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MEXICO

PROGRAM TO IMPROVE THE PENSION SYSTEM IN MEXICO

(ME-L1315)

LOAN PROPOSAL

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REQUIRED LINKS	
1.	Policy letter
2.	Means of verification matrix
3.	Monitoring and evaluation plan

OPTIONAL LINKS	
1.	Decree amending and expanding article 4 of the Constitution of the United Mexican States
2.	Decree amending, expanding, and repealing various provisions of the Social Security Law and the Law on Retirement Savings Systems
3.	Resolution by the Governing Board of the National Commission for the Retirement Savings System on policies and criteria regarding fees
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ABBREVIATIONS

AFORE	Administradora de Fondos para el Retiro [Pension fund manager]
AMAFORE	Asociación Mexicana de Administradoras de Fondos para el Retiro [Mexican Association of Pension Fund Managers]
CFE	Comisión Federal de Electricidad [Federal Electricity Commission]
CONEVAL	Consejo Nacional de Evaluación de la Política Social [National Council for Social Policy Assessment]
CONSAR	Comisión Nacional del Sistema de Ahorro para el Retiro [National Commission for the Retirement Savings System]
ECG	Evaluation Cooperation Group
ECLAC	Economic Commission for Latin America and the Caribbean
ENOE	Encuesta Nacional de Ocupación y Empleo [National Occupation and Employment Survey]
ESG	Environmental, social, and corporate governance
GDP	Gross domestic product
IMF	International Monetary Fund
IMSS	Instituto Mexicano del Seguro Social [Mexican Social Security Institute]
INFONAVIT	Instituto del Fondo Nacional de la Vivienda para los Trabajadores [National Workers' Housing Fund]
ISSSTE	Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado [Government Workers' Social Security and Services Institute]
OECD	Organisation for Economic Co-operation and Development
PBL	Policy-based loan
PBP	Programmatic policy-based loan
PCR	Project completion report
PEMEX	Petróleos Mexicanos
SHCP	Department of Finance
SIMS	Labor Markets and Social Security Information System
UMA	Measurement and adjustment unit
USPSS	Unidad de Seguros, Pensiones y Seguridad Social [Insurance, Pension, and Social Security Unit]

PROJECT SUMMARY

MEXICO PROGRAM TO IMPROVE THE PENSION SYSTEM IN MEXICO (ME-L1315)

Financial Terms and Conditions				
Borrower			Flexible Financing Facility ^(a)	
United Mexican States			Amortization period:	20 years
Executing agency			Disbursement period:	12 months
Department of Finance			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	SOFR-based
IDB (Ordinary Capital):	700,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	700,000,000	100	Weighted average life:	12.75 years
			Currency of approval:	United States dollar
Project at a Glance				
<p>Project objective/description: The general objective of the program is to reduce the financial vulnerability of older adults in Mexico. The specific objectives are to: (i) improve the coverage and benefits of the noncontributory pension system; and (ii) improve the coverage, adequacy, and equity of the benefits provided under the contributory pension systems.</p> <p>This loan operation is the first of two consecutive operations that are technically linked, but independently financed, under the programmatic policy-based loan (PBP) modality, in accordance with Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2).</p>				
<p>Special contractual conditions precedent to the single disbursement of the financing: The first and only disbursement under the first operation of the programmatic series will be contingent upon fulfillment of: (i) the policy reform conditions established in the policy matrix and (ii) all other conditions established in the respective loan contract (paragraph 3.2).</p>				
<p>Exceptions to Bank policies: None.</p>				
Strategic Alignment				
Challenges: ^(d)	SI <input checked="" type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(e)	GE <input checked="" type="checkbox"/> y DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> y 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) The credit fee and the 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.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be solved, and rationale

- 1.1 **Macroeconomic context.** Despite the impact of the pandemic, the macroeconomic fundamentals of the Mexican economy have remained solid as well as consistent with the objectives envisaged for this programmatic series. In 2020, the economy felt the powerful effects of the COVID-19 pandemic, leading to an 8.2% contraction of the gross domestic product (GDP). For 2021, the GDP posted 4.8% growth, with the economy still below its precrisis level.¹ The new strains of the virus, coupled with high inflation and supply disruptions, have eroded the prospects for recovery. According to the International Monetary Fund (IMF), a slower pace of economic growth, on the order of 2%, is expected in 2022. Fiscal policy has prioritized stability, and this priority is expected to remain in place. The overall deficit (public-sector financing requirements) reached 3.8% of GDP in 2021 (slightly less than the 4% posted in 2020, but still higher than the 2.3% recorded in 2019) and is expected to stay on a downward path toward 3.7% of GDP in 2022. Mexico continues to support a policy that prioritizes fiscal balances and efficiency in revenue collection without resorting to a tax reform. The debt level has improved: at year-end 2021 it was 50% of GDP, after a significant rise in 2020 due to the pandemic had brought it to 51.7% of GDP from 44.5% in 2019. Going forward, the downward trend in the debt level is expected to continue.
- 1.2 **Background.** Mexico was one of the first countries in Latin America to introduce social security as part of employment benefits. The Mexican Social Security Institute (IMSS) was created in 1943 to both insure and provide social services for workers having a contractual relationship with their employer. Initially included was insurance coverage for the following risks: occupational accident and illness; non-occupational illness and maternity; disability, old age, and death; and involuntary loss of employment for older workers. Tripartite contribution systems involving payments by the worker, the employer, and the State were established to finance this coverage. This arrangement resulted in a formidable challenge, inasmuch as it is difficult to separate the various services, particularly health and pension services, since they are part of a full insurance package.² In 1959, a parallel system was created for government workers under the Government Workers' Social Security and Services Institute (ISSSTE), similarly providing insurance and services covering the risks of occupational accident and illness, retirement, disability, and death, as well as housing. During the same period, other institutions were created to provide insurance for various types of workers based on their place of employment, including Petróleos Mexicanos (PEMEX), the Instituto de Seguridad Social de las Fuerzas Armadas [Armed Forces Social Security Institute] (ISSFAM), the Federal Electricity Commission (CFE), and some universities. In addition, legislation was enacted at the subnational, state, and municipal government levels to insure workers within their respective jurisdiction either through agreements with the ISSSTE or by developing a separate social security institute. As a result, there are now more than one

¹ INEGI. [Press release. Mexico's GDP. Fourth quarter 2021 \(inegi.org.mx\)](https://inegi.org.mx/press/releases/20210429/).

² [Azura et al. \(2019\)](#).

thousand insurance systems in Mexico providing **contributory pensions**, and each has its own parameters in terms of age, seniority, and contribution rates.³

- 1.3 Despite the large number of institutions devoted to providing pensions, most older adults do not receive a contributory pension, since the high informality levels prevent the majority of workers from fulfilling the requirements to qualify for any of these pensions. This situation has remained constant in recent decades. The most recent data, as of year-end 2021, indicate that Mexico's population stands at an estimated 123.5 million. Of this total, according to figures from the National Occupation and Employment Survey (ENOE) for year-end 2021, 58.8 million form part of the economically active population and 56.6 million are employed. The informal sector encompasses 28.8 million people, who do not make any contribution toward their pension. Thus, according to IMSS data, workers listed as contributors totaled 20.6 million in that period.⁴
- 1.4 In recent decades, in this context of high informality, Mexico created a set of social programs designed to address the needs of older adults not covered by social security. Foremost among the programs of this type is the one providing for **noncontributory pensions**, which are monetary flows essentially based on age criteria and aimed at securing a basic level of consumption for older adults.⁵ The main noncontributory pension program is a federal government initiative known as [Pensión para el Bienestar de las Personas Adultas Mayores](#) [Pension for the Welfare of Older Adults]. This program accounts for more than 80% of the funds allocated to individuals over the age of 64.⁶ In addition, the federal government and state governments grant benefits such as discounts in public services and consumer goods as well as social protection services to reduce deterioration in physical and mental health. The latter include geriatric services and even residential care, although their coverage is very limited.⁷
- 1.5 **Mexico is experiencing an accelerated aging of its population, which will require higher pensions in the coming years.** Against a backdrop of institutional multiplicity and high informality, the Mexican population is undergoing a profound demographic transition, where the older adult generations will grow consistently over the coming decades. By 2040, those over the age of 60 will be more numerous than those under the age of 15.⁸ As a result of this aging process, millions of additional people will be unable to remain in the workforce due to physical limitations and will become financially dependent. Addressing the challenge of a rapidly aging population will require establishing mechanisms to ensure pension payments to older adults.⁹ These mechanisms will be partly

³ Vázquez Colmenares (2012).

⁴ The remainder of those considered formal workers are insured through other institutions, primarily the ISSSTE. In other words, the IMSS is the main social security system.

⁵ National Council for Social Policy Assessment (CONEVAL) (2018). Goernick and Boeri (2016).

⁶ List of Federal Social Development Programs and Actions, published by CONEVAL (2018, 2019, 2020, and 2021).

⁷ González Llamas (2017).

⁸ [Consejo Nacional de Población \[National Population Council\] \(CONAPO\) \(2018\)](#).

⁹ [CONEVAL \(2018\)](#).

funded through the resources accumulated under the traditional social security system, linked to the contributions paid in by workers during their working life.

- 1.6 **The problem and its determinants.** Most older adults in Mexico live in vulnerable conditions. In part, this is due to the insufficient coverage and benefits of both noncontributory and contributory pensions. In the case of contributory pensions, there are the additional factors of gender and other inequities resulting from the way the systems operate (fragmented and independently managed pension systems, without portability or equivalency of benefits).¹⁰ As shown in Table 1, in 2018 there were 10.3 million adults over the age of 64, of which 3.2 million (31%) had a contributory pension, 4.5 million (43%) had a noncontributory pension, and up to 3.1 million (30%) had no pension at all.¹¹ The difference in terms of poverty and vulnerability levels was very pronounced. In aggregate terms, the poverty rate was 42% in the general population of older adults, but higher (59%) among residents of rural areas. However, the difference in poverty levels based on pension coverage was significant: the poverty rate among those who had a contributory pension, a noncontributory pension, or both was 39%, compared to a poverty rate of 48% among those who had no pension at all.¹²

Table 1. Population over the age of 64 with contributory pensions, noncontributory pensions, and no pension

Pension*	Total		Men		Women		Poverty	
	Millions	%	Millions	%	Millions	%	Millions	%
Noncontributory pension	4.5	43	1.8	40	2.7	60	2.2	51
Contributory pension	3.2	31	1.9	60	1.3	40	0.6	19
No pension	3.1	30	1.3	40	1.9	60	1.5	48

*The categories are not mutually exclusive.

Source: Authors' estimates using Labor Markets and Social Security Information System (SIMS) data. Data as of 2018.

- 1.7 **Noncontributory pensions provide insufficient coverage and benefits.** As physical abilities deteriorate, income generation from salaried or independent work is considerably reduced. According to the ENOE, only one third (34%) of the income received by individuals over the age of 64 stems from a remunerative activity, while transfers are the main source (40%) of such income. In this context, noncontributory pensions are a primary source of income, but the amounts involved are insufficient. Despite the expansion of this type of pensions in recent decades, several million people do not receive transfers of any type and their poverty level is high. Even for those who are covered by the program, the monetary amount of the noncontributory pension is considered very low and is

¹⁰ Villareal and Macías (2020).

¹¹ The categories are not mutually exclusive since there are retirees who receive both contributory and noncontributory pensions. Source: Authors' estimates using [SIMS data](#).

¹² Authors' estimates using data from [SIMS](#).

not enough to cover the cost of a food basket (Table 1). In 2018, this amount was equivalent to 52% of the rural, and 37% of the urban, extreme poverty line.¹³

- 1.8 **Contributory pensions have coverage, adequacy, equity (particularly for women), and operational problems that will translate into lower accumulated balances and lower pensions.** A reform of the retirement pension system under the Social Security Law became effective in 1997. This meant transitioning from a distribution system with defined benefits to a contribution system operated through individual accounts managed by specialized private companies known as pension fund managers (AFOREs). Workers registered with the IMSS for the first time as of 1 July 1997 are covered under the defined contribution system. Those who contributed to the IMSS prior to that date pursuant to the law in effect since 1973 are known as workers under Law 73. As a result of the abovementioned reform, qualifying for at least a minimum guaranteed pension¹⁴ requires 1,250 contribution weeks (24 years), while only 500 contribution weeks (10 years) were required under Law 73 to obtain access to both benefits. In addition, the minimum retirement age is now set at 65, while under the previous law it was 60. Those who have made at least one contribution prior to 1997 may choose to retire either under Law 73 or under the AFORE system. In other words, the change in legal requirements means that the majority of workers under the AFORE system (up to 75% of the total)¹⁵ will not be eligible for a contributory pension and will only be able to withdraw amounts accumulated in their individual accounts at the end of their working life.¹⁶ More than 60% of workers do not contribute to an AFORE system on a regular basis.¹⁷ No pension system based on contributions arising from formal employment earnings can provide adequate coverage when the formality rate (defined as payment of social security contributions) is barely 37%. Over the course of more than 20 years, the informality percentage has remained at or near the current levels, and this is not expected to change in the short term. In fact, the informality level is higher than expected in view of the per-capita income in Mexico.¹⁸
- 1.9 There is a significant gap in pension coverage and benefits between men and women. Women's higher life expectancy, coupled with the difference between genders in terms of labor profile and paths, gives rise to employment selectivity and inequality.¹⁹ The evidence shows that women approach old age with greater disadvantages than men, since they earn lower wages than men with similar characteristics, in addition to having gaps in contributions. This is partly the result

¹³ Estimates using CONEVAL's [official lines](#).

¹⁴ Equivalent to a minimum wage in 1997.

¹⁵ Comisión Nacional del Sistema de Ahorro para el Retiro [National Commission for the Retirement Savings System] (CONSAR) (2018). The gender gap is likely to be significant in the future, since under the system of individual accounts, 22% of women are expected to receive a pension as compared to 29% of men.

¹⁶ National Commission for the Retirement Savings System ([CONSAR](#)) (2019).

¹⁷ [CONSAR \(2020\)](#).

¹⁸ Levy (2018).

¹⁹ [SIMS](#), Talamas (2020).

of leaving jobs, or taking more flexible and less well paid jobs, out of a need to assume a variety of household responsibilities (such as caring for children and relatives).²⁰ In the specific case of Mexico, women's unemployment rate is half the men's rate (74% for men versus 47% for women).²¹ Despite the improvements in Mexican women's participation in the work force documented in the [Better Jobs Index](#), the gender participation gap continues to be among the largest in the region, which coupled with a rapidly aging population will result in a higher risk of poverty, vulnerability, and dependency in old age for women.²² All this translates into lower social security contribution densities and, consequently, lower accumulated balances.²³ The above-described factors adversely affect the pension balance that women will be able to accumulate during their working life. In 2018, only 22% of women over the age of 64 had a contributory pension, compared to 39% of men,²⁴ which reflects women's past participation in the workforce. Also in 2018, total pension coverage was 68% for women as compared to 74% for men, primarily due to the differences in contributory pension coverage.

- 1.10 In addition to the problems of coverage and contribution density, contributory pensions are insufficient for three reasons: (i) low contribution and subsidy levels; (ii) low voluntary savings;²⁵ and (iii) high fees for limited management with little in the way of pension support and advisory services. In addition, the investment strategies for pension funds managed by AFOREs have to date not incorporated environmental, social, and corporate governance (ESG) criteria. As a result, their potential to improve the sustainability and profitability of investments is not being harnessed.²⁶
- 1.11 Contributions to pensions are insufficient. The total contribution to individual accounts²⁷ equals 6.5% of the base salary for contributions, subject to a maximum of 25 times the minimum wage.²⁸ This amount is the aggregate of the sums contributed by the worker (1.125% of the worker's salary), the employer (5.15%), and the federal government (0.225%). In addition, the federal government provides a *cuota social* [social contribution] equal to 5.5% of a 1997 minimum wage per day of worker contributions, which is annually adjusted for inflation. In 2009, the social contribution was targeted to benefit workers earning less than 15 times the minimum wage; subsequently, in 2017, the metric was

²⁰ IDB (2020, 2021).

²¹ [National Occupation and Employment Survey \(ENOE\), January 2022.](#)

²² [Azuara et al. \(2019\).](#)

²³ CONSAR (2019) shows that the average density of employee contributions in the system is 50%, with a gender-based difference: 54% in the case of men and 47% in the case of women.

²⁴ [Labor Markets and Social Security Information System.](#)

²⁵ [Azuara et al. \(2019\)](#) and [Retirement Savings Laboratory.](#)

²⁶ Recent studies indicate that the annualized yields of sustainable ESG indices have equaled or exceeded the yields of traditional indices, and that ESG-rated stocks are more resilient to volatility. In addition, these investments help in climate change mitigation and adaptation and assist the country in fulfilling its commitments under the Paris Agreement (see [optional link 4](#)).

²⁷ Known as the retirement, unemployment, and old age subaccount. Each account has three subaccounts: retirement, unemployment, and old age; housing; and voluntary contributions.

²⁸ In 2017, the maximum amount was changed to 25 times the UMA.

changed to the Unidad de Medida y Actualización [Measurement and Adjustment Unit] (UMA).²⁹ Despite this targeted approach, the total contribution amount is lower than the international averages for any pension system. For example, the average for the Organisation for Economic Co-operation and Development (OECD) countries is 18.2%,³⁰ while the average for similar individual account systems in Latin America is 9%, which is already considered insufficient.³¹ This is not offset through voluntary savings, since very few workers save and the amounts involved are very low.³² Voluntary savings represent a mere 2.9% of the total funds, which makes them, so far, an insignificant component of the accumulated balance in the individual accounts in terms of funding pensions.³³

- 1.12 The average management fee for individual accounts is nearly double the average fee charged internationally by managers of similar funds.³⁴ Furthermore, this fee does not include personalized retirement support to enable members to take advantage of all the benefits available under their individual account. In the last 5 years, the AFORE system has provided for an implicit annual fee on the average balance equal to 95 basis points of the managed fund's assets. While this fee has declined over time (from more than 800 basis points in 1998), it remains higher than comparable international averages. For example, the indicator for Latin American countries with pension systems similar to Mexico's is 91 basis points.³⁵ Best international practices suggest that fees should range from 25 to 50 basis points, depending on the degree of sophistication of the investment style³⁶ and the extent to which economies of scale are achieved as a result of centralized functions, as in the Mexican case. One factor accounting for the high fees is the managers' business expenses: 21% of the total fee income earned by AFORES is allocated to business expenses, while 36% is retained as profit.³⁷ All of this will translate into lower pensions.
- 1.13 Another structural challenge for the individual account system is for workers to become more involved and make better retirement decisions. The system's regulators have adopted regulations aimed at guiding users and inducing them to choose the most suitable pension fund manager based on their employment and demographic profile. At the same time, they have implemented various actions seeking to ensure that pension fund managers streamline their business

²⁹ In 2017, use of the minimum wage as a reference unit to establish amounts payable for formalities, fines, contributions, and taxes under federal laws was discontinued. The UMA, created that year, is adjusted for inflation. See <https://www.inegi.org.mx/temas/uma/>.

³⁰ OECD (2021).

³¹ [International Federation of Pension Fund Administrators \(FIAP\)](#). These rates should be raised to increase replacement rates.

³² The system includes three types of voluntary savings: (i) short-term, which may be withdrawn after two months; (ii) medium-term, which must remain in the individual account for five years; and (iii) for retirement, which may not be withdrawn until age 65.

³³ As of year-end 2021, voluntary savings reached Mex\$153.745 billion, having grown by almost 25% in nominal terms. However, this sum translates into a system average of merely US\$100 per worker.

³⁴ [Azura et al. \(2019\)](#).

³⁵ Azura et al. (2019). OECD (2020), [CONSAR \(2019\)](#).

³⁶ OECD (2018).

³⁷ [Azura et al. \(2019\)](#), Azura (2021).

expenses and redirect them to activities that have greater value for savers under the system. Despite these actions, there is a large number of transfers of individual accounts that do not create efficiency. In other words, business expenses are not being used to enhance retirement services for workers, enabling them to improve their pension outlook by better addressing the pension fund manager's performance in handling their individual account. Thus, the system's incentives are not aimed at ensuring that AFOREs offer better retirement service to their members.³⁸

- 1.14 The Mexican pension system has been late in incorporating ESG criteria into its investments, thus impairing the adoption of sustainable investments in the country's financial system.³⁹ Pension funds are institutional investors with medium- and long-term investment horizons, and their investment strategies are an essential factor toward the adoption of ESG criteria by securities issuers in the financial markets.⁴⁰ In other countries, pension funds have driven the incorporation of these criteria worldwide; their importance is expected to grow rapidly over the next decade.⁴¹ AFOREs are the largest institutional investor in Mexico; as of year-end 2021, they had US\$255.905 billion under management, equivalent to 20.5% of GDP. These assets account for 18.7% of the total assets in the financial system, and 31.4% of the country's total long-term savings.⁴² They finance productive State enterprises, infrastructure, productive private-sector activities, the energy sector, education bonds, and green bonds.⁴³ The size and profile of their investments make AFOREs a key actor in the incorporation of ESG criteria with respect to financial system instruments. The use of rating methodologies would lead more local issuers to take specific action to improve the profile of their instruments, thereby giving rise to concrete steps to improve the sustainability of the investments, including those aimed at climate change mitigation and adaptation, which additionally contribute to the country's fulfillment of its Nationally Determined Contribution (NDC) commitments under the Paris Agreement.

³⁸ IDB (2021).

³⁹ Sustainable investments are considered those which include instruments incorporating ESG criteria in their profile. This enables the use of various metrics to incorporate these instruments into investment strategies, particularly strategies with medium- and long-term horizons. See [United Nations Principles for Responsible Investment \(PRI\)](#). The environmental criteria include considerations such as total carbon emissions, water care, land use, electronic trash, and renewable energy use. The social criteria are broad, encompassing labor management, health and safety, human capital, and other issues. The governance criteria include issues such as the functioning of the boards of directors, corporate risks, and corporate ethics.

⁴⁰ Building sustainable investment criteria excludes some types of corporate instruments issued by companies whose activities may be deemed to entail high reputational risk and could adversely affect society or the environment or be banned or sanctioned by an international organization. This includes companies engaged in activities related to conventional weapons, nuclear weapons, firearms for civilian use, tobacco, thermal coal, and bituminous sands. See [Business Involvement Screening Process](#).

⁴¹ Blackrock (2021). [Public pensions, post-pandemic](#) Hoffman, B., T. Joubert, and Parrado (2020).

⁴² CONSAR. [El SAR en números](#). December 2021.

⁴³ The latter had a balance of only US\$55.8 million. While this is a marginal amount relative to the system total, the recent growth of these instruments is noteworthy, exceeding 30% in annual terms.

- 1.15 With regard to equity, the individual account system creates deep intragenerational as well as intergenerational inequities. Over the next 20 years, as workers retire with an accumulated balance in their individual account, inequities between worker cohorts will come to the fore. The transition generation (consisting of those who contributed at least once before the system change) only needs 500 contribution weeks to qualify for a pension, and its replacement rate exceeds 100%.⁴⁴ A worker with a similar profile (age, gender, seniority, contribution density) who, however, started to contribute in 1997 will have to use the balance in his or her individual account to fund the pension and will on average receive a 23% replacement rate. Thus, the implicit subsidies for the transition generation can amount to more than 80 percentage points of replacement rate and more than US\$100⁴⁵ per month. This means that, for those who make sporadic contributions to the pension system (which applies to the vast majority of Mexicans), it will be much more difficult to obtain a pension. In addition, there are other, intragenerational inequities that arise from the existence of state systems and special systems. The simultaneous existence of other national contributory pension systems means that, within the same generation, a small group of workers will receive far greater benefits than the AFORE generation.⁴⁶
- 1.16 **Other contributory pension systems, particularly those established by subnational governments, are fragmented, lack institutional interoperability, and create inequities.** According to the Mexican Constitution, each federal entity is authorized to implement pension systems. Research coordinated by the Bank identified 41 state systems for the 32 federal entities.⁴⁷ Most of these systems have a defined contribution and benefit design and are undercapitalized, not having financial reserves to fund pensions for the workers that will be retiring.⁴⁸ Only some have individual capitalization systems based on individual accounts, similar to the AFORE system. Each federal entity has established its own rules both for the benefits to be provided and for the funding of contributions.⁴⁹ In the latter case, there are multiple definitions of salary, which is the basis for calculating the various contributions established by the federal entities with a view to providing their workers with pension protection and other (primarily health care) benefits. These diverse requirements and benefits are neither equivalent nor portable to the national systems, resulting in fragmentation and friction among systems. In other words, what is lacking is an interoperability framework that can enable portability of benefits across the existing pension

⁴⁴ The transition generation includes 26 million workers, who represent 37% of the current total. [CON SAR \(2019\)](#).

⁴⁵ Altamirano et al. (2018).

⁴⁶ This includes PEMEX, CFE, and various state systems. Centro de Investigación Económica y Presupuestaria, A. C. (CIEP) (2018), Azuara et al. (2019), ECLAC (2020).

⁴⁷ According to the information produced through technical cooperation operation ATN/OC-17777-RG (2019, RG-T3552, US\$350,000.00, research and dissemination), it was estimated that the 41 systems cover 1.65 million active workers and provide pensions for 450,000 of them. In addition, it was estimated that the total deficit amounts to Mex\$3.7 trillion, which is equivalent to 18% of GDP.

⁴⁸ Aguirre (2012).

⁴⁹ Azuara et al. (2019), Vázquez Colmenares (2017), Centro de Estudios Espinosa Yglesias (2013).

systems. Some states have carried out reforms in recent years, mostly parametric in nature. Despite this, the benefits provided to affiliated workers are greater than those available under the AFORE system, and the requirements are generally fewer.⁵⁰ This means that they will give rise to deep inequities over time with respect to the majority of workers, since those who retire under the AFORE system will receive fewer benefits.

- 1.17 **The Government of Mexico initiated a program of reforms to improve the noncontributory and contributory pension systems, with technical assistance from the Bank.** The first of these was a [constitutional reform](#) to enshrine a universal right to a noncontributory pension. To this end, article 4 of the Constitution was amended and a provision was added, establishing that “[o]lder adults have the right to receive a noncontributory pension from the State on the terms set out in the Law.”⁵¹ In addition, in December 2021, the [operating rules](#) for the provision of this benefit were published, including the following requirements: (i) being 65 years of age; (ii) being a Mexican national; and (iii) residing in Mexico. The pension was increased and a timetable of annual nominal increments was established that in 2024 will make it possible to cover the current urban poverty line amount.⁵²
- 1.18 The second is a [reform of the Social Security Law](#) that modifies several terms of the contributory pensions, including the following: (i) there will be an increase in employer contributions to individual accounts, from 6.5% to 15% of the base salary for contributions, to be implemented gradually through annual increases between 2023 and 2030; (ii) obtaining a guaranteed minimum pension will be made easier. To this end, a flexible arrangement has been established that will vary depending on age, average salary, and total number of weeks of contribution to the system, resulting in a higher average than the original guaranteed minimum pension; (iii) the number of contribution weeks required to obtain a pension under the system will be effectively reduced by establishing a transitional structure that reduces that number from 1,250 weeks to 750 weeks in 2021 and then provides for annual increases of 25 weeks until a permanent minimum of 1,000 contribution weeks is reached in 2031; and (iv) the management fees charged by AFORES will effectively be reduced by establishing a ceiling on these fees.⁵³ These measures are aimed at improving the system’s coverage and adequacy, while reducing inequities with respect to the previous system.⁵⁴ In other words, the objective is to enable more workers to secure a pension and in higher amounts than originally planned. In addition, total

⁵⁰ CIEP (2018), ECLAC (2020).

⁵¹ This reform enjoyed a broad consensus in the legislature, where the various parties recognized the importance of improving the living conditions of older adults in the country.

⁵² This amount is Mex\$1,950.26 according to [the most recent measurement](#) published by CONEVAL.

⁵³ This measure is additional to, and more ambitious than, the fee reductions supported under programmatic series 5026/OC-ME.

⁵⁴ As in the case of the constitutional reform of the noncontributory pension, this reform enjoyed [almost unanimous support](#) in Congress. Moreover, both the private sector and workers’ representatives lent broad support to these reforms.

assets under management by AFOREs are expected to be equivalent to 56% of GDP by 2040.⁵⁵

- 1.19 **Rationale.** Accelerated aging and shortcomings in the pension systems create the need to modify these systems and, in so doing, reduce financial vulnerability for most older adults. The reforms undertaken by the Government of Mexico are designed to improve the coverage and benefits provided by both noncontributory and contributory pensions. Implementing these reforms will pose a significant institutional and fiscal challenge in the coming years. The Mexican government has requested the Bank's support in implementing the pension reforms and helping to solve the structural problems affecting the systems. The program will support these reforms and their implementation, with a focus on making older adults less vulnerable through better pensions. The Bank will support measures related to expanding coverage, enhancing retirement benefits, reducing intragenerational and intergenerational inequities, and improving the governance of the multiple existing systems. The first operation will prioritize legally modifying the main noncontributory and contributory pension systems. Worth noting in this regard are: (i) new legal provisions to establish a universal noncontributory pension with greater monetary benefits; (ii) new legal provisions to improve the main contributory pension system, including higher contributions, reorganization of pension subsidies, higher guaranteed pension, easing of requirements to qualify for a pension under the individual account system, and reduction of the fees charged by the AFOREs. These measures are aimed at boosting the balance in the individual accounts that will fund the pensions and easing the requirements for obtaining a minimum pension, thus making it feasible to narrow the existing gender gaps in terms of these pensions. In addition, there will be actions to improve the retirement services provided by AFOREs to their members, as well as regulations to introduce ESG criteria into pension fund investments with a view to encouraging sustainable investment, including in climate change mitigation and adaptation; and (iii) institutional coordination improvements in the state pension systems, through the design of a new interoperability and funding model for the 41 existing systems. The second operation of this programmatic series, which is expected to be designed starting in 2024, will move forward on implementing the reforms in the noncontributory and contributory pension systems, as well as on adopting interoperability instruments at the subnational level. These actions will be aimed at consolidating the reforms required by the country's pension systems.
- 1.20 **Complementarity of the reforms.** This program contains the essential elements for establishing a basic social protection system for older adults. This includes establishing a noncontributory pillar that ensures basic subsistence; a mandatory savings pillar linked to the labor market that makes it possible to accumulate resources toward a better pension, minimizing labor market distortions at the lowest possible fiscal cost; and a voluntary savings pillar that can serve to supplement the pensions while creating greater financial inclusion. Specifically, changes are being made to: (i) expand coverage; (ii) maintain a balance between contributions and benefits; (iii) reduce the existing inequities; (iv) provide

⁵⁵ Banxico (2021).

- appropriate, progressive, and sustainable subsidies so they do not represent a factor leading to fiscal imbalance; and (v) provide effective risk (death, longevity, interest rate volatility) coverage. The proposed reforms include all of these elements; thus, strides are being made toward a more robust social protection system.
- 1.21 This complementarity benefits women, since, having a lower likelihood of attaining a contributory pension, they are left with noncontributory pensions as one of their main sources of monetary income. To demonstrate this point, it is useful to review the data for 2018. Women received, on average, a (contributory and noncontributory) pension that was 53.6% of the average amount received by men.⁵⁶ If instead of using the observed noncontributory pension values, we were to attribute to every man and woman a noncontributory pension equal to the urban extreme poverty line amount for December 2019, the women's average pension as a proportion of the men's average would climb to 67.0%. For more information, please see the gender annex ([optional link 5](#)).
- 1.22 **Outstanding challenges.** While the reforms promoted under this operation amount to a transformation of the country's social protection system, there are significant challenges that have yet to be addressed and will require further reforms. A full strengthening of this system requires a more dynamic labor market that can also create additional formal jobs, as indicated in the [labor reform](#),⁵⁷ which is expected to yield results in the medium and long term. In addition, there is the persistent challenge of improving the social insurance system, decoupling it from the insured's employment status and improving the functioning of the insurance arrangements, including unemployment insurance. Addressing this challenge would require fully reorganizing the contributions to social security.⁵⁸ Lastly, the pension systems face other challenges, including integrating contributory and noncontributory pensions, providing for full portability of benefits across all systems, and improving women's outlook for retirement.⁵⁹ The Bank has analyzed all these issues.⁶⁰
- 1.23 **Recent pension reforms in the region and their challenges.** The specificity of the Mexican pension systems makes it difficult to establish parallels with the evidence found in other countries. However, there is significant evidence to support the importance of institutional conditions in reducing the financial vulnerability of older adults through better pensions, particularly for women.⁶¹ In Latin America, at least 15 countries have implemented noncontributory pension

⁵⁶ Calculations using the Encuesta Nacional de Ingresos y Gastos de los Hogares [National Household Income and Expenditure Survey] (ENIGH).

⁵⁷ This reform was supported by the Bank through operation [5026/OC-ME](#).

⁵⁸ Levy (2019).

⁵⁹ This includes specific policies such as maternity support and life expectancy compensation. CONSAR (2018).

⁶⁰ Altamirano et al. (2018), Azuara et al. (2019), Levy (2018, 2019).

⁶¹ Asociación Mexicana de Administradoras de Fondos para el Retiro [Mexican Association of Pension Fund Managers] (AMAFORE) (2018), CONSAR (2018).

programs covering about 20% of the region's population.⁶² Most countries in Latin America and the Caribbean have introduced noncontributory pension programs as a form of protection for older adults. Nearly all of these programs have targeting criteria based on poverty levels. However, as the cost of exclusion rises, universalization (as in Mexico) becomes a more attractive alternative.⁶³ Countries that decided to create individual account systems have had to carry out similar modifications to those being implemented in Mexico, although with unresolved challenges. For example, the 2008 reform of the Chilean pension system was aimed at consolidating a new social protection model, based on integrating the solidarity pensions, the mandatory individual capitalization system, and the voluntary retirement savings system.⁶⁴ A solidarity pension system was established with a view to cover the poorest segment of the older adult population. This involved creating a "basic solidarity pension" funded by a government-provided "solidarity retirement contribution" and delivered to individuals over the age of 65 who had been generally excluded from any source of income in old age. The requirement for a minimum of 20 contribution years to qualify for a guaranteed minimum pension was eliminated. These changes enabled complementarity to workers' contributions, direct subsidies, and private management, although there are multiple challenges that have yet to be resolved.⁶⁵ In fact, the institutional changes introduced during the pandemic will pose a formidable challenge to the funding of future pensions. In the case of Uruguay, some aspects of the Chilean reforms have been proposed by a committee of social security experts, which suggested providing a guaranteed minimum income and introducing modifications to make funds management under the individual savings pillar more efficient by reducing fees and improving investments. The committee also proposed improving the supplementary retirement savings by facilitating contribution channels.⁶⁶ These changes have not satisfied the expectation of benefits similar to those in financially unviable (generally defined-benefit) systems, but they have enabled improvements to the current systems.

- 1.24 **Lessons learned.**⁶⁷ The Bank has operational experience in pensions with respect to each of the components of this program. In the case of noncontributory pensions and their expansion under Component II, the evidence collected through technical cooperation operation ATN/OC-15248-ME (2015, US\$350,000.00, 100% executed, client support) showed the urgent need to increase both the coverage and the amount of these pensions. In the case of Component III, the Bank has supported the reform process from conception to implementation through various technical cooperation operations. Thus, in 2019, technical cooperation operation ATN/OC-17777-RG (2019, US\$350,000.00, 94%

⁶² Bosch, Melguizo, and Pagés (2013); Pallares-Miralles, Romero, and Whitehouse (2012); Bando, Galiani, and Gertler (2017); Altamirano et al. (2018).

⁶³ Bosch, Melguizo, and Pagés (2013).

⁶⁴ Arenas (2010).

⁶⁵ Vargas (2018).

⁶⁶ [Recomendaciones para la Reforma del Sistema Previsional Uruguayo \(2021\)](#).

⁶⁷ For further details on the technical cooperation operations, see [optional link 7](#).

executed, research and dissemination) conducted a [full diagnostic assessment](#) of contributory pensions in Mexico and put forth specific proposals to reform them, which are reflected in policy measure 3.1.1. Technical cooperation operation ATN/OC-18894-ME (2021, US\$150,000.00, 40% executed, client support) provided inputs to regulate the fees charged by Mexican pension fund managers (policy measure 4.1.1). Technical cooperation operations ATN/ME-15065-RG (2015, US\$1.765 million, 93% executed, client support) and ATN/CF-15495-RG (2016, US\$1.86 million, 100% executed, client support) financed various interventions that have generated evidence on how to facilitate workers' voluntary savings and how to improve use of the individual accounts and thereby improve the electronic account transfer process (policy measures 4.1.2 and 4.1.3). Step 4.1.4 was included in the 2019 [diagnostic assessment and reform proposals](#), and is designed to improve the service provided by AFOREs to their members during their working life. Lastly, through technical cooperation operations ATN/OC-18436-ME (2020, US\$290,000.00, 49% executed, research and dissemination) and ATN/OC-18894-ME (2021, US\$150,000.00, 40% executed, client support), the Bank worked closely with the authorities at the Department of Finance (SHCP) in preparing a diagnostic assessment of the conditions of the subnational pension systems, their reform alternatives, and the elements needed to develop a financial and interoperability model (measure 5.1.1).

- 1.25 **The Bank's added value.** The Bank has experience and expertise in pension and social security issues in Mexico and the region. This programmatic series relies on this experience and supports priority Mexican governmental policies, including the analytic agenda, noncontributory pension improvements, and contributory pension reforms. In the last decade, the Bank has financed studies on the design and fiscal impact measurement of pension reforms with a view to improving the equity, adequacy, and sustainability of the system ([Better pensions, better jobs: Toward universal coverage in Latin America and the Caribbean](#) (2013); [Presente y Futuro de las Pensiones en América Latina](#) (2018)), underscoring the positive effect of noncontributory pensions in ameliorating poverty in old age. One of the case studies is Mexico, analyzing the intragenerational and intergenerational differences arising from the pension reform approved in 1997.
- 1.26 The Bank is positioned as a recognized actor in the pension arena, and its analytic work has provided support to the Mexican authorities in designing the policy measures included in this series, earning the Bank recognition as a leading voice in the public debate on this issue. The Bank's work includes an analysis performed under technical cooperation operation ATN/OC-15248-ME (2015, US\$350,000.00, 100% executed, client support) to estimate the costs of a universal noncontributory pension. This analysis, carried out jointly with the Department of Welfare (previously known as the Department of Social Development), the SHCP, and CONSAR, included estimates of the fiscal cost for various scenarios. All were consulted by the finance authorities during the approval process for the reform that universalized and increased the noncontributory pensions. In addition, the analysis included recommendations to improve institutional coordination with a view to lowering the administrative cost of providing the benefit.

- 1.27 The Bank performed an in-depth analysis for transforming social security in Mexico, set forth in two documents published in 2019. The first is "[Una prosperidad compartida: Transformando la seguridad social en México para crecer con equidad](#)," which proposes pension reforms in conjunction with changes in other areas such as health care, day care, protection from dismissal, and tax collection. The second is the document "[Diagnóstico del Sistema de Pensiones Mexicano y Opciones de Reforma](#)," which describes various elements for improving the pension system as a whole that are reflected in the reform implemented by the Mexican government. The content was shared at each stage with the SHCP's Insurance, Pension, and Social Security Unit (USPSS) and CONSAR.⁶⁸
- 1.28 Also in 2019, CONSAR and the SHCP decided jointly with the AFOREs on a significant reduction in fees for the 2020-2024 period. This reduction in the administrative cost of individual accounts was recognized in loan operation 5026/OC-ME.⁶⁹ In addition, incorporating household workers into the social security system and banning employment arrangements that help evade social security responsibilities, including contributions to retirement, older worker unemployment, and old-age insurance, were included as policy measures under this loan.
- 1.29 From 2019 to date, the Bank has supported the SHCP in carrying out analyses of the various technical issues involved in the reform approved in December 2020, specifically the fees charged by the AFOREs. In June 2021, a technical note analyzed the proposed methodology for setting a limit on fees in Mexico. This note was prepared by an external expert on defined contribution systems. In addition, in December 2021, a technical document provided a price analysis of pension funds in the United States. Both documents served as inputs to both the SHCP's USPSS and CONSAR for crafting the final version of the methodology that was used to determine a new fee structure for the pension system. These outputs were financed through technical cooperation operation ATN/OC-17777-RG (2019, RG-T3552, US\$350,000.00, research and dissemination).
- 1.30 With regard to voluntary savings, Mexico is one of the countries where the pilot projects of the [Retirement Savings Laboratory](#) were implemented. This laboratory has been a pioneer in analyzing the effects of expanding the traditional and digital savings channels available to workers. Since 2017, various pilot projects to improve the savings and pension prospects of workers, particularly low-income earners, have been designed, implemented, and evaluated with funding from technical cooperation operation ATN/CF-15495-RG (2016, RG-X1247, US\$1.86 million, client support). In Mexico, the Bank has worked with the

⁶⁸ The document's recommendations were presented on several occasions, notably at CONSAR to a pension reform task force that was coordinated by the Aspen Institute. Participants included the SHCP, CONSAR, Instituto del Fondo Nacional de la Vivienda para los Trabajadores [National Workers' Housing Fund] (INFONAVIT), AMAFORE, academics, and trade unions. During the event, the document was analyzed, and agreement was reached on the recommendations that could be included in potential reforms to improve the retirement outlook of Mexican workers.

⁶⁹ The target of that programmatic series [was reached in 2021](#), while the policy measures under this operation start to be triggered in 2022.

pension regulator (CONSAR), the SHCP's USPSS, and multiple financial and technological partners on the design, implementation, and evaluation of [seven pilot projects](#) to promote voluntary savings and improve pensions. Part of the evidence gathered through the pilots has served to design voluntary savings improvements that were incorporated into the 2020 pension reform. In 2022, the Bank will continue to work with the authorities, including CONSAR, the IMSS, and the Department of Finance, in developing [new pilot projects](#) focused not only on voluntary savings but on new insurance mechanisms. This new phase will be financed through technical cooperation operations ATN/OC-16953-ME (2018, US\$250,000.00, 72% executed, research and dissemination) and ATN/OC-19030-RG (2021, US\$360,000.00, 41% executed, research and dissemination).

- 1.31 With regard to state pensions, the Bank has supported the SHCP in developing the various components of an interoperability and financing model for the pension systems. This includes a diagnostic assessment, reform proposals, financing mechanisms, and interoperability mechanisms for the 41 existing systems. Between 2019 and 2021, technical cooperation operation ATN/OC-18436-ME (2020, US\$290,000.00, 49% executed, research and dissemination) financed actuarial valuations of the 41 state pension systems currently in existence in Mexico, as well as an analysis of the expected fiscal effects of three types of reforms on each such system. In addition, an analysis was conducted of the laws and regulations that should be included in any potential reform of each of these systems. All of this work is arranged in a browser available only to the SHCP.
- 1.32 Prior to the pandemic, in February 2020, the Bank and the SHCP organized an interoperability workshop attended by multiple representatives of various agencies, including the SHCP, CONSAR, AMAFORE, IMSS, ISSSTE, INFONAVIT, Department of Civil Protection, Department of the Interior (SEGOB), and state governments. The results of this workshop, financed under operation RG-E1693, form the basis for the institutional coordination recommendations for improving the pension system.
- 1.33 Lastly, at the close of the first quarter of 2022, technical cooperation operation ATN/OC-18894-ME (2021, US\$150,000.00, 40% executed, client support) funded studies on implementing the pension reform, including an analysis of the AFOREs' business expenses, an interoperability mechanism for the state pension systems, and alternatives for financing the state systems' transition, which will help the Mexican authorities to implement the reform.
- 1.34 **Coordination with other international development agencies.** The set of reforms included in this program reflects a majority of the recommendations made by multiple specialists, academics, and multilateral institutions, particularly the Organisation for Economic Co-operation and Development (OECD), World Bank, and Economic Commission for Latin America and the Caribbean (ECLAC).⁷⁰ These analytic studies were considered in the preparation of this program to supplement the work performed by the Bank. The IDB is the leading

⁷⁰ IDB, World Bank, and OECD (2015), OECD (2016), ECLAC (2020).

multilateral agency prociding support on the issue of pensions for the Government of Mexico, and this operation is covered solely with resources from the institution.

- 1.35 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2), since it is aligned with the development challenges of: (i) social inclusion and equality, through regulatory reforms aimed at reducing poverty in old age; and (ii) productivity and innovation, by supporting improvements to the Mexican pension system designed to reduce incentives to informality in low-earning workers. The operation is aligned with the crosscutting themes of: (i) institutional capacity and rule of law, by improving institutional coordination in the pension systems;⁷¹ (ii) gender equality, by fostering reforms to narrow the gender gaps in pension coverage, access, and amounts,⁷² reducing women's greater risk of poverty; and (iii) climate change and environmental sustainability, by promoting investments that incorporate ESG criteria.⁷³ Under the [joint methodology of multilateral development banks for tracking climate finance](#), 3.70% of the loan proceeds correspond to climate finance, since they promote activities to strengthen the use of ESG criteria to encourage sustainable investments in the pension systems, particularly green bonds, which are associated with climate change mitigation and adaptation actions. These resources contribute to the IDB Group's target of bringing climate-change financing to 30% of approvals by 2022 ([optional link 4](#)).
- 1.36 The operation will also contribute to the Corporate Results Framework (CRF) 2020-2023 (document GN-2727-12) through the following indicators: beneficiaries of antipoverty programs, and agencies with strengthened digital technology and managerial capacity. The program is aligned with the IDB Group Country Strategy with Mexico 2019-2024 (document GN-2982) through the priority area of supporting equitable and sustainable access to social services, in line with the National Development Plan's social policy pillar and its strategic objective of strengthening the labor market. In addition, the operation is consistent with the Labor Sector Framework Document (document GN-2741-12), which underscores the need to achieve adequate social insurance. Lastly, it contributes to implementation of the Employment Action Framework with Gender Perspective (document GN-3057), by establishing reforms that encourage the creation of formal jobs. The program is included in Annex III of the 2022 Operational Program Report (document GN-3087).

⁷¹ Paragraphs 1.2, 1.3, 1.5, and 1.16 describe the coordination and institutional capacity challenges addressed by the reform, as set out in paragraph 1.19.

⁷² Paragraphs 1.8 and 1.9 show that gender gaps are significant and the policy changes are an attempt at narrowing them, as described in paragraphs 1.21 and 1.45. [Optional link 5](#) provides more details on these gaps. The operation was not specifically aligned with the issue of diversity, since in the case of the noncontributory pension, the benefit is universal, and therefore covers the entire diverse population, while in the case of the contributory pension, the benefit depends on the individual's employment profile.

⁷³ This measure will create greater demand for instruments with these characteristics, thereby increasing the interest of Mexican companies in adopting ESG criteria. The assets under management by AFOREs are equivalent to 20% of Mexico's GDP. Thus, companies that fail to implement ESG criteria will be unable to obtain financing from AFORE resources and will lose the country's largest institutional investor. An added benefit of ESG investments is that they involve a lower financial cost for companies. See [optional link 4](#).

- 1.37 **Vision 2025.** This operation is aligned with the Bank's Vision 2025 by promoting strengthening of the social security systems, gender equity, and actions to address climate change.

B. Objectives, components, and cost

- 1.38 **Program objectives and components.** The general objective of the program is to reduce the financial vulnerability of older adults in Mexico. The specific objectives are to: (i) improve the coverage and benefits of the noncontributory pension system; and (ii) improve the coverage, adequacy, and equity of the benefits provided under the contributory pension systems. These objectives are to be achieved through an expansion and increase of noncontributory pensions, parametric improvements to contributory pensions, and improvements in the design and coordination of the subnational systems.
- 1.39 The Policy Matrix sets out the specific conditions to be fulfilled prior to the disbursement of the first operation and the trigger mechanisms for the second operation. The first operation provides for seven measures related to the development of regulatory and technical frameworks, while the second operation provides for the implementation of eight measures. The means of verification of fulfillment of these conditions are set out in [required link 2](#).
- 1.40 **Component I. Macroeconomic stability.** This component seeks to conserve a macroeconomic context consistent with the program objectives as established in the policy matrix and the sector [policy letter](#).
- 1.41 **Component II. Regulatory framework to improve national noncontributory pensions.** This component seeks to improve the coverage and benefits provided under the noncontributory pension system, helping to narrow the existing gender gaps (paragraph 1.21). To this end, it will support establishment and implementation of the constitutional right to a noncontributory pension for older adults (measure 2.1.1). In addition, the component will support the changes needed to ensure that this pension is at least equal to the extreme poverty line amount for rural areas (measure 2.1.2).⁷⁴ The indicative policy actions for the second operation are aimed at increasing this pension sufficiently to cover the urban poverty line amount (measure 2.2.1) and at evaluating the effect of this pension on reducing poverty in older adults (measure 2.2.2). This evaluation will be used as an input to measure the real effect of the noncontributory pension on the welfare of older adults, on which improvements in its design and operation may be based, particularly its effectiveness and sustainability.
- 1.42 **Component III. Regulatory framework to improve national contributory pensions.** This component seeks to improve the coverage, adequacy, and equity of the benefits provided under the individual accounts pension system, as well as improve retirement advisory services, facilitate financial inclusion, and promote investments that incorporate ESG criteria. To this end, the program will recognize: (i) the approval and publication, and will initiate the implementation, of

⁷⁴ Universal expansion is achieved through enrollment in the program by means of a process which only requires demonstrating nationality and age with official documents. The operating rules are published each year to fulfill the membership objectives. Details are available at <https://programasparaelsestado.gob.mx/pension-bienestar-adultos-mayores/>.

a Social Security Law reform to reduce the number of contribution weeks required to qualify for a minimum pension, progressively raise the contribution amounts, and reorganize pension subsidies in accordance with a preestablished timetable (measure 3.1.1). In addition, it will provide support to: (ii) institute and publish a methodology for establishing a ceiling on the fees charged by AFOREs to affiliated workers;⁷⁵ (measure 4.1.1); (iii) modify the regulations to facilitate voluntary savings by affiliated workers through a mobile registration process (measure 4.1.2); (iv) approve, regulate, and publish mechanisms for electronic transfer of individual accounts (measure 4.1.3); (v) create and regulate the position of retirement advisor, and publish the advisors' individual details, to educate workers in the AFORE system about retirement and thus enable them to make better decisions regarding their individual accounts (measure 4.1.4); and (vi) start to implement a rating of internationally accepted ESG criteria applicable to the pension system's investment rules to strengthen the financial market and facilitate financial inclusion (measure 4.1.5).⁷⁶ The indicative policy actions for the second operation are aimed at supporting the implementation, and in each case an evaluation to measure the effect of, reducing the number of contribution weeks needed to qualify for a contributory pension (measure 3.2.1); fee reductions (measure 4.2.1); steps to facilitate voluntary savings (measure 4.2.2); and electronic transfer of individual accounts (measure 4.2.3). In terms of registration of retirement advisors, at least 50% of all retirement advisors will be registered and their details made available to the public (measure 4.2.4). In addition, an implementation evaluation will be conducted to verify that investments made under the pension system comply with the ESG rating (measure 4.2.5). All evaluations in this component will be inputs both for determining the improvements to be made to the program's reforms in order to achieve sustainability of the pension system and for orienting the pending challenges described in paragraph 1.22.

- 1.43 **Component IV. Regulatory framework to improve subnational contributory pensions.** This component seeks to develop improvements to the design of the state pension systems in terms of equity and interoperability. To this end, the first operation will support the design of a technical proposal to improve the demographic parameters, financial viability, interoperability, and financing of the 41 state pension systems (measure 5.1.1). The indicative policy actions for the second operation are aimed at supporting approval of the technical proposal to improve the functioning of the state pension systems (measure 5.2.1).

C. Key results indicators

- 1.44 **Expected outcomes.** This programmatic series seeks to reduce the vulnerability of older adults, measured as the poverty rate of those over the age of 64. To determine achievement of the first specific objective, the operation will measure

⁷⁵ The policy measures supported under operation [5026/OC-ME](#) included an agreement to reduce fees, which was to be implemented over a period of five years. The reform supported by this operation provides for an even greater reduction as part of the legislative changes included in the reform of the Social Security Law.

⁷⁶ The rules for implementing ESG criteria in 2022 were approved in 2019. See [Modificaciones y adiciones a las Disposiciones de carácter general en materia financiera de los Sistemas de Ahorro para el Retiro](#). Published in the Federal Official Gazette on 18 September 2019.

the number of older adults who receive noncontributory pensions, the poverty rate of older adult women who receive noncontributory pensions, and the increase in income resulting from the changes in noncontributory pension coverage and amount. To determine achievement of the second specific objective, the operation will measure the increase in contributory pension coverage resulting from the easing of requirements to qualify for this pension, the increase in average pensions obtained as a result of the reforms, the relative improvement in pensions funded through individual accounts, and the system for measuring pension liabilities and potential reforms of the state pension systems.

- 1.45 **Beneficiaries.** The program will benefit: (i) 12.9 million adults over the age of 64 who become noncontributory pension beneficiaries; and (ii) 70.4 million workers with an individual account managed by an AFORE who will benefit from the changes brought about by the reform. In the first case, the benefit is universal, while in the second the benefits vary based on each person's age and employment history. The literature shows that expanding noncontributory pension coverage and amounts is an effective tool to secure a basic level of consumption for older adults, particularly women (paragraph 1.4), as is adjusting the contributory pension systems in cases of high informality (paragraphs 1.3, 1.8, and 1.23) to achieve greater and better pension coverage for the population. Thus, the policy measures supported in this programmatic series will have a direct influence on reducing poverty among older adults, particularly women.⁷⁷
- 1.46 **Economic analysis.** Based on the recommendations of the Office of Evaluation and Oversight (OVE) set out in its 2011 Evaluability Review of Bank Projects,⁷⁸ 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 multilateral development banks),⁷⁹ 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 for an analysis of efficiency in the use of the financial resources,⁸⁰ it was determined not to conduct an economic analysis 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, and economic analysis will not be a factor for consideration in measuring the evaluability score in the program's Development Effectiveness Matrix.

⁷⁷ See monitoring and evaluation plan ([required link 3](#)).

⁷⁸ 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 policy-based loans."

⁷⁹ Good Practice Standards for the Evaluation of Public Sector Operations." Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

⁸⁰ 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.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Instrument and size of the operation.** The Government of Mexico requested a policy-based loan operation, under the programmatic modality, to improve the functioning of the pension system following the reforms approved in recent years. This loan is the first of two technically linked but independently financed operations, in line with the provisions of the document Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2). The programmatic modality is appropriate because it: (i) encourages a continuous policy dialogue with the authorities, as has been the case with pension authorities in recent years; and (ii) facilitates monitoring of the reform implementation strategy, since some of the reforms are far-reaching and complex to implement, as set out in the reform timetable. This will make it possible to incorporate the findings arising from program execution, as well as the technical assistance envisaged for the coming years, into the second operation.
- 2.2 **Size of the operation.** This operation is for US\$700 million from the Ordinary Capital. As provided in paragraph 3.27(b) of the document Policy-based Loans: Guidelines for Preparation and Implementation (document CS-3633-2), the amount was determined on the basis of the country's financing needs. This operation accounts for 1.6% of total public sector financing for 2022. The amount and timing of the second operation will be established jointly with the Government of Mexico during the Bank's programming exercise, in accordance with document CS-3633-2 and based on the progress achieved on the triggers identified in this operation.

B. Environmental and social risks

- 2.3 Since the operation will not have any significant, adverse, or direct effects on the environment or the country's natural resources, there are no specific requirements under the environmental and social policy framework.

C. Fiduciary risks

- 2.4 The proceeds will go directly to the single treasury account to cover the country's financing needs. Consequently, no fiduciary risks have been identified.

D. Other risks and key issues

- 2.5 **Risks.** The risk assessment identified a medium-high institutional environment risk. The lack of coordination among pension institutions in Mexico could create a duplication of administrative costs, raising the cost of the reform and adversely affecting the outcomes associated with Component IV. To mitigate this risk, the Bank will plan coordination actions between the SHCP authorities and the subnational governments. These actions will be funded through technical cooperation operation ATN/OC-18894-ME (2021, US\$150,000.00, 40% executed, client support).
- 2.6 **Sustainability.** The policy measures supported under this programmatic series enjoy a broad political consensus among Mexican authorities, the private sector,

and workers' representatives.⁸¹ The right to noncontributory pensions has now acquired constitutional force. Thus, satisfying it has been established as a Mexican government obligation, and a new amendment would again require a political consensus as well as a supermajority in the Legislature. Moreover, the increase in the fiscal cost stemming from the reforms included in this series, both for the noncontributory pension and the contributory pension, will be sufficiently gradual to enable the necessary annual budgetary adjustments for timely compliance. The restructuring of the subsidies and the increase in the contributions will enable the reduction of the fiscal impact as a whole, as has been acknowledged by the Central Bank of Mexico.⁸² The sustainability of contributory pensions will be assured thanks to the institutional framework measures in place in the individual account system, which provides mechanisms for governance, management, control, and worker participation in the pension system. These mechanisms are set out in the legal frameworks, guidelines, circulars, and regulations. In addition, the phased reorganization of contributions and subsidies over time means that adjustments will be gradual, ensuring an orderly transition of the system, its costs, and its benefits.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Government of Mexico and the executing agency will be the Department of Finance (SHCP) through its USPSS, which is responsible for formulating promotion, development, regulation, and supervision policies for the institutions participating in the Mexican pension systems. The USPSS will be responsible for implementing the reforms set out in this program. To ensure adequate interagency coordination among government agencies and different levels of government, the executing agency has recourse to various formal consultation mechanisms, including the governing boards of the social security institutes, the various monitoring committees, and the meetings of the Organización Nacional de Instituciones Estatales de Seguridad Social [National Organization of State Social Security Institutions] (ONIESS). Resources from technical cooperation operation ATN/OC-18894-ME (2021, US\$150,000.00, 40% executed, client support) have been set aside to strengthen the coordination capacity of the executing agency. The USPSS will be responsible for coordinating and reporting fulfillment of the policy commitments and consolidation of the sector reforms envisaged by the program. Both the SHCP and the USPSS have experience as executing agencies for Bank operations.
- 3.2 **Special contractual conditions precedent to the single disbursement of the financing: The first and only disbursement under the first operation of the programmatic series will be contingent upon fulfillment of: (i) the policy**

⁸¹ [Conferencia Presidencial](#). 22 July 2020.

⁸² See [La Reforma del Sistema de Pensiones de México: Posibles Efectos sobre las Jubilaciones, la Dinámica del Ahorro Obligatorio y las Finanzas Públicas](#). Extract of the October-December 2020 quarterly report, Box 4, pp. 53-58, document published on 3 March 2021.

reform conditions established in the policy matrix and (ii) all other conditions set out in the respective loan contract.

B. Summary of arrangements for monitoring results

- 3.3 **Monitoring.** The monitoring of the program focuses on verifying the policy measures agreed upon as conditions for disbursement. In addition, the outcomes of the reforms and policies under the program will be monitored through the indicators included in the Results Matrix and additional indicators set out in the monitoring and evaluation plan ([required link 3](#)). Prior to processing the second operation, the Bank will produce a status report reviewing progress in the program, the reforms, and the triggers, and identifying any modifications and adjustments that may be needed to achieve the program targets.
- 3.4 **Evaluation.** The monitoring and evaluation plan describes the evaluation to be performed following disbursement of the second loan to find evidence regarding a reduction in the vulnerability of retiring older adults in comparison with the counterfactual scenario of not implementing the reforms included in the program.

IV. POLICY LETTER

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

Development Effectiveness Matrix		
Summary		ME-L1315
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Beneficiaries of targeted anti-poverty programs (#) -Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2982	A. Contribute to equitable and sustainable access to social services
Country Program Results Matrix	GN-3087	The intervention is included in the 2022 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		7.4
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		3.4
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Environmental & social risk classification		N.A.
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, External Control, Internal Audit. Procurement: Information System, Price Comparison, National Public Bidding.
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	Technical Cooperations ATN/OC-17777-RG; RG-T3552, ATN/CF-15495-RG; RG-X1247; ATN/OC-18436-ME; ME-T1391; ATN/OC-18894-ME; ME-T1465, for more details see POD paragraph 1.29 to 1.33

Evaluability Assessment Note:

This is a programmatic series, of US\$700 million in its first operation, aimed at supporting the improvement of the pension system in Mexico, via support for measures related to the expansion of coverage, improvement of pension benefits, and reduction and inter and intra-generations inequalities, as well as an improvement in the governance of the multiple existing systems. The general objective of the program is to reduce the economic vulnerability of older adults in Mexico. The specific objectives are: (i) to improve the coverage and benefits of the Non-Contributory Pension system (PNC); and (ii) to improve the coverage, sufficiency, and equity of the benefits granted by the Contributory Pension (PC) systems. The program attacks problems related to both PNC and PC systems. The majority of older adults in Mexico live in conditions of vulnerability. This is due in part to the insufficient coverage and benefits of the PNCs and PCs, and in the case of the PCs, factors of gender inequity and other inequities derived from their operation are added. In 2018, the PNC amount covered only 52% of the rural extreme poverty line and 37% of the urban one. Regarding the PC system, it suffers from low levels of contributions and subsidies, low voluntary savings, and high commissions from retirement funds. Additionally, the gap between coverage and benefits between men and women is significant. In 2018, only 22% of women over 64 years of age had a CP versus 39% of men. In the same year, total pension coverage for women was 68%, while for men it was 74%. Finally, the system has large inter-generational inequities, explained by previous reforms to the PC system. The first operation will prioritize the legal modification of the main PNC and PC systems, including: (i) new legal provisions to grant a universal PNC with greater monetary benefits; (ii) new legal provisions to improve the main PC system including higher contributions, reorganization of pension subsidies; higher level of guaranteed pensions; relaxation of the requirements to obtain a pension in the CI system, a reduction in commissions charged by the administrators of retirement funds; and (iii) improving the institutional coordination of state pension systems by designing a new model of interoperability and financing for the 41 existing systems. The proposed results indicators are SMART, with a baseline and goals and means of verification identified.

The monitoring and evaluation plan proposes to measure the key results before and after the series, with adequate sources of information. This type of evaluation does not allow empirical attribution of results.

POLICY MATRIX

PROGRAM TO IMPROVE THE PENSION SYSTEM IN MEXICO

Objective: The general objective of the program is to reduce the financial vulnerability of older adults in Mexico. The specific objectives are to: (i) improve the coverage and benefits of the noncontributory pension system; and (ii) improve the coverage, adequacy, and equity of the benefits provided under the contributory pension systems.

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 I. Macroeconomic stability			
1. Conserve a macroeconomic context conducive to fiscal sustainability.	1.1.1 Maintain a macroeconomic environment consistent with the program objectives and the sector policy letter.	Fulfilled	1.2.1 Maintain a macroeconomic environment consistent with the program objectives and the sector policy letter.
Component II. Regulatory framework to improve national noncontributory pensions			
2. Improve the coverage and benefits of the noncontributory pension system so as to narrow the gender gaps.	2.1.1 Establish the constitutional right to a noncontributory pension for older adults.	Fulfilled (quarter II, 2020) ²	2.2.1 Approve and publish annual operating rules providing for an increase in the noncontributory pension amount above the extreme poverty line for urban areas.
	2.1.2 Approve and publish annual operating rules providing for an increase in the noncontributory pension amount above the extreme poverty line for rural areas.	Fulfilled (quarter IV, 2021)	2.2.2 Perform an evaluation to measure the changes in poverty among older adults as a result of the noncontributory pensions.

¹ This information is merely indicative as of the date of this document. Pursuant to document GS-3633-2 (Policy-based Loans: Guidelines for Preparation and Implementation), compliance with any specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

² This reform enjoyed a broad political consensus during its discussion and represents the foundation of a protection system for older adults at the constitutional level. Since 2017, the Bank has been analyzing the implications of the noncontributory pension on the welfare of older adults. See paragraphs 1.17, 1.18, and 2.6 of the loan document.

Component III. Regulatory framework to improve national contributory pensions			
3. Improve the coverage, adequacy, and equity of the benefits provided under the individual account pension system and improve advisory support on pension matters	3.1.1 Approve, publish, and begin implementing a reform of the Social Security Law that includes the following progressive changes in line with a preestablished timetable: (i) reduction in the number of contribution weeks required for workers affiliated with the pension fund manager (AFORE) system to qualify for a minimum pension. (ii) progressive increase of up to 15% in the contribution rates for retirement, older worker unemployment, and old age insurance to achieve a higher accumulation of funds in the individual accounts in line with the income level of workers. (iii) progressive reorganization of federal subsidies on workers' retirement accounts to focus them exclusively on low-earning workers (up to four Measurement and Adjustment Units (UMAs)). ³	Fulfilled (quarter IV, 2020) ⁴	3.2.1.a Continue to implement the reform of the Social Security Law in line with the progressive changes described in 3.1.1, pursuant to the timetable specified in the reform. 3.2.1.b Perform an evaluation to measure the effect of reducing the number of contribution weeks required to qualify for contributory pension coverage.
	4. Enhance the adequacy of the benefits provided under the individual accounts pension system and promote investments incorporating environmental, social, and corporate governance (ESG) principles that strengthen the financial market and facilitate financial inclusion.	4.1.1 Institute and publish a methodology to establish a ceiling on the fees charged by AFOREs to affiliated workers. 4.1.2 Modify the regulations governing the AFORE system to facilitate voluntary savings by affiliated workers through a mobile registration process, thereby also generating greater interest in the use of individual accounts.	4.2.1 Implement the methodology for a ceiling on fees as envisaged in the adopted methodology and perform an evaluation on the effects of this fee reduction on workers' individual savings amounts. 4.2.2 Perform an evaluation to measure the effects of the measures to facilitate voluntary savings on the number of savers and total voluntary savings amounts.

³ In 2017, use of the minimum wage as a reference unit to establish amounts payable for formalities, fines, contributions, and taxes under federal laws was discontinued. The UMA, created that year, is adjusted for inflation.

⁴ This reform entails a transformation of the individual account system created in 1997 and enjoyed a broad political consensus during its discussion. The Bank has been supporting the finance authorities both before and during the reform and is also doing so during implementation. See paragraphs 1.17, 1.18, and 2.6 of the loan proposal.

	4.1.3 Approve, regulate, and publish mechanisms for electronic transfer of individual accounts to reduce the cost of transfers in the system.	Fulfilled (quarter I, 2022)	4.2.3 Evaluate the operational effectiveness and use of the mechanisms for electronic transfer of individual accounts developed under 4.1.3.
	4.1.4 Create and regulate the position of retirement advisor, and publish the advisors' individual details, to educate workers in the AFORE system about retirement and thus enable them to make better decisions regarding their individual accounts. Retirement advisors will: (i) provide comprehensive services to workers (including processing of paperwork; advisory services; and registration, transfer, and promotion of voluntary savings); and (ii) be compensated and receive incentives based on the work performed, ensuring free and informed decision-making by workers regarding the management of their individual account, and operate under a payment system that provides monetary incentives to promote voluntary savings by workers.	Fulfilled (quarter I, 2022)	4.2.4 Register at least 50% of the total number of retirement advisors and make the following information on each advisor available to the general public: (i) retirement advisor's details; (ii) registration number of the retirement advisor; (iii) registration status of the retirement advisor (active/inactive); (iv) name of the AFOREs and periods of time during which he/she has worked there as marketing agent or retirement advisor, as well as reason for discontinuation, removal, or suspension, as the case may be.
	4.1.5 Start implementing a rating of internationally accepted ESG criteria applicable to the pension system's investment rules to strengthen the financial market and facilitate financial inclusion.	Fulfilled (quarter I, 2022)	4.2.5 Evaluate implementation of the measure described in 4.1.5 to verify that the investments made in the pension system comply with the ESG rating.

Component IV. Regulatory framework to improve subnational contributory pensions			
5. Develop improvements to the design of the state pension systems in terms of equity and interoperability.	5.1.1 Design a technical proposal to improve the demographic parameters, financial viability, interoperability, and financing of the 41 state pension systems, including: <ul style="list-style-type: none"> (i) an estimate of the total pension liabilities in the state and how they change when their parameters are modified; (ii) the legal basis for each system's benefits and contributions; (iii) a model for interoperability with the national systems; and (iv) A long-term funding model to satisfy pension liabilities. 	Fulfilled (quarter III, 2022)	5.2.1 Approve the technical proposal to improve demographic parameters, financial viability, interoperability, and financing of the 41 state pension systems and the functioning of the state pension systems as described in 5.1.1.

RESULTS MATRIX

Project objective:	The specific objectives are to: (i) improve the coverage and benefits of the noncontributory pension system; and (ii) improve the coverage, adequacy, and equity of the benefits provided under the contributory pension systems. Achievement of these objectives will contribute to the program's general objective of reducing the financial vulnerability of older adults in Mexico.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	A. Comments
General development objective 1: Reduce the vulnerability of older adults in Mexico							
Indicator 1. Population over 64 years of age living in poverty	Percentage	42%	2018	2024	35%	National Council for Social Policy Assessment (CONEVAL) Poverty among older adults	CONEVAL regularly publishes reports on poverty in the older adult population based on poverty estimates.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
Specific development objective 1: Improve the coverage and benefits of the noncontributory pension system						
1.1 Total number of older adults who receive a noncontributory pension	Persons	4.5 million	2018	5.3 million	CONEVAL	Measurements are performed using the methodology developed by CONEVAL to measure monetary income and poverty for the entire population.
1.2 Poverty rate of older adult women who receive a noncontributory pension	Percentage	49%	2018	40%	CONEVAL	Measurements are performed using the methodology developed by CONEVAL to measure monetary income and poverty for the entire population.

Indicators	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
1.3 Noncontributory pension amount as a percentage of the extreme (rural) poverty line	Percentage	48%	2018	100%	CONEVAL	The baseline is the 2018 noncontributory pension amount (Mex\$580 per month) relative to the poverty line published by CONEVAL for calculating the monthly extreme poverty line in rural areas, which in December 2018 was Mex\$1,208.47.
1.4 Noncontributory pension amount as a percentage of the extreme (urban) poverty line	Percentage	37%	2018	100%	CONEVAL	The baseline is the 2018 noncontributory pension amount (Mex\$580 per month) relative to the poverty line published by CONEVAL for calculating the monthly extreme poverty line in urban areas, which in December 2018 was Mex\$1,586.96.
Specific development objective 2: Improve the coverage, sufficiency, and equity of the benefits provided by the contributory pension systems						
2.1 Average amount of total pensions received by women as a percentage of the average amount of total pensions received by men	Percentage	53%	2018	60%	National Institute of Statistics and Geography (INEGI)	The target is determined by the total average pension amount received by women with respect to the amount received by men.
2.2 Percentage of older adults who do not qualify for a pension funded through individual accounts	Percentage	44%	2021	20%	National Commission for the Retirement Savings System (CONSAR)	The target refers to the percentage of older adults who are denied a pension, which is currently estimated at 44% but is expected to be considerably lower once fewer contribution weeks are required.
2.3 Average replacement rate of the guaranteed pension under the pension fund manager (AFORE) system for workers earning the minimum wage	Percentage	80%	2021	100%	CONSAR	The target is determined by the average pension attained by those who retire using the balance in their individual account.

Indicators	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
2.4 Average pension for the AFORE generation as a percentage of the average for the transition generation	Percentage	30%	2021	50%	CONSAR	The target is determined by the general replacement rate that would be obtained without implementing the reform.
2.5 Percentage of AFORE-managed assets that comply with environmental, social, and corporate governance (ESG) criteria	Percentage	21%	2022	30%	CONSAR	The target refers to the percentage of securities that will be rated as incorporating ESG criteria, promoting sustainable investments to achieve increased climate change mitigation and adaptation.

OUTPUT INDICATORS

Indicators	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Responsible entity
Component II. Regulatory framework to improve national noncontributory pensions						
2.1.1 Constitutional right to a noncontributory pension for older adults	Document	0	2019	1	Constitutional reform establishing the right to a noncontributory pension	Department of Finance (SHCP)
2.1.2 Annual operating rules of the program Pensión para el Bienestar de los Adultos Mayores [Pension for the Welfare of Older Adults]	Document	0	2020	2	2021 operating rules of the program Pension for the Welfare of Older Adults 2022 operating rules of the program Pension for the Welfare of Older Adults	SHCP
Component III. Regulatory framework to improve the national contributory pensions						
3.1.1 Reform of the Social Security Law and the Law on Retirement Savings Systems with a view to improving the pension system	Document	0	2019	1	Decree amending , expanding, and repealing various provisions of the Social Security Law and the Law on Retirement Savings Systems	SHCP

Indicators	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Responsible entity
4.1.1 Regulation and publication of the methodology for reducing the fees charged by AFOREs to workers.	Document	0	2020	1	Resolution by the Governing Board of the National Commission for the Retirement Savings System establishing policies and criteria regarding fees.	SHCP
4.1.2 Regulations to facilitate voluntary savings by workers and thereby create greater interest in the use of individual accounts	Document	0	2020	1	General financial provisions on the retirement savings systems regarding voluntary savings	SHCP
4.1.3 Regulations to identify mechanisms for electronic transfer of individual accounts that reduce the costs of such transfers in the system	Document	0	2021	1	General provisions regarding services to users of the retirement savings systems	SHCP
4.1.4 Regulations to create the position of retirement advisor	Document	0	2022	1	General provisions of mandatory compliance for AFOREs regarding their marketing agents	SHCP
4.1.5 Regulations to implement a rating of internationally accepted ESG criteria applicable to the pension system's investment rules to strengthen the financial market and facilitate financial inclusion	Document	0	2020	1	General financial provisions for the retirement savings systems regarding ESG criteria and risks	SHCP
Component IV. Regulatory framework to improve national contributory pensions						
5.1.1 Technical proposal to improve the demographic parameters, financial viability, interoperability, and financing of the 41 state pension systems	Document	0	2022	1	Website including an interoperability model for the pension systems	SHCP

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Mexico. Loan ____/OC-ME to the United Mexican States
Program to Improve the Pension System in Mexico

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 Program to Improve the Pension System in Mexico. 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 ____ 2022)