governance, coordination, information management through digital tools, and administrative and regulatory simplification. These solutions are appropriate to respond to the identified problems and their contributing factors. The results matrix (RM) is consistent with the vertical logic of the project. Outcome indicators are appropriately defined to measure the achievements of the program and the fulfillment of its specific objectives. All indicators are aligned with the development goals.

The project does not foresee an economic analysis based on the exception provided for this type of project. The monitoring and evaluation plan includes an impact evaluation that seeks to close knowledge gaps in the use of technological tools intended for the simplification and reengineering of procedures and construction services. For this purpose, a quasi-experimental design that applies a difference-in-differences model will be used. The vast majority of the baseline variables are based on administrative data from agencies dependent on the Mexican Ministry of Economy (SE by its acronym in Spanish), with the exception of indicator 1.3 of barriers and 2.1 of MSMEs, which are carried out through surveys. The rest of the Result Matrix indicators will be measured by the before and after method. Monitoring and evaluation activities will be carried out by the SE in coordination with the Bank.

POLICY MATRIX

Objective: The general development objective of the programmatic series is to help increase the country's competitiveness. The specific development objectives are to: (i) reduce the cost of interactions between the government, individuals, and entrepreneurs; and (ii) promote a more inclusive business climate.

Components/Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I ¹	Triggers for programmatic operation II
Component 1. Macroeconomic stability			
Maintain an economic framework consistent with the program's objectives and the sector policy letter.	1.1 Maintenance of a macroeconomic context consistent with the program's objectives and the guidelines established in the policy letter.	Fulfilled	1.1 Maintenance of a macroeconomic context consistent with the program's objectives and the guidelines established in the policy letter.
Component 2. Institutional alignment, coordination, and governance			
Implement an institutional governance framework to contribute to a better business climate.	2.1 Approval and publication of the Ministry of Economy's PROSECO 2020-2024, which establishes strategic benchmarks for economic development, innovation, domestic competition, regulatory improvement, MSME creation and consolidation, and economic equality across regions and sectors.	Fulfilled (2020, Q2)	2.1 Commissioning of the Ministry of Finance's digital institutional monitoring system to monitor implementation of the PROSECO.

¹ This information is merely indicative as of the date of this document. Pursuant to the provisions of the document Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2), fulfillment of all the established disbursement conditions, including the maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower submits the corresponding disbursement request and duly reflected in the disbursement eligibility memorandum.

Components/Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I ¹	Triggers for programmatic operation II
	2.2 Establishment of the United States-Mexico-Canada Free Trade Commission, the highest governance body of the USMCA pursuant to its Article 30.1.	Fulfilled (2020, Q3)	2.2 Establishment of the Committee on SME Issues and the Trilateral SME Dialogue, two USMCA mechanisms—whose participants include Ministry of Economy officials, their counterparts from the United States and Canada, and representatives from the private sector, which will promote trade opportunities and exchanges of best practices for MSMEs.
	2.3 Establishment of Local Regulatory Improvement Councils in at least 15 federative entities of the Mexican Republic.	Fulfilled (2021, Q1)	2.3 Establishment of four specialized working groups at the subnational level for issues related to the streamlining of government transactions and services, regulatory improvement programs, municipal regulatory improvements, and priority sector reforms, which will support the objectives of the local councils.
	2.4 Publication by the National Regulatory Improvement Observatory of a methodology for the ENMR progress indicator.	Fulfilled (2021, Q3)	2.4 Application by the National Regulatory Improvement Observatory of the ENMR 2020 progress indicator.
Component 3. Digital tools for information management			
Promote the development and use of digital tools for information access and support for transactions between governments, companies, and individuals.	3.1 Approval by the CNMR of the guidelines and the specialized working group for ETS operation.	Fulfilled (2020, Q2)	3.1 Design and development of the first version of the Expediente Electrónico Empresarial digital platform, an ETS module for carrying out two government transactions pertaining to business registration with the Ministry of Economy.
	3.2 Commissioning of the virtual CNARTyS so data on authorities subject to the LGMR can be uploaded.	Fulfilled (2020, Q4)	3.2 Integration of 15 federative entities into the CNARTyS.

Components/Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I ¹	Triggers for programmatic operation II
	3.3 Commissioning of the first stage of the Data México digital platform, which consolidates, distributes, and displays data on the Mexican economy with over 13,000 geographic profiles in 10 industrial sectors, with a view to supporting decision-making.	Fulfilled (2021, Q1)	3.3 Commissioning of the second stage of the Data México platform, with the addition of data on the aerospace, automotive, textile, information technology, and trade industries.
	3.4 Design and commissioning of the Mujer Exporta MX digital platform, designed to support virtual business roundtables for women entrepreneurs in Mexico.	Fulfilled (2020, Q2)	3.4 Commissioning of the second stage of the MIPYMES MX platform, with the incorporation of a module designed specifically to support women entrepreneurs.
Component 4. Administrative streamlining and regulatory improvements			
Promote regulatory improvements and streamlining.	4.1 Development of a legal framework for quality infrastructure that includes technological and metrological criteria for the development of rules and standards.	Fulfilled (2020, Q2)	4.1 Approval and publication of regulations for the legal framework for quality infrastructure.
	4.2 Development of a legal framework for industrial property protection that streamlines the process of issuing trademarks and patents.	Fulfilled (2020, Q2)	4.2 Commissioning of a streamlined virtual process for issuing trademarks and patents, defined by the Federal Industrial Property Protection Act.
	4.3 Commissioning of the Calculadora de Origen digital platform, managed by the Ministry of Economy, to modernize and streamline access to tariff preferences under the USMCA.	Fulfilled (2020, Q2)	4.3 Expansion of the scope of the Calculadora de Origen digital platform to include tariff preferences and facilities under the Pacific Alliance Treaties and the Latin American Integration Association Agreements.
	4.4 Publication by CONAMER of guidelines for the VECS, and adoption thereof in four municipios, and of guidelines for the SARE, and adoption thereof in 15 municipios of the Mexican Republic.	Fulfilled (2020, Q3)	4.4 Implementation of the VECS in six municipios and implementation of the SARE in 20 municipios.

Components/Policy objectives	Policy conditions for programmatic operation I	Status of fulfillment of conditions for programmatic operation I ¹	Triggers for programmatic operation II
	4.5 Publication by CONAMER of guidelines and PROSIMPLIFICA certification for four states, and of PROREFORMA guidelines for five municipios of the Mexican Republic.	Fulfilled (2020, Q3)	4.5 Implementation of PROSIMPLIFICA certifications in five states and PROREFORMA certifications in five municipios.
Component 5. Transparency and trust			
Foster trust among individuals, entrepreneurs, and the government through greater transparency and less arbitrary government inspections.	5.1 Approval and publication of a legal framework for fostering public trust.	Fulfilled (2020, Q1)	5.1 Commissioning of a computerized system for the Public Trust Registry and enrollment of at least 2,500 individuals and companies.
	5.2 Commissioning of a digital platform for the National Site Visit Registry so data from all levels of government can be uploaded to the CNARTyS.	Fulfilled (2020, Q3)	5.2 Publication on the National Site Visit Registry of at least 300 inspections and 3,000 inspectors at the federal government level and data on inspectors and inspections for 10 federative entities.
	5.3 Design, development, and testing of the CNARTyS public complaint module so individuals can demand the correct implementation of government transactions and services.	Fulfilled (2021, Q1)	5.3 Commissioning of the CNARTyS public complaint module so it can be used by authorities subject to the LGMR.
	5.4 Commissioning and online implementation of the USMCA portal and the USMCA Consultation Center for information and interaction with users with a view to fostering targeted transparency and responses to the concerns of businesses and individuals interested in trade opportunities.	Fulfilled (2020, Q3)	5.4 Expansion of the features of the USMCA portal and consultation center, including data on revenue amounts and other trade statistics, greater accessibility of information for women entrepreneurs, classification of queries by type, and breakdown by sectors.

RESULTS MATRIX

PROJECT OBJECTIVE:	The general development objective of the programmatic series is to help increase the country's competitiveness. The specific development objectives are to: (i) reduce the cost of interactions between the government, individuals, and entrepreneurs; and (ii) promote a more inclusive business climate.
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General Development Objective

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective 1: Increase the country's competitiveness							
Indicator 1. Score on the "institutions" pillar of the Global Competitiveness Index.	Score	48.3	2019	2023	53.6	WEF report	With this score of 48.3, Mexico is ranked 98th out of 141 countries. The "Institutions" index consists of eight subcomponents: security, social capital, checks and balances, public-sector performance, transparency, property rights, corporate governance, and future orientation of government. The project will mostly impact the areas of public-sector performance, transparency, future orientation of government, and property rights. The target was calculated using the averages for Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay for 2019. These countries were chosen due to their economic importance and/or stronger performance on this indicator.

Specific Development Objectives

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
Specific development objective 1: Reduce the cost of interactions between the government, individuals, and entrepreneurs						
1.1 Aggregate regulatory burden ¹ of the federal government as a percentage of GDP.	% of GDP	3.39	2021	3.35	Data from CONAMER	The target was agreed with the executing agency based on CONAMER estimates using the SIMPLIFICA methodology, taking into account the progress made in adopting regulatory reforms at the federal level.
1.2 Aggregate regulatory burden ² of state governments as a percentage of GDP.	% of GDP	1.29	2021	1.26	Data from CONAMER	For the state indicator, the baseline is the average for the federative entities that have implemented the SIMPLIFICA program. However, a revision of the baseline may be warranted in late 2021 with the implementation of the CNARTyS due to the increase in the number of states that start using the methodology. The target was agreed with the executing agency based on CONAMER estimates using the SIMPLIFICA methodology, taking into account the progress made in adopting regulatory reforms at the state level.
1.3 Individuals who cite bureaucratic hurdles to a government transaction as the largest obstacle to carrying it out.	%	85.1	2019	82	National Survey of Government Quality and Impact	The National Institute of Statistics, Geography, and Informatics conducts the survey once every two years, so these results will be published in the 2021 National Survey of Government Quality and Impact, to be released in mid-2022. The results for this indicator on previous surveys were 79.3% in 2013, 87.6% in 2015, and 88.1% in 2017.

¹ Regulatory burden is defined as the economic cost of the time spent by individuals in carrying out their government obligations. The [SIMPLIFICA](#) methodology developed by CONAMER seeks to capture regulatory burden through the requirements established by the government agency for the individuals involved and the time taken by the agency to complete the transaction. The cost of regulatory burden is the sum of those two components and is represented as a percentage of GDP.

² Idem.

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
						The target was obtained by applying a three-percentage-point reduction equal to the one that took place between 2017 and 2019, when implementation of the regulatory reform measures began.
1.4 Average time taken for the IMPI to issue a patent or register a trademark.	Average time in months	24	2020	3	IMPI administrative data	The target was set at three months based on the pilot tests of the new digital applications for carrying out government transactions at the IMPI, taking into account the newly approved regulatory framework.
1.5 Average time taken to issue a construction permit in municipios that are newly adopting the VECS program.	Average time in business days	30	2020	10	Data from CONAMER	At present, it takes an average of 30 business days to issue a construction permit in municipios that have not yet implemented the program. By project end, it should take 10 business days since that is the minimum target required for a municipio to obtain certification under the program.
Specific development objective 2: Promote a more inclusive business climate						
2.1 MSMEs that are women-owned or have a majority of shares held by women.	%	25.5	2017	28	National Survey of Business Financing 2018 (which measures data from 2017)	Pro-gender indicator The National Survey of Business Financing is a survey whose target respondents are businesses with six or more employees in communities with 50,000 or more inhabitants. The survey provides data on the number of businesses led by men versus those led by women across four size-based categories: large (G), medium-sized (M), small (P), and microenterprise (MI). The following formula was used to calculate the indicator:

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
						<p><i>Percentage of MSMEs</i></p> $= \frac{\sum (Mw + Pw + MIw)}{\sum (G + M + P + MI)}$ <p>= 66,970 / 262,702</p> <p>Calculation of the target assumed a moderate change taking into account the fact that the indicator has slipped from previous measurements (the indicator stood at 25.9% in the survey for 2014).</p>
2.2 MSMEs that do not participate in a value chain due to a lack of information.	%	34.8	2018	30	National Survey of MSME Productivity and Competitiveness (2018)	<p>The 2018 survey focused only on MSMEs at the national level, using the National Business Registry with a universe of 4,170,755 companies as the sampling framework. From that framework, the National Institute of Statistics, Geography, and Informatics developed a sample of 22,188 companies. The baseline indicator of 34.8% represents the 1,451,423 companies that do not participate in a value chain due to a lack of information.</p> <p>The target of 30% was calculated based on a moderate reduction. Assuming no change to the universe of businesses, it would mean a shift to 1,251,277 MSMEs that do not participate in a value chain due to a lack of information.</p> <p>Productive insertion of MSMEs will be encouraged through measures to support transparency, access to information, and public buy-in, as well as through the elimination of regulatory obstacles.</p>

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
2.3 Subnational indicator for regulatory improvement at the municipal level.	% of the indicator	30	2019	34	National Regulatory Improvement Observatory Subnational indicator for regulatory improvement: Report on municipal results (2019)	<p>To the extent that the ENMR promotes a better business climate by streamlining business launch and operations, its implementation at the local level suggests not only a closing of regional disparities and more effective intergovernmental coordination but also a deconcentration of production-related activities and greater involvement of these companies in value chains. As established in target 8.5 of the ENMR, the National Regulatory Improvement Observatory will design, evaluate, and use indicators to measure progress in 2021. At present, the observatory is reviewing the calculation methodology to add new variables, so it is possible that the baseline will change. Should that occur, the baseline and target will be adjusted.</p> <p>One of the Observatory's responsibilities is to support progress of this index at the municipal level, which will facilitate monitoring.</p>

Outputs

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Responsible entity
Component 2. Institutional alignment, coordination, and governance						
2.1 The Ministry of Economy's PROSECO 2020-2024, which establishes strategic benchmarks for economic development, innovation, domestic competition, regulatory improvement, MSME creation and consolidation, and economic equality across regions and sectors, approved and published.	Document	0	2019	1	Decree approving the PROSECO 2020-2024 published in the Federal Official Gazette.	Ministry of Economy
2.2 United States-Mexico-Canada Free Trade Commission, the highest governance body of the USMCA pursuant to its Article 30.1, established.	Document	0	2019	1	Decision No. 1 of the Free Trade Commission of the CUSMA, T-MEC, USMCA.	Ministry of Economy
2.3 Local Regulatory Improvement Councils established in at least 15 federative entities of the Mexican Republic.	Document	0	2019	1	Work program reports of the local regulatory improvement councils from 15 federative entities published on the CONAMER website.	CONAMER
2.4 Methodology for the ENMR progress indicator published by the National Regulatory Improvement Observatory.	Document	0	2019	1	Progress indicator methodology of the ENMR published on the website of the National Regulatory Improvement Observatory.	CONAMER
Component 3. Digital tools for information management						
3.1 Guidelines and specialized working group for ETS operation, approved by the CNMR.	Document	0	2019	1	Formal notification from the CNMR agreeing to creation of the working group for ETS operation and approving the guidelines for ETS operation.	CONAMER
3.2 CNARTyS for uploading data on authorities subject to the LGMR, online and operational.	Document	0	2019	1	Official letter from CONAMER certifying that the CNARTyS is online and able to upload data on authorities.	CONAMER

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Responsible entity
3.3 First stage of the Data México digital platform, which consolidates, distributes, and displays data on the Mexican economy with over 13,000 geographic profiles in 10 industrial sectors with a view to supporting decision-making, operational.	Document	0	2019	1	Data México digital platform is online.	Ministry of Economy
3.4 Mujer Exporta MX digital platform, designed to support virtual business roundtables for women entrepreneurs in Mexico, designed and operational (Pro-gender indicator).	Platform	0	2019	1	Mujer Exporta MX digital platform up and running on the Ministry of Economy website.	Ministry of Economy
Component 4. Administrative streamlining and regulatory improvements						
4.1 Legal framework for quality infrastructure including technical and metrological criteria for the development of rules and standards, developed.	Document	0	2019	1	Federal Official Gazette confirming publication of the Quality Infrastructure Act.	Ministry of Economy
4.2 Legal framework for industrial property protection that streamlines the process for issuing patents and trademarks, developed.	Document	0	2019	1	Federal Official Gazette confirming publication of the Industrial Property Protection Act.	Ministry of Economy
4.3 Calculadora de Origen digital platform, managed by the Ministry of Economy, to modernize and streamline access to tariff preferences under the USMCA, operational.	Platform	0	2019	1	Calculadora de Origen digital platform operational on the Ministry of Economy website.	Ministry of Economy
4.4 VECS guidelines published by CONAMER and adoption thereof in four municipios certified, and SARE guidelines published by CONAMER and adoption thereof in 15 municipios of the Mexican Republic certified.	Document	0	2019	1	Federal Official Gazette confirming publication of the SARE and VECS guidelines. Certification confirming adoption of the VECS by four municipios and published on the CONAMER website Certification confirming adoption of the SARE by 15 municipios and published on the CONAMER website.	CONAMER

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Responsible entity
4.5 PROSIMPLIFICA guidelines published by CONAMER and adoption thereof in four states certified, and PROREFORMA guidelines published by CONAMER and adoption thereof in five municipios of the Mexican Republic certified.	Document	0	2019	1	Federal Official Gazette confirming publication of the PROSIMPLIFICA and PROREFORMA guidelines. Certification confirming adoption of PROSIMPLIFICA in four states published on the CONAMER website. Certification confirming adoption of PROREFORMA in five municipios published on the CONAMER website.	CONAMER
Component 5. Transparency and trust						
5.1 Legal framework for fostering public trust, approved and published.	Document	0	2019	1	Federal Official Gazette confirming publication of the Fostering Public Trust Act.	CONAMER
5.2 Digital platform for the National Site Visit Registry for the uploading of data from all levels of government to the CNARTyS, operational.	Platform	0	2019	1	Digital platform for the National Site Visit Registry operational on the CONAMER website.	CONAMER
5.3 CNARTyS public complaint module through which individuals can demand the correct implementation of government transactions and services designed, developed, and tested.	Module	0	2019	1	Official letter from the Ministry of Economy stating that the design, development, and testing of the CNARTyS public complaint module have concluded.	Ministry of Economy
5.4 USMCA portal and the USMCA Consultation Center for information and interaction with users with a view to fostering targeted transparency and responses to the concerns of businesses and individuals interested in trade opportunities, online and operational.	Portal	0	2019	1	USMCA Portal and Consultation Center operational on the Ministry of Economy website.	Ministry of Economy

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Mexico. Loan ___/OC-ME to the United Mexican States
Public Management and Transparency for Competitiveness

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 United Mexican States, as borrower, for the purpose of granting it a financing to cooperate in the execution of the project "Public Management and Transparency for Competitiveness". Such financing will be for the amount of up to US\$700,000,000 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)