

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**MEXICO**

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE  
PROGRAM TO FINANCE PRODUCTIVE INFRASTRUCTURE AND  
SUSTAINABILITY IN MEXICO  
(ME-O0004)**

**FIRST OPERATION UNDER THE CCLIP FOR THE FINANCING OF THE SHARED  
TELECOMMUNICATIONS NETWORK  
(ME-L1284)**

**LOAN PROPOSAL**

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3. <a href="#">OECD study on telecommunications policies and regulations in Mexico</a>
4. <a href="#">Financing Infrastructure in Latin America and the Caribbean: How, How Much and by Whom?</a>
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## **ABBREVIATIONS**

Bancomext	Banco Nacional de Comercio Exterior S.N.C.
BANOBRAS	Banco Nacional de Obras y Servicios Públicos
CCLIP	Conditional credit line for investment projects
CFE	Federal Electricity Commission
ECLAC	Economic Commission for Latin America and the Caribbean
ESMR	Environmental and Social Management Report
HHI	Herfindahl-Hirschman Index
ICTs	Information and communication technologies
IFC	International Finance Corporation
IFT	Federal Telecommunications Institute
OECD	Organization for Economic Cooperation and Development
PCR	Project completion report
PDB	Public development bank
PPP	Public-private partnership
PROMTEL	Organismo Promotor de Inversiones en Telecomunicaciones [Telecommunications Investment Promotion Agency]
SCT	Department of Communications and Transportation
SFP	Civil Service Department
SMEs	Small and medium-sized enterprises
Telecomm	Telecomunicaciones de México

## PROJECT SUMMARY

### MEXICO

## CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PROGRAM TO FINANCE PRODUCTIVE INFRASTRUCTURE AND SUSTAINABILITY IN MEXICO (ME-O0004)

### FIRST OPERATION UNDER THE CCLIP FOR THE FINANCING OF THE SHARED TELECOMMUNICATIONS NETWORK (ME-L1284)

Financial terms and conditions					
<b>Borrower:</b> Banco Nacional de Comercio Exterior S.N.C. (Bancomext)			<b>Flexible Financing Facility<sup>(a)</sup></b>		
			<b>Amortization period:</b>	25 years	
<b>Executing agency:</b> Bancomext			<b>Disbursement period:</b>	4 years	
<b>Guarantor:</b> United Mexican States			<b>Grace period:</b>	5.5 years <sup>(b)</sup>	
<b>Source</b>	<b>CCLIP (US\$ million)</b>	<b>First operation (US\$ million)</b>	<b>%</b>	<b>Interest rate:</b>	LIBOR-based
				<b>Credit fee:</b>	(c)
				<b>Inspection and supervision fee:</b>	(c)
<b>IDB (Ordinary Capital):</b>	1,000	100	100	<b>Weighted average life:</b>	15.25 years
<b>Total:</b>	1,000	100	100	<b>Approval currency:</b>	U.S. dollars
Project at a glance					
<p><b>Project objective/description:</b> The objective of the multisector CCLIP is to facilitate access to long-term financing for investment in infrastructure to promote productivity and sustainability.</p> <p>The general objective of the first operation under the CCLIP is to increase long-term penetration in 4G or higher mobile broadband services through the building of Mexico's shared network. The project's specific objectives are to: (i) enhance the quality of mobile broadband service, (ii) reduce the per-megabyte cost of subscribing to 4G or higher mobile broadband service, and (iii) achieve an initial, medium-term increase in the number of subscribers to 4G or higher mobile broadband service.</p>					
<p><b>Special contractual conditions precedent to the first loan disbursement:</b> Entry into force of the program <a href="#">Operating Regulations</a>, upon prior agreement with the Bank (paragraph 3.6). For social and environmental conditions, see Annex B to the <a href="#">Environmental and Social Management Report (ESMR)</a>.</p>					
<p><b>Special conditions for execution:</b> For special socioenvironmental conditions related to execution, see Annex B to the <a href="#">ESMR</a>.</p>					
<b>Exceptions to Bank policies:</b> None.					
Strategic alignment					
<b>Challenges:<sup>(d)</sup></b>	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input type="checkbox"/>
<b>Crosscutting themes:<sup>(e)</sup></b>	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>	IC <input 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 and interest rate 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 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) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** Mexico's economy has proven resilient to a complex external environment in the past five years: Low oil prices, the monetary policy normalization process of the U.S. Federal Reserve, and the renegotiation of the North American Free Trade Agreement have posed the biggest challenges to the economy. GDP continued to grow at a moderate pace (2.0%) in 2017, driven by private consumption and a recovery in exports, and employment has returned to levels seen prior to the financial crisis.<sup>1</sup> In terms of economic policy, the flexible exchange rate has allowed the economy to adjust to external shocks: the 30% depreciation since 2012 has led to a rise in inflation (6.8%).
- 1.2 **Productivity, infrastructure, and financing.** Weak productivity is the main cause of Latin America's lagging economic growth, and Mexico is no exception, posting negative productivity (−0.2) on average between 2012 and 2016, partly due to existing gaps in infrastructure, especially telecommunications infrastructure. The ability to overcome this lag will hinge in part on the use of new technologies and infrastructure to make production processes more efficient and generate positive externalities in terms of society, technology, and environmental sustainability.<sup>2</sup> An estimated US\$57 trillion in infrastructure investment is needed through 2030 to meet GDP growth projections,<sup>3</sup> and a 1% increase in the infrastructure stock would boost GDP by an estimated 0.08%.<sup>4</sup> Despite the importance of investing in infrastructure, some large projects have not had their financing needs fully met; this is partly due to (i) tighter restrictions in banking systems on long-term loans in the wake of the financial crisis, due to greater aversion to risk and the entry into force of the Basel III capital and liquidity requirements; (ii) greater constraints on the fiscal headroom for the region's countries; (iii) a preference for lower-risk assets, stemming from the aging of the population in developed economies; and (iv) limited development of capital markets and limited knowledge among institutional investors related to infrastructure financing. Given these circumstances, public development banks (PDBs) complement the private market over the short term due to their lower vulnerability to the economic-financial cycle and their greater capacity to internalize the social returns related to infrastructure projects with positive externalities.
- 1.3 **Infrastructure gaps in Mexico.** Mexico's infrastructure is poorly developed relative to its level of economic development. In the World Economic Forum's Global Competitiveness Index, Mexico ranked 69th out of 139 countries in infrastructure quality—which represents a decline from previous years' rankings—and 84th out of 139 countries in telecom infrastructure. The McKinsey Global Institute quantifies Mexico's annual infrastructure investment gap at 1.1 percentage points of GDP,<sup>5</sup> and the Economic Commission for Latin America and the Caribbean (ECLAC)

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<sup>1</sup> The unemployment rate as of December 2017 was 3.3%.

<sup>2</sup> Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), IDB, 2017.

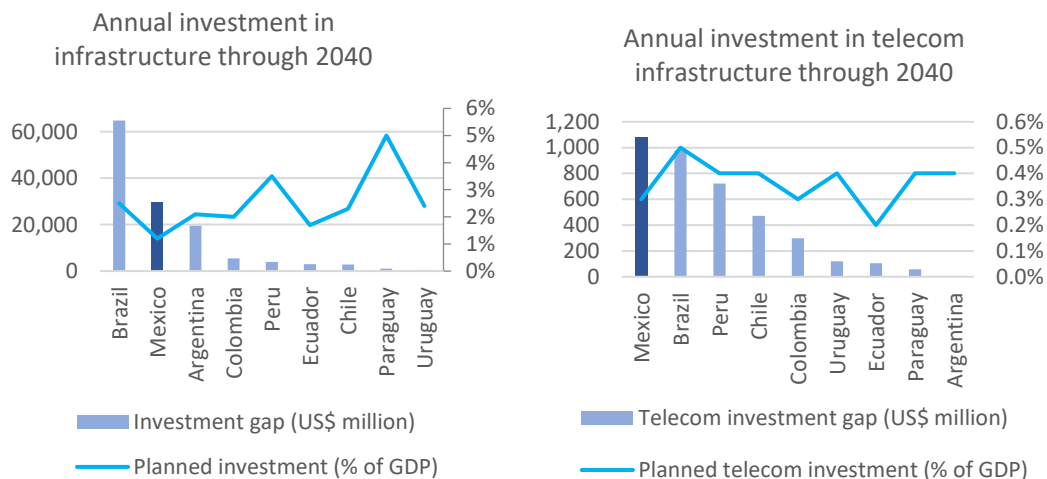
<sup>3</sup> Infrastructure productivity: How to save \$1 trillion a year. McKinsey Global Institute, 2013.

<sup>4</sup> See Estache, A. and Garsous, G., The Impact of Infrastructure on Growth in Developing Countries, International Finance Corporation (IFC) Economics Notes, Note 1, 2013.

<sup>5</sup> McKinsey Global Institute. Bridging Global Infrastructure Gaps. 2016.

estimates the cumulative gap in telecom infrastructure investment over the last five years at US\$50 billion.<sup>6</sup> The figures below show that, if current trends hold among the region's countries included in the analysis, (i) Mexico will have the second-largest annual investment gap (US\$29.629 billion) and the lowest level of planned investment (1.2% of GDP) in terms of annual infrastructure investment, which includes both telecom infrastructure and sustainability infrastructure such as water and energy;<sup>7</sup> and (ii) Mexico will have the largest investment gap (US\$1.077 billion) and the second-lowest level of planned investment (0.3% of GDP) in the subcategory of telecom infrastructure investment through 2040.<sup>8</sup>

**Figure 1. Annual planned investment and annual investment gap in infrastructure and telecom infrastructure through 2040**



- 1.4 **Productive infrastructure for connectivity and sustainability in Mexico.** To address this infrastructure gap, Mexico has pursued constitutional reforms to prioritize the development of productive infrastructure for broadband connectivity and sustainability, which are examples of technology infrastructure for productivity, sustainability, and social welfare.<sup>9 10</sup> The 2013 constitutional reform initiative on telecommunications and radio broadcasting included approval of a nationwide broadband infrastructure project for a shared network to meet Mexico's significant needs. Meanwhile, the 2013 energy reform package promotes sustainability infrastructure to meet the target set in the 2012 Climate Change Act of a 30% reduction in greenhouse gas emissions by 2020 (Mexico has the 12th-highest

<sup>6</sup> Azhar Jaimurzina. [Infrastructure Gap in Latin America: Challenges and Opportunities](#). ECLAC, 2016.

<sup>7</sup> In 2017 Mexico had an annual investment gap of US\$100 million for water infrastructure and US\$1.1 billion for energy infrastructure. The Bank's infrastructure strategy calls for providing the people of Latin America with access to quality utilities through effective planning and maintenance of infrastructure in order to ensure environmental, social, and fiscal sustainability.

<sup>8</sup> [Infrastructure Outlook. Global Infrastructure Hub, a G20 Initiative](#).

<sup>9</sup> A 10% increase in broadband penetration correlates on average to a 3.2% increase in GDP and a 2.6 percentage-point increase in productivity. García Zaballón, A. and López-Rivas, R. 2012. "Socioeconomic Impact of Broadband in Latin American and Caribbean Countries," Washington, D.C.: IDB.

<sup>10</sup> Each dollar spent on energy efficiency programs has led to a US\$5 to US\$8 increase in GDP. See Malone, L. and Howland J., 2014, "Energy Efficiency: Engine of Economic Growth in Canada," ENE / Acadia Center.

emissions levels in the world), as well as the target set in the 2014 Electricity Industry Act of a 35% increase in clean energy usage by 2024. The World Economic Forum estimates that US\$791 billion will need to be invested in sustainability infrastructure through 2030 to achieve these targets.<sup>11</sup>

- 1.5 **Constraints on infrastructure financing in Mexico.** Mexico's financial system is relatively shallow, with domestic lending to the private sector accounting for only 30% of GDP, well below what would be expected given the country's income level (100%).<sup>12</sup> This is due to structural factors such as (i) low levels of bank deposits, (ii) high transaction costs resulting from a productive structure that consists predominantly of micro and small enterprises operating largely in the informal sector; and (iii) a relative gap in institutional development. Infrastructure financing in Mexico comes predominantly from the public sector,<sup>13</sup> but, in view of the aforementioned challenges, the country has pursued recent reforms to enhance its capacity to attract private investment and financing for infrastructure.<sup>14</sup> Although large companies in Mexico have access to long-term credit, the commercial banking system's capacity to provide more long-term credit is limited due to constraints inherent to its sources of financing (primarily deposits and short-term loans in local currency).<sup>15</sup> On these projects, the difficulties inherent to long-term financing are compounded by difficulties in evaluating project risks (technical, regulatory, market, etc.) that not all commercial banks are accustomed to evaluating and managing, especially for more innovative or pioneering projects. Current economic and financial conditions—with greater risk aversion among investors (primarily international investors), the depreciation of the peso, and the monetary policy actions of Bank of Mexico—have led to an increase in medium- and long-term interest rates, adversely affecting returns on projects and the profitability of the banking system.<sup>16</sup>
- 1.6 **Demand for infrastructure financing in Mexico.** To address this growing need for investment in infrastructure (paragraph 1.3), a number of significant actors in the financial sector have increased their portfolio volume. Bancomext's portfolio has averaged 24% annual growth over the past 10 years, with its total portfolio balance equivalent to US\$12.8 billion at year-end 2017, up from US\$2.83 billion in 2007.<sup>17</sup>

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<sup>11</sup> [Climate Investment Opportunities in Emerging Markets. International Finance Corporation, 2016.](#)

<sup>12</sup> Bank of Mexico, [Report on the financial system](#), October 2017.

<sup>13</sup> According to data from the Department of Finance, more than 80% of investment in infrastructure since 2007 has been publicly funded, with only 18% (US\$17 billion) financed by the private sector. Of the funding provided by the government, 76% came from the federal budget, 4% from the National Infrastructure Fund, and 3% from loans provided by Banco Nacional de Obras y Servicios Públicos (BANOBRAS), Banco Nacional de Comercio Exterior S.N.C. (Bancomext), and Nacional Financiera (NAFIN).

<sup>14</sup> Mexico introduced reforms to promote long-term investment, such as loosening limits on equity investment by pension funds and developing such instruments as "development capital certificates." This could significantly help in financing projects that require maturity periods of about 15 years.

<sup>15</sup> In the Mexican market overall as of February 2018, the total amount in local currency of loans with terms greater than 120 months accounted for 9% of the total business portfolio of full-service banks and 3% of all loans issued. Meanwhile, in line with international practice, banks are financing about 60% of their medium- and long-term loans with short-term deposits and loans. See [Infrastructure Investing: It Matters, Swiss Re/Institute of International Finance, 2016.](#)

<sup>16</sup> [Bank of Mexico, Report on the financial system, October 2017.](#)

<sup>17</sup> Source: Bank projections based on figures provided by Bancomext. For more details, see the optional links [Institutional program of Banco Nacional de Comercio Exterior 2013-2018. Achievements 2015](#) and [Institutional program of Banco Nacional de Comercio Exterior 2013-2018. Progress and outcomes 2017](#). Balances are stated in U.S. dollars in accordance with the exchange rate at the time (December 2007 and December 2017).



The telecom sector's portfolio was 3% of the total portfolio in 2017. For the first operation under this CCLIP, the Bank's support is a major part of Bancomext's financing for the shared network and is part of Bancomext's financing strategy.

- 1.7 **The role of PDBs.** In view of the sizable infrastructure gap and the aforementioned constraints on long-term financing, PDBs play an increasingly crucial role in complementing the private market. This is particularly true in projects with the following characteristics: (i) significant positive externalities (technological, environmental, or social) that the private market cannot internalize in its price-and-profitability approach; (ii) a lack of experience among commercial banks in evaluating risks, due to the highly innovative nature of the projects; (iii) a lengthy amortization period, with the commercial bank needing long-term funding in U.S. dollars or local currency (each PDB has its own funding strategy in U.S. dollars, and Bancomext, whose portfolio in U.S. dollars accounts for some 80% of its total portfolio, tailors its funding strategy to regulatory considerations); (iv) reliance on a public-private partnership (PPP) approach that requires structured financing; and (v) a volatile macrofinancial environment at the national level—e.g., changes in the political environment, interest rates, or the exchange rate market—or at the international level, creating long-term uncertainty. PDBs complement the government's efforts to enhance the legal framework for PPPs<sup>18</sup> in order to encourage private financing for infrastructure projects. PDBs play a key role in complementing the private sector to ensure stable financing and overcome uncertainty related to market volatility and the expectation of lengthier return periods on infrastructure projects.<sup>19</sup>
- 1.8 **Telecommunications, productivity, and development.** Growth in the telecom sector and access to broadband services are necessary conditions for developing the digital economy. The high level of productivity per employee in the telecom sector, the high level of technological content and know-how related to investment in this sector, and, in particular, the indirect opportunities created for enterprises and workers in other sectors as a result of greater broadband connectivity mean that growth in the telecom sector significantly enhances macro-level productivity and growth.<sup>20</sup> These improvements stem from broader adoption of broadband services as a result of reliable, simultaneous access to a wide range of digital broadband (over-the-top) services such as voice, data, video, mobile app, and web services. Moreover, the direct impact alone of investment in broadband generates significant economic value for both companies and consumers.<sup>21</sup> In economies such as Mexico's, mobile broadband is the most cost-effective way to expand.
- 1.9 **Institutional and regulatory framework for telecommunications in Mexico.** The sector's legal framework is governed by the 2014 Federal Law on Telecommunications and Radio Broadcasting, which designates the Department of Communications and Transportation (SCT) as the entity responsible for public policy and the Federal Telecommunications Institute (IFT) as the national regulatory

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<sup>18</sup> The main advantage of this law is its flexibility in allowing projects that include all activities covered in other laws (purchasing, construction, leasing, and/or operation), and it could potentially expand the scope of the government's efforts to include any other type of operation.

<sup>19</sup> As of June 2017, the balance of loans provided by development institutions was Mex\$1.571 trillion, which is equivalent to 30% of total financing of the banking sector, or 5% of GDP (Bank of Mexico, 2017).

<sup>20</sup> See footnote 9.

<sup>21</sup> See Greenstein, S. and R. McDevitt (2012), [Measuring the Broadband Bonus in Thirty OECD Countries](#), OECD Digital Economy Papers, 197, OECD Publishing, Paris.

authority. Other significant entities in the sector are the Telecommunications Investment Promotion Agency (PROMTEL), a decentralized body under the SCT created by the Office of the President; the Federal Electricity Commission (CFE), the State-owned electricity transmission company, which owns a major fiber optic network deployed over electrical transmission towers; and Telecomunicaciones de México (Telecomm), a decentralized public entity that provides telecom services to government entities, enterprises, and individuals. Other significant laws for the telecom sector include the Law on Public-Private Partnerships (2012), the Regulations for Implementing the Law on Public-Private Partnerships (2012), the Foreign Investment Act (1993), the Federal Law on Economic Competition (2014), and the constitutional reform on telecommunications and radio broadcasting (2013).

- 1.10 **Constitutional reform on telecommunications and radio broadcasting.** In response to severe coverage and competition problems in the telecom sector,<sup>22</sup> the government launched an ambitious sector reform program in 2012 as part of the “Pact for Mexico.” Since some of these reforms required constitutional amendments, the reforms for this sector were grouped into the constitutional reform initiative for telecommunications, which included ambitious commitments such as (i) declaring broadband access to be a State-guaranteed human right; (ii) making the national regulatory authority more independent by creating the IFT<sup>23</sup> and by enhancing regulation and promoting competition in the sector; (iii) loosening restrictions on foreign direct investment in the sector; and (iv) deploying a wholesale telecom network using 90 MHz of the 700 MHz radio spectrum<sup>24</sup>—i.e., implementing the shared network project.<sup>25</sup> These reforms have led to positive changes in the telecom and radio broadcasting sector: (i) an increase in revenues of approximately 16%; (ii) a sharp decrease in prices, especially in mobile broadband;<sup>26</sup> (iii) substantial increases in the number of subscribers to both fixed and mobile broadband services, as well as improved broadband connection quality; (iv) a greater number of carriers and increased competition; and (v) greater use of services of the digital economy.<sup>27</sup>
- 1.11 **The impact of the constitutional reform on the market.** The constitutional reform on telecommunications and radio broadcasting has helped to invigorate the market, as evidenced by a number of key parameters, such as (i) the number of people with mobile broadband subscriptions (from 24 million in 2012 to 73 million in 2016);

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<sup>22</sup> See *Review of Telecommunication Policy and Regulation in Mexico*, OECD, 2012, which estimates the annual loss caused by dysfunctional regulation of the sector in Mexico at 1.8% of GDP between 2005 and 2009 (US\$129 billion). Mexico ranked lowest in the OECD in terms of penetration of services and investment per capita in telecommunications, while the profit margins of the leading carriers were twice the OECD average.

<sup>23</sup> The IFT does not report to the executive branch. Its mandate is to promote competition through ex ante regulatory efforts and defend competition through ex post regulatory efforts, including asymmetrical regulations. Also, the definition of market dominance by a telecom carrier was simplified to a greater than 50% market share, and the IFT was given six months to determine whether market dominance exists anywhere in Mexico’s telecom sector and, if so, to take the necessary asymmetrical measures.

<sup>24</sup> The 700 MHz band, which became available as a result of the “analog switch-off” that ended in 2015, is one of the best for development of mobile telecom services due to its electromagnetic properties.

<sup>25</sup> The shared network allows economies of scale to be leveraged, along with cost reductions enabling the assignment of the 90 MHz of spectrum band with high capacity and propagation (700 MHz); a wholesale telecom operator that is regulated and has no influence on the retail market to promote competition in services; and guaranteed minimum levels of quality.

<sup>26</sup> For example, the price of the low-usage basket (100 calls and 500 megabytes) fell 65% between 2013 and 2016.

<sup>27</sup> See the 2017 OECD study on telecommunications and radio broadcasting in Mexico.

(ii) the number of residential fiber optic connections (from 3.8% in 2012 to 16.1% in 2016); (iii) the contribution of the telecom and radio broadcasting sector to GDP (from 2.7% in 2011 to 3.5% in 2016); the price index for international calls (a 40% drop between 2013 and 2015); (v) prices for mobile broadband services (decreased by 65% for the low-usage package, 61% for the medium-usage package, and 75% for the high-usage package between 2013 and 2016); (vi) prices for fixed broadband services (decreased by 6% for the low-usage package and 22% for the high-usage package between 2013 and 2016); (vii) prices for international roaming (from US\$19 per megabyte in 2011 to no surcharges for customers of Mexican carriers traveling elsewhere in North America in 2015); (viii) foreign direct investment in the telecom and radio broadcasting sector (from US\$1.2 billion in 2012 to 2.813 billion in 2015); (ix) investment per capita in the sector (from US\$12 in 2013 to US\$16 in 2015); (x) average peak speed of broadband service (from 11.5 Mbps in 2011 to 35.2 Mbps in 2016); (xi) average broadband speed (from 2.4 Mbps in 2011 to 7.4 Mbps in 2016); (xii) number of households with Internet access (from 7 million in 2011 to 15.7 million in 2016); (xiii) market share of the leading carrier in landline telephone services (from 69.1% in 2012 to 63.2% in 2016); (xiv) market share of leading carrier in fixed broadband services (from 67.1% in 2012 to 57.5% in 2016); (xv) market share of leading carrier in mobile phone services (from 69.9% in 2012 to 64.9% in 2016); (xvi) market share of the leading carrier in mobile broadband services (from 83.8% in 2012 to 71.8% in 2016); and (xvii) amount of the radio spectrum available for wireless telecommunications (from 222 MHz prior to the reform initiative to 374 MHz in 2017).<sup>28</sup>

- 1.12 **The telecom and mobile broadband sector in Mexico.** In 2017 the telecom and radio broadcasting sector accounted for 2.5% of GDP and more than 265,000 jobs (42% of them held by women).<sup>29</sup> The main actors in the mobile broadband subsector—to which the shared network most directly belongs—are América Móvil or Telcel (65.2% market share), Telefónica (21.4%), AT&T (12.2%), and 14 virtual mobile carriers (1.2% combined).<sup>30</sup> Despite the progress spurred by the 2012 telecommunications reform, Mexico continues to lag behind its peers in certain indicators. Mexico's mobile broadband market scores a 3.33 (on a scale of 1 to 8) in terms of market concentration on the Herfindahl-Hirschman Index (HHI), which is below the averages for Latin America and the Caribbean (5.03) and the OECD countries (6.49). Mexico also lags behind the OECD in terms of mobile broadband penetration (65% in Mexico, compared to 87% in the OECD).<sup>31</sup>
- 1.13 **The shared network model.** The constitutional reform of telecommunications and radio broadcasting included the shared network project to enhance coverage, quality, and competition in broadband services. Under this mandate, the SCT, PROMTEL, and the IFT structured a 20-year concession for the private sector to develop, finance, deploy, operate, and maintain a 4G network.<sup>32</sup> Using a highly innovative and pioneering approach, the project aims to deploy a mobile broadband

<sup>28</sup> The low-usage package of mobile broadband services was defined as 100 calls and 500 MB; the medium-usage package, as 300 calls and 1 GB; and the high-usage package, as 900 calls and 2 GB. The low-usage package of fixed broadband services was defined as 20 GB; and the high-usage package, as 200 GB. See the 2017 OECD study on Mexican telecommunications and radio broadcasting.

<sup>29</sup> [Third quarterly statistical report 2017](#). IFT.

<sup>30</sup> See footnote 26.

<sup>31</sup> [La gobernanza de las telecomunicaciones: hacia la economía digital](#). IDB. 2017.

<sup>32</sup> The shared network will use advanced 4.5G/LTE wireless technology or higher.

network that will provide exclusively wholesale services<sup>33</sup> regulated by the IFT to cover nearly the entire population through services provided by retail carriers, which can focus their resources and efforts on competing in terms of quality and price in the services they provide to end users without having to pay up front for costly investments to deploy broadband infrastructure. Under this self-financing PPP approach, the government's contribution is focused primarily on leasing the 700 MHz spectrum and granting the rights to use two fiber optic strands of the CFE's network that are concessioned out by Telecomm. Complementing the government's contribution are PDBs and multilateral development banks (the International Finance Corporation and IDB Invest). Unlike the vast majority of spectrum allocations, the bidding process hinged not on the economic bid, but on the degree of population coverage to which each bidder committed. This coverage rate had to be at least 85%, and the winning bid—submitted by the consortium Altán Redes<sup>34</sup>—committed to 92.2% coverage by 2024. PROMTEL will oversee fulfillment of the PPP contract and the obligations of Altán Redes, which include (i) starting up operations in 2018;<sup>35</sup> (ii) fulfilling requirements related to minimum service quality;<sup>36</sup> (iii) fulfilling the level of population coverage promised in its bid,<sup>37</sup> including the 111 “magical towns”;<sup>38, 39</sup> and (iv) reserving capacity for virtual mobile carriers.

- 1.14 **Business model and competitive advantages of the shared network.** The shared network will sell its broadband capacity to mobile telecom carriers. These carriers will then provide 4G LTE technology to end users, who will experience lesser degrees of latency<sup>40</sup> and higher download and upload speeds (16.2 Mbps, compared to 4.4 Mbps on 3G networks),<sup>41</sup> thus allowing a broader range of consumers and

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<sup>33</sup> To ensure functional separation of the wholesale and retail markets, the winning bidder could not wield influence over any telecom carrier in the Mexican market and could only provide wholesale services to resellers or other network carriers.

<sup>34</sup> Altán Redes, S.A.P.I de C.V. won the international competitive bidding process held by the Department of Communications and Transportation for the shared network. Altán Redes is a Mexican company backed by a multinational consortium consisting of strategic partners (e.g., Multitel), financial investors (e.g., Morgan Stanley Infrastructure, Caisse de dépôt et placement du Québec, CKD Infraestructura México), bilateral and multilateral development institutions (e.g., IFC, China Mexico Fund), and local partners (e.g., Axtel, Megacable). See <http://altanredes.com/quienes-somos/>.

<sup>35</sup> The startup of operations in 2018 was to be evidenced by the signing of at least one contract with a wholesale telecommunications services client. This requirement was met when operations commenced on 21 March 2018 with 32.2% population coverage.

<sup>36</sup> The shared network will use technology that ensures a comparable minimum transmission speed. The minimum speed for service to end users over the shared network is set at 4 Mbps for downloads (from the carrier's antenna to the user's terminal) and 1 Mbps for uploads (from the user's terminal to the operator's antenna) during peak periods.

<sup>37</sup> Population coverage must be at least 30% by 31 March 2018, 50% by 24 January 2020, 70% by 24 January 2021, 85% by 24 January 2022, 88.6% by 24 January 2023, and 92.2% by 24 January 2024. Towns with fewer than 10,000 residents must account for 15% of each percentage point of population coverage.

<sup>38</sup> The “Magical Towns” program of the Department of Tourism, in collaboration with various state and municipal governments and government entities, fosters a renewed appreciation of towns that have always held a place in the collective conscience and which represent alternatives for visitors. See <http://pueblosmexico.com.mx/>.

<sup>39</sup> The deployment of infrastructure may be monitored through PROMTEL's geographical display. See <http://www.redcompartida.igg.unam.mx/geoportal/home>.

<sup>40</sup> Latency is the time it takes data to travel from sender to receiver. For example, latency on an IP-based voice call is the time from the moment one person utters a sound until the moment the other person hears it.

<sup>41</sup> Overall average speed according to Open Signal. 2017. *The State of LTE*.

enterprises to use the new digital services. The shared network will provide wholesale broadband services to virtual mobile carriers and other telecom service providers that lack access to mobile carrier networks or only have such access at less competitive prices and lower quality levels. The shared network has the following competitive advantages: (i) it provides services under business conditions regulated by the IFT and subject to the framework for the PPP contract; (ii) no conflicts of interest with retail telecom service providers, since Altán Redes cannot influence any economic actor in the retail market; (iii) deployment is faster and less costly due to the greater reach of the 700 MHz band, thus enabling greater coverage;<sup>42</sup> and (iv) higher data transfer speeds than other networks due to the use of the latest generation of 4G technology, with sights set on a future transition to 5G.

- 1.15 **Regulation and oversight of the shared network.** Effective functioning of the shared network will hinge largely on the nondiscriminatory provision of wholesale services at competitive prices. The IFT is in charge of the regulatory framework for telecommunications and for overseeing the fulfilment of basic conditions for functioning of the shared network, such as (i) ensuring that the infrastructure of all components of the network are shared on a disaggregated basis; (ii) ensuring that carriers that purchase wholesale services from the network are required to provide such services to other actors under the same conditions in which they received them from the wholesaler; (iii) upholding the principle of technological neutrality; and (iv) applying a rate policy to ensure that the benefits of operating the network will be used to modernize and expand the network and to meet coverage requirements.<sup>43</sup> To this end, the IFT has approved pro forma bidding documents that set forth the terms and conditions under which the shared network will operate vis-à-vis the retail service providers. In addition, the OECD has recommended complementary reforms to promote demand for wholesale broadband services, such as passing regulations on international roaming, completing the bidding process for the 2.5 GHz radio spectrum band, and developing and approving a methodology for ensuring that Altán Redes fulfills its obligations.<sup>44</sup>
- 1.16 **Technical characteristics of the shared network.** To meet its obligations in terms of coverage and minimum service quality, Altán Redes will invest in the deployment and/or lease of a significant amount of telecom infrastructure. For example, it will need to operate an estimated 15,000 telecom towers equipped with 4G (or more advanced) antennas, and it will need to use at least some 25,000 km of the backbone fiber optic network currently deployed over the CFE's electrical transmission lines—or another equivalent network—plus any additional fiber optic segments and/or microwave links needed to connect the backbone to the towers where the 4G antennas will be installed. The network will also require other features, such as an operational support system, a business support system, a network operations center, and a service operations center.

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<sup>42</sup> The distance over which an electromagnetic wave can carry data at acceptable noise and power levels to a receiving antenna (e.g., a mobile phone) depends on, *inter alia*, the wave's frequency. A wave that oscillates very quickly—i.e., one with high-frequency cycles (e.g., 1,700 million cycles per second, or megahertz) can carry data at acceptable noise and power levels over a shorter distance than a lower-frequency wave (e.g., 700 megahertz). For example, an electromagnetic wave oscillating at a frequency of 700 MHz can carry data up to three times farther than a wave that oscillates at 1,700 MHz.

<sup>43</sup> [Shared Network: General Criteria](#). SCT. 2015.

<sup>44</sup> See 2017 OECD study on telecommunications and radio broadcasting in Mexico.



- 1.17 **The strategic role of PDBs in supporting the shared network.** Mexico will be the only country in the OECD with a purely wholesale nationwide network for mobile telecommunications. Its innovative nature aside, the shared network has other traits that make it a prime example of a project in which PDBs play a key role: (i) a lack of experience among commercial banks in evaluating risks inherent to a highly technological and pioneering business model; (ii) the high level of total investment (estimated at US\$7 billion) needed over the 20 years of the concession; (iii) the importance of aligning the investment period with structured long-term financing typical of a PPP; and (iv) strong externalities of a model based on expanding broadband coverage to as many people as possible over the broadest possible geographical area in a commercially sustainable way.
- 1.18 **PDB financing for the shared network.** The bidding process introduced the option of financing through three PDBs (BANOBRAS, NAFIN, and Bancomext) to make the initial investment more viable through some US\$2.3 billion in financing. This financing through PDBs would be for up to US\$690 million (30% of the initial financing and about 10% of the total investment) in loans that would come due in 14 years, and up to US\$238 million in a liquid line of credit.<sup>45</sup> The winning bidder, Altán Redes, exercised this option in the bidding process. In view of the fact that there was only one bid, this reveals the importance of this option in making the project financially viable and leveraging private investment. Financing from PDBs is complemented by funding from the multinational consortium that includes Altán Redes, a Mexican company (33% of the total),<sup>46</sup> and the financing provided by the technology providers—Huawei and Nokia—for a total of US\$850 million (37%) with a 10-year term. This funding is expected to be gradually replaced by commercial bank loans as the project enters into operation and begins to generate its own revenues on a sustainable basis.
- 1.19 **The Bank's sector experience in Mexico and the region, and lessons learned.** The Bank has been supporting a number of public entities in the financial and telecom sectors to enhance productivity in Mexico. The Bank recently supported the government's policy reforms under the Program to Boost Productivity in Mexico II (loan [3739/OC-ME](#)), as well as implementation of some of these reforms through the technical cooperation operation "Support to the Strategic and Regulatory Modernization of the IFT" (technical cooperation operation [ATN/OC-14768-ME](#)) in the telecom sector and execution of loans [1677/OC-ME](#) and [3563/OC-ME](#) in the financial sector by Bancomext. An example is this latest operation, the Financing

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<sup>45</sup> [Altán Redes successfully completes financing for "Red Compartida." Altán Redes.](#) The SHCP coordinates PDBs at a general public-policy level, and CitiBanamex serves as the agent bank in financing the shared network.

<sup>46</sup> Altán Redes is a Mexican company backed by a multinational consortium consisting of the following actors: (i) Grupo Multitel, a telecom carrier in Spain under the ONO brand, as a strategic partner in charge of project management; (ii) the financial investor Morgan Stanley Infrastructure (33.7% of shares), manager of the infrastructure fund North Haven Infrastructure Partners II, and its subsidiary, Marapendi Holding B.V.; (iii) the China-Mexico Fund, (23.36%), a bilateral development initiative managed by the World Bank Group's IFC through the China-Mexico Fund Investment Company II; (iv) Caisse de dépôt et placement du Québec (14.4%), a Canadian pension fund manager, through the coinvestment platform CKD Infraestructura México, which brings together Mexican institutional investors; (v) Hansam S.A. (9.4%), a quasi-sole proprietorship investment vehicle; (vi) FFLATAM-15-1 (6.54%), a trust fund consisting of Banco Invex S.A., Institución de Banca Múltiple, and Invex Grupo Financiero, which issues fiduciary security certificates; (vii) Isla Guadalupe Investments (3.4%), a sole proprietorship; (viii) Megacable (3.9%), a Mexican telecom company; (ix) the World Bank Group's multilateral development institution (IFC) (3.34%); and (x) Axtel, a Mexican telecom Company (2.0%).

Program for Investment and Risk Management in Gas and Clean Energy Projects (loan [3563/OC-ME](#)), which was satisfactorily executed. This Bank experience in designing financial solutions for infrastructure projects has yielded lessons learned, such as (i) progress in contributing to development of the learning curve and strengthening the institutional capacity of Bancomext, as well as greater experience in managing projects with a high degree of technical and financial complexity to complement the credit market, primarily over the long term; and (ii) the value of developing instruments and mechanisms to standardize loan operations and design new financing structures and approaches, while mobilizing the financial and capital resources of third parties. In other countries in the region, the Bank is supporting similar initiatives in these sectors, such as the Fourth Program for the Financing of Investment Projects, Productive Restructuring, and Export Development (loan [4439/OC-CO](#)) in Colombia, also under a CCLIP; and the investment project for deployment of telecom infrastructure, such as the Broadband Program (loan [3612/BL-NI](#)) in Nicaragua, which has yielded the lesson learned of the strategic importance for the operation to be designed to promote cooperation between the public and private sectors in order to promote the expansion of this type of infrastructure.

- 1.20 **Coordination with the IDB Group.** IDB Invest recently approved the shared network/Altán loan (loan [4516/CH-ME](#)) for up to US\$75 million to finance the design, installation, deployment, operation, maintenance, modernization, and related expenses of the shared network. Specifically, IDB Invest is providing up to US\$75 million in long-term financing in multiple tranches, both in U.S. dollars and Mexican pesos, including US\$25 million from the China Co-financing Fund for Latin America and the Caribbean. Because the Bank has executed previous operations to support PDBs, the execution mechanism for this operation is based on similar implementation methods used in previous operations between PDBs in Mexico and the Bank. The Bank and IDB Invest are thereby supporting some of the leading public and private actors, respectively, in order to contribute to the success of significant initiatives for Mexico, such as the shared network. Dialogue between the Bank and IDB Invest will also continue in order to address other any other needs that may emerge in Mexico related to financing for connectivity infrastructure, which may require public and private support and may be eligible for financing under this CCLIP and under future operations to support the private sector, respectively.
- 1.21 **Strategic alignment.** The CCLIP and the first operation are consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and the challenge of “productivity and innovation” by supporting the technological modernization of productive and connectivity infrastructure. The purpose of this investment in the shared network is long-term penetration in 4G or higher mobile broadband services through a significant increase in the coverage of such services—at least 92.2% of the Mexican population by 2024. The operation is also aligned with the Corporate Results Framework 2016-2019 (document GN-2727-6), specifically with the indicator of government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery. The project is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), which identifies the need to improve government policies and actions in the information and communication technologies (ICTs) sector. It is also consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8), which identifies a lack of adoption of ICTs as a major factor undermining productivity. In addition, the program

is aligned with the Bank's country strategy with Mexico 2013-2018 (document GN-2749), with the strategic objectives of increasing the level of finance available to the real economy, supporting the development of logistics and telecommunications systems, and promoting innovation and entrepreneurship, thus contributing to the priority area of productivity, specifically business competitiveness (e.g., the telecom sector), and to territorial development, specifically the challenge of climate change (e.g. energy sector). Lastly, the operation is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2).

**B. Objectives, components, and cost**

- 1.22 **The CCLIP.** The objective of the multisector CCLIP is to facilitate access to long-term financing for investment in infrastructure to promote productivity and sustainability.
- 1.23 **First operation under the CCLIP to finance the shared telecommunications network.** The objective of the first operation under the CCLIP is to increase long-term penetration in 4G or higher mobile broadband services through the building of Mexico's shared network. The project's specific objectives are to: (i) enhance the quality of mobile broadband service, (ii) reduce the per-megabyte cost of subscribing to 4G or higher mobile broadband service, and (iii) achieve an initial, medium-term increase in the number of subscribers to 4G or higher mobile broadband service.
- 1.24 **Sole component.** This first operation will be for US\$100 million, and its only component will be to provide credit for the shared network.<sup>47</sup> The operation will make a decisive contribution to supporting Bancomext's contribution to the total funding by public development banks—US\$690 million, or 30% of total financing of the shared network, which is one of the State's main commitments under the constitutional reform for telecommunications and radio broadcasting.<sup>48</sup> The operation will finance a proportional part of total investment in telecommunications infrastructure, such as the purchase and installation or leasing of fiber optic cable, posts, mobile broadband antennas, etc.
- 1.25 **The Bank's additionality.** The Bank is providing specific technical support in such areas as (i) structuring of financing for the operation; (ii) design of risk mitigation approaches that are adaptable to the concession under this operation, such as liquid lines of credit; (iii) design of frameworks for monitoring outcome indicators in the area of telecommunications infrastructure development; and (iv) interagency coordination in securing sector data and monitoring the operation between relevant agencies (e.g., IFT, PROMTEL, and Bancomext). Based on the specific nature of each operation under the CCLIP, the project team will involve the most suitable sector specialists to provide continuous coordination with other sectors.
- 1.26 **Beneficiaries.** The initial beneficiaries of the loan operation between the Bank and Bancomext will include the providers of mobile telecommunications services that will have access to the shared network infrastructure and offer their services to end users. The ultimate beneficiaries of the shared network will be the individuals, households, enterprises, and institutions in the area of influence of the shared network, which will cover 92.2% of the population in 2024. These ultimate

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<sup>47</sup> The Operating Regulations for this operation between the Bank and Bancomext uses the acronym PROFIRE when referring to the Program to Finance the shared Telecom Network for consistency with the naming of other Bancomext projects.

<sup>48</sup> [Altán Redes successfully completes financing of the "Red Compartida." Altán Redes.](#)



beneficiaries will have access to mobile broadband services at a minimum level of quality guaranteed by the shared network. Using the surplus methodology, the universe of beneficiaries impacted by the project has been separated into two different groups: consumers and producers.<sup>49</sup>

### C. Key results indicators

- 1.27 **Expected outputs, outcomes, and impacts.** The operation's main impact will be the increased long-term penetration of 4G or higher mobile broadband services (number of lines per 100 people). The operation is also expected to impact the level of market concentration, measured as an improvement in the HHI score for concentration of the mobile broadband market. In terms of specific objectives, the outcomes will be (i) enhanced quality of mobile broadband traffic, measured as speed (megabits per second); (ii) reduced mobile broadband service costs, measured as the per-megabyte cost of subscribing to 4G or higher mobile broadband service; and (iii) an initial, medium-term increase in the penetration of 4G or higher mobile broadband service, measured as the number of lines subscribed to such service per 100 people. The output for the operation will be increased nationwide coverage of 4G or higher mobile broadband service as a result of investment in the shared network, measured as the percentage of the population covered by this service.
- 1.28 **Economic analysis.** In view of the nature of the operation and the experience of the executing agency, the [economic analysis](#) is based on a cost-benefit analysis. The net benefits are discounted at the 12% rate typically used by the Bank. The shared network project under the first operation has a 20-year evaluation horizon. An exchange rate of Mex\$17.06 to US\$1 is being used.<sup>50</sup> A sensitivity analysis was conducted, taking into account changes in benefits (e.g., increased coverage of 4G or higher mobile broadband services). This analysis indicates that the proposed operation is socioeconomically beneficial,<sup>51</sup> even in the most conservative scenarios that were examined.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 The multisector CCLIP will use US\$1 billion from the Bank's Ordinary Capital. The first operation is a US\$100 million global credit operation. All disbursement methods will be available, in accordance with Bank policies—i.e., on the basis of portfolio programming (advances) or the portfolio taken on by Bancomext. Program resources will be disbursed over a 48-month period starting on the effective date of

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<sup>49</sup> Consumers will be all end users of mobile broadband service, both individuals and enterprises. Producers will be wholesalers in the mobile broadband market—in this case, Altán Redes—and retailers providing the final service to consumers. The shared network will not sell its services directly to end users; it will be used by mobile telecom service providers that will purchase mobile broadband capacity and then sell it to their individual customers. Potential customers of the shared network include (i) existing telecom carriers that wish to provide multiplay services; (ii) existing mobile network carriers that wish to attain greater coverage and capacity; (iii) other providers of services based on nonpersonal devices; and (iv) new service providers for machine-to-machine communication, the "Internet of things," etc.

<sup>50</sup> This exchange rate was suggested in the call for bids in the shared network competitive bidding process.

<sup>51</sup> The social net present value is US\$2.35 billion.

the loan contract, in accordance with the project investment timetable. The table below summarizes the disbursement timetable.

**Table 1. Timetable of Bank disbursements**

Year	2018	2019	2020	2021
Disbursement (US\$ million)	40	40	15	5

- 2.2 **Rationale for the financing instrument.** The CCLIP is the Bank's most suitable operational instrument for financing the first operation as well as subsequent operations for investment in productivity infrastructure and sustainability in the Bancomext pipeline. Bancomext is a full-service, sustainable PDB institution with a mandate to finance operations in a number of productive sectors.<sup>52</sup> In view of past experience, the operations to be financed are expected to consist of infrastructure investments of varying magnitude in sectors that contribute to productivity and sustainability. The CCLIP is a strategic instrument in this regard, as it provides a framework of benchmark resources over the medium and long terms.
- 2.3 **Projects eligible for CCLIP financing.** Given the aforementioned needs for investment in infrastructure, as well as changes in Bancomext's portfolio, the main types of projects that are expected to be supported with operations under the CCLIP are those related to energy efficiency, renewable energies (e.g., solar, wind, hydropower), combined-cycle plants, productive enhancement of small and medium-sized enterprises (SMEs), support for strategic sectors (transportation, telecom, etc.). PDBs will be used to finance telecom and clean energy infrastructure prioritized by the government with long-term financing instruments. This support is justified by long-term financing needs such as positive externalities (technological, environmental, and social) and impacts for development of prioritized sectors. The CCLIP is also aligned with other Bancomext initiatives, such as programs to finance infrastructure for productivity in industry, commerce, services, logistics, energy, and telecommunications, as well as other government initiatives.
- 2.4 **Fulfillment of CCLIP eligibility criteria.** In accordance with the eligibility criteria set forth in the policy governing the CCLIP (paragraph 1.19 of document GN-2246-9) and its operational guidelines (document GN-2246-11): (i) the areas to be financed are included in the priorities set forth in the relevant IDB country strategy and program (paragraph 1.21); (ii) Bancomext is a comprehensive, sustainable PDB with the capacity to coordinate and monitor the operational program for all sectors included under the credit line; (iii) Bancomext has demonstrated administrative, operational, and fiduciary institutional capacity in recent similar operations; (iv) Bancomext has successfully executed other similar operations with the Bank in the past five years (see loan 3563/OC-ME); and (v) on this previous operation: (a) overall execution and outcomes were satisfactory; (b) Bancomext fulfilled the conditions of the loan contract; and (c) financial and operational reports were prepared and submitted in a timely manner and with an acceptable level of quality. Each operation under the CCLIP will have its own program Operating Regulations that specify (i) the types of enterprises that will be eligible, (ii) the maximum loan amount, (iii) compliance with social and environmental policies, (iv) economic sectors to be supported, and (v) eligible intermediary institutions in the event that second-tier operations are carried out.

<sup>52</sup> [Bancomext 2013-2018 institutional program.](#)

- 2.5 **Fulfillment of eligibility criteria in the first individual operation under the CCLIP.** The first operation fulfills the eligibility criteria for individual loan operations under the multisector CCLIPs set forth in the policy (document GN-2246-9) and operational guidelines (document GN-2246-11), namely: (i) it is included in the CCLIP's objective of supporting productivity; (ii) as part of the programming dialogue, the operation was included in the 2018 operational program in accordance with the update to Annex III of the 2018 Operational Program Report (document GN-2915-2); and (iii) the executing agency (Bancomext) is an integral and sustainable part of the public development banking system.

**B. Environmental and social risks**

- 2.6 This operation does not need to be classified. As a financial intermediation operation, in accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), Directive B.13, this operation may not be classified on an ex ante basis. In view of the magnitude and potential socioenvironmental impacts under this first operation, this is considered a medium-level risk of financial intermediation (FI-2). The potential socioenvironmental risks were identified as low to medium, and they will be managed by implementing an environmental and social risk management framework, which will be included in the program Operating Regulations. The subproject was classified as a category "B" operation in accordance with Bank policies. For more information, see the program's [ESMR](#).

**C. Other project risks and key considerations**

- 2.7 **Development.** A medium-level development risk was identified in the possibility that additional costs and delays in deploying connectivity infrastructure may jeopardize the financial viability of Altán Redes and the shared network. To mitigate this risk, Bancomext will make an additional liquid line of credit available to Altán Redes to help address any additional costs without jeopardizing the financial viability of Altán Redes and the shared network.
- 2.8 **Public management and governance.** The following two medium-level risks were identified in public management and governance: (i) that the regulatory framework may not ensure transparency, nondiscrimination, and quality in the provision of wholesale telecom services, which could be achieved through passage of regulatory reforms such as a benchmark public bidding process that specifies the terms, conditions, and prices for wholesale telecom services provided by Altán Redes; and (ii) that complementary regulatory reforms may not be carried out to support the demand for wholesale mobile broadband services, such as the reforms recommended by the OECD for effective business development of the shared network, including attractive and flexible benchmark bidding processes, regulations for international roaming, methodologies to oversee the fulfillment of the requirements of the shared network, and the bidding process for the 2.5 GHz spectrum band. To mitigate these two risks in public management and governance, the Bank is making specialized training available to the IFT as part of the technical cooperation operations "Strengthening the Digital Competencies in the Region" ([ATN/OC-16222-RG](#)) and "Knowledge Generation and Strengthening of Institutional Capacities for the Development of Infrastructure and the Digital Economy in Latin America and the Caribbean" ([ATN/OC-16470-RG](#)), enabling the IFT to develop the technical capacities to approve effective regulatory instruments.

- 2.9 **Sustainability.** The operation will provide financial support to Altán Redes to facilitate investment in telecom infrastructure assets for the shared network. The useful life of the telecom assets to be built or leased under the shared network project will outlast this operation. Also, the estimates supporting the Altán Redes business model indicate that the financing needed to execute the shared network project is only a fraction (about one third) of the total investment needed for the shared network, because the cash flows generated by the company's revenue as the shared network gains more clients with increased coverage will allow the project to be economically and financially sustainable.
- 2.10 No post-approval design activities have been identified. No activities modifying the design of the loan operation are expected between the Bank and Bancomext after approval. Altán Redes will operate the shared network, financed in part by Bancomext with proceeds from the loan operation, and will make the necessary technical adjustments to the design of the shared network in order to complete the installation of the telecom infrastructure and provide mobile broadband services in a timely manner and as required, as well as activities to maintain, repair, and update equipment as needed beyond the end of this operation.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** Bancomext will be the borrower with the sovereign guarantee of the State,<sup>53</sup> as well as the executing agency for the CCLIP for financing operations, including this operation, using its own operational infrastructure and in accordance with the Operating Regulations. Bancomext's portfolio of infrastructure projects has grown at an annual rate of more than 10% over the past five years, especially in strategic sectors such as energy and telecommunications, and it has significant potential for projects in upcoming years. Bancomext is a PDB that provides loans and guarantees, directly or through financial intermediaries, to help Mexican enterprises become more productive and competitive. The executing agency has been a satisfactory borrower and executing agency in other operations with the Bank (loan [3563/OC-ME](#)), where it has demonstrated administrative, operational, and fiduciary capacity.
- 3.2 In addition, the CCLIP and the operation will allow Bancomext to expand its operations in sectors of productive infrastructure and sustainability. Bancomext is strengthening its role as a PDB through institutional strengthening and management of energy efficiency under technical cooperation operations [ATN/CF-15453-RG](#) (to help SMEs invest in energy efficiency and expand the pipeline of eligible projects), and [ATN/CF-15571-RG](#) (to promote financial strategies for mobilizing private-sector investment in energy efficiency and renewable energies). The CCLIP and the operation also provide continuity to the government's policy reforms supported by the Bank under the Program to Boost Productivity in Mexico II (loan [3739/OC-ME](#)), as well as support for implementation of such reforms through the technical cooperation operation "Support to the Strategic and Regulatory Modernization of the IFT" (technical cooperation operation [ATN/OC-14768-ME](#)).

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<sup>53</sup> The law establishing Bancomext expressly states that operations are backed by the guarantee of the United Mexican States. Nonetheless, a guarantee contract will also be signed between the United Mexican States and the Bank.

- 3.3 **Structure of the executing agency.** Bancomext will execute the program using its current mandate and organizational structure, without the need for significant change to its operations. The executing agency will manage the program, including planning, origination, promotion, structuring, negotiation, formalization, monitoring and evaluation, legal oversight, and accounting and financial control, as well as any other activity needed to properly manage the program. The Bank will approve this first loan operation under the CCLIP, which will give rise to a single subloan from the executing agency to Altán Redes (sole subborrower), and the Bank will release disbursements to enable Bancomext to disburse funds in accordance with the conditions and mechanisms set forth in paragraphs 3.4 to 3.10. Multiple subloans may be generated for future operations under the CCLIP if deemed necessary in the course of discussions with Bancomext.
- 3.4 **Execution rules.** Rules for program execution will be set forth in the [Operating Regulations](#) to be agreed upon between the executing agency and the Bank, within the framework of the executing agency's and Bank's rules and policies as well as financial laws and practices in Mexico. The eligibility criteria for projects to be financed by the executing agency under this multisector CCLIP will specify infrastructure projects aimed at promoting productivity and sustainability in sectors such as the financial, environmental, clean-energy, and telecommunications sectors and others targeted by the executing agency. Bancomext will be the financial intermediary between the Bank and the subborrowers. The Operating Regulations will provide detailed information on the internal approval process, eligibility criteria, eligible financing operations, disbursement procedures, and monitoring and evaluation requirements, as well as the environmental and social conditions required by the [ESMR](#). In this sense, it is noted that category "A" projects will not be financed under this first operation.
- 3.5 **The role of Altán Redes.** Bancomext granted a subloan to Altán Redes S.A.P.I. de C.V. as an eligible subborrower, pursuant to the conditions and mechanisms set forth in the Operating Regulations. Altán Redes will be the subborrower of the first operation under the CCLIP, for which Bancomext will be the executing agency. Altán Redes will carry out the investments needed to deploy and/or lease telecom infrastructure for the shared network and will operate it in accordance with the broadband coverage and service quality requirements to which it agreed in the bidding process.
- 3.6 **Special contractual conditions precedent to the first disbursement. As a special contractual condition precedent to the first loan disbursement, the program [Operating Regulations](#) will have entered into force, upon prior agreement with the Bank.** This is critical to ensuring that the executing agency has detailed rules in place for operational aspects during execution.
- 3.7 **Procurement.** Procurement procedures for this operation will be consistent with Bank policies. As a demand-based financial intermediation program, no procurement of works, goods, or consulting or nonconsulting services is expected to occur as part of program execution. The proposal, therefore, does not include a multiyear execution plan or a procurement plan. Any procurement of consulting or nonconsulting services that may be needed for program administration and/or evaluation will comply with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), or any subsequent updates thereof.



- 3.8 **Retroactive financing.** The Bank may retroactively finance, as a charge against the loan proceeds,<sup>54</sup> eligible expenses incurred by the borrower before the loan approval date up to a maximum of US\$20 million (20% of the loan amount), provided that requirements substantially similar to those set forth in the loan contract have been met. These expenses will have been incurred no earlier than 26 April 2018 (the project profile approval date), but in no case may expenses incurred more than 18 months before the loan approval date be included.
- 3.9 **Disbursement mechanism and use of recoveries.** Disbursements will be made on the basis of actual demand for financing from the executing agency. The Bank will disburse resources to the executing agency to finance direct loans in accordance with the Bank's usual practices on the basis of portfolio programming (advances) or the portfolio taken on by the executing agency. Disbursements will be verified on an ex post basis and will be subject to onsite review of subloans.
- 3.10 **Financial statements and auditing.** The program's financial statements will be audited in accordance with a procedure previously agreed upon with the Bank. The executing agency will submit the program's audited financial statements within 120 days after the end of each fiscal period throughout the disbursement period, along with the opinion of an independent audit firm acceptable to the Bank and designated by the Civil Service Department. The last such report will be submitted within 120 days after the end of the disbursement period.
- B. Summary of arrangements for monitoring results**
- 3.11 **Monitoring.** The Bank's general procedures for monitoring and evaluating investment operations will apply, on the basis of the indicators set forth in the Results Matrix (Annex II) agreed upon between the executing agency and the Bank, as well as the [monitoring and evaluation plan](#). The program will be monitored using the progress reports on program execution, including a brief description of the execution status of the eligible operations financed, amounts committed and disbursed, as well as the amounts recovered and portfolio conditions. These reports will indicate any problems identified and suggestions for improving program execution. The costs of monitoring this operation will be covered by the executing agency's own funds. The Bank will conduct periodic visits to support and monitor program execution.
- 3.12 **Evaluation.** The executing agency the Bank will conduct an evaluation to measure fulfillment of program objectives and outcomes on the basis of the Results Matrix, in order to identify any relevant corrective action. The cost of this evaluation will be covered by the Bank's administrative resources for supervising program execution. The executing agency will provide any information that the Bank needs to prepare a project completion report (PCR), which will be carried out after all disbursements have been fully justified. The proposed evaluation method uses an ex post cost-benefit analysis for the program by replicating the ex ante analysis with actual program outcomes. This methodology will make it possible to analyze the program's impact on reducing the cost of subscribing to mobile broadband service (see the [monitoring and evaluation plan](#)).
- 3.13 **Information.** The executing agency will collect and maintain all information, indicators, and parameters for the PCR and any ex post evaluation that the Bank decides to conduct.

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<sup>54</sup> Bancomext, as executing agency for the program, has been working to develop a portfolio of eligible projects, such as the shared network project, which may be ready for financing in the short term.

Development Effectiveness Matrix		
Summary		
<b>I. Corporate and Country Priorities</b>		
<b>1. IDB Development Objectives</b>	<b>Yes</b>	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
<b>2. Country Development Objectives</b>	<b>Yes</b>	
Country Strategy Results Matrix	GN-2749	The project is aligned with two objectives from the strategy: (1) increasing the level of financing of the real economy; (2) supporting the development of a logistical and telecommunications system and forwarding innovation.
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
<b>II. Development Outcomes - Evaluability</b>		<b>Evaluable</b>
<b>3. Evidence-based Assessment &amp; Solution</b>		<b>9.3</b>
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		3.6
3.3 Results Matrix Quality		2.7
<b>4. Ex ante Economic Analysis</b>		<b>10.0</b>
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
<b>5. Monitoring and Evaluation</b>		<b>8.5</b>
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		6.0
<b>III. RISKS &amp; Mitigation Monitoring Matrix</b>		
Overall risks rate = magnitude of risks*likelihood		<b>Medium</b>
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		<b>B.13</b>
<b>IV. IDB's Role - Additionality</b>		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.  Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System, Statistics National System, Environmental Assessment National System.
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	Additionally, the CCLIP and the operation will allow Bancomext to expand its activities in productive infrastructure and sustainability sectors; and thanks to institutional strengthening and the treatment of topics of energy efficiency under the technical cooperations: ATN/CF-15453-RG – to promote SMEs to invest in energy savings measures and widen the pipeline of financing-worthy projects -; and ATN/CF-15571-RG – to promote financial strategies to mobilize private sector investments in energy efficiency and renewable energy-, it will enhance its role as a public development bank. Additionally, the CCLIP and the operation give continuity to policy reforms forwarded by the government by the Bank with the program "Program to promote Productivity" (3739/OC-ME), just like the support to implement some of the reforms with the technical cooperation "Support to the strategic and regulatory modernization of the IFT" (ATN/OC-14768-ME).

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

McKinsey Global Institute quantifies the gap in annual infrastructure investment in Mexico at 1.1 percentage points of GDP and the CEPAL estimates the breach specific to telecom accumulated in the last five years as US\$50,000 million. The financial system in Mexico comparatively lacks depth with domestic credit to the private sector standing at only 30% of GDP. In this context, infrastructure financing in Mexico is predominantly public. The general objective of this first operation under the CCLIP is the long-run increase of penetration in broadband services at 4G or higher via the construction of the Red Compartida (RC) in Mexico. Its specific objectives are: (1) the improvement of broadband service quality; (2) the reduction in subscription cost per MB in 4G or superior technology; (3) the increase in the medium-term of broadband subscriptions in 4G broadband or better. The only component under the operation consists in a US\$100 million credit through Bancomext to support the financing of the PPP won by Altan Redes for the construction of the RC infrastructure. The bid for this construction was won under a highly innovative scheme that sought to develop a mobile broadband network that offers wholesaler services exclusively. When Altan Redes won the bid, they committed to increasing coverage to 92.2% of the population by January 2024, in stark contrast to the current existing coverage of around 30% of the population. The Results Matrix adequately captures the project benefits such as increases in coverage, mobile broadband speed, subscription cost reductions, and an increase in subscriptions. The cost benefit analysis demonstrates that there will be gains in both consumer and producer surplus when the project is implemented. At closure, the project will employ an ex-post cost benefit methodology.

## RESULTS MATRIX

<b>Project objective:</b>	The general objective of the first operation under the CCLIP is to increase long-term penetration in 4G or higher mobile broadband services through the building of Mexico's "Red Compartida" network. The project's specific objectives are to: (i) enhance the quality of mobile broadband service, (ii) reduce the per-megabyte cost of subscribing to 4G or higher mobile broadband service, and (iii) achieve an initial, medium-term increase in the number of subscribers to 4G or higher mobile broadband service.
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## EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	2018	2019	2020	Final target (2024)	Means of verification	Comments
<b>Indicator 1.</b> Long-term penetration of 4G (or higher) mobile broadband services.	Number of lines per 100 people	55.3	2017			70.9	90.0	IFT	Number of 4G or higher mobile broadband subscriptions. Includes both individual subscribers and enterprises.
<b>Indicator 2.</b> Reduction of score on Herfindahl-Hirschman Index (HHI) for concentration of mobile broadband market.	Numerical HHI score	5299	2017	5100	4800	4500	3500	IFT	Concentration of mobile broadband carriers. These figures have been determined by consulting a variety of sources and reports by multiple organizations. The HHI is used to calculate the concentration of mobile broadband carriers by measuring the size of a company's market share in relation to the market in which it operates. The HHI score is calculated as the sum of the squares of each carrier's market share.



## EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline	Baseline year	2018	2019	2020	Final target (2020)	Means of verification	Comments
<b>OUTCOME 1: ENHANCED QUALITY OF MOBILE BROADBAND SERVICES</b>									
<b>Indicator 1.1:</b> Increased mobile broadband speed.	Mbps	2.20	2017	2.46	2.71	2.97	2.97	IFT	Mobile broadband speed is the nationally advertised minimum download speed (Mbps), not a guaranteed speed for mobile broadband Internet subscribers. This speed is the average for 500 MB postpayment and prepayment rates for mobile devices in the event that both figures are available; otherwise, the available figure is used. The speeds that Altán Redes has committed to provide are only one part of the mobile broadband services it provides, while the indicator takes into account the total increase in mobile broadband speed. The “Red Compartida” project contributes to this increase.
<b>OUTCOME 2: REDUCED COST OF MOBILE BROADBAND SERVICE</b>									
<b>Indicator 2.1:</b> Reduced per-megabyte cost of subscribing to 4G or higher mobile broadband service.	US\$	0.43	2017	0.38	0.34	0.29	0.29	IFT	Average per-megabyte rate under mobile broadband plans with an advertised minimum speed of 2 Mbps, or 1Mbps otherwise.
<b>OUTCOME 3: INITIAL, MEDIUM-TERM INCREASE IN PENETRATION OF 4G OR HIGHER MOBILE BROADBAND SERVICES</b>									
<b>Indicator 3.1:</b> Increased number of lines subscribed to 4G (or higher) mobile broadband services in the medium term.	Number of lines per 100 people	55.3	2017	59.9	65.0	70.9	70.9	IFT	Number of 4G or higher mobile broadband subscriptions. Includes both individual subscribers and enterprises. <sup>1</sup>

<sup>1</sup> Note: The outcome is measuring medium-term penetration.

## OUTPUTS

Indicators	Unit of measure	Baseline	Baseline year	2018	2019	2020	Final target (2020)	Means of verification	Comments
<b>SOLE COMPONENT</b>									
<b>Indicator 1.1:</b> Increased percentage of the population with 4G or higher mobile broadband services of the “Red Compartida.”	%	30	2018	30	40	50	92.2	Telecom Investment Promotion Agency (PROMTEL)	Percentage of Mexico's total population covered by 4G or higher mobile broadband services, regardless of whether they subscribe to such services. <sup>2</sup>

<sup>2</sup> The output indicator is expressed as a percentage of Mexico's total population, as reflected in the bid submitted by Altán Redes. According to the International Monetary Fund's projections of Mexico's population (130.45 million people in 2023, the last year projected), and applying the same growth rate to estimate the population in 2024 (131.56 million people), the final target output (92.2%) would mean that 121.3 million people should be covered by 4G or higher mobile broadband services.

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Country:** Mexico  
**Project number:** ME-L1284  
**Name:** Conditional Credit Line for Investment Projects (CCLIP) for the Program to Finance Productive Infrastructure and Sustainability in Mexico (ME-O0004) and First Operation under the CCLIP to Finance the “Red Compartida” Telecom Network (ME-L1284)  
**Executing agency:** Banco Nacional de Comercio Exterior, S.N.C. ([Bancomext](#))  
**Prepared by:** Miriam Garza (VPC/FMP); Ariel Rodríguez (VPC/FMP)

### I. EXECUTIVE SUMMARY

- 1.1 The objective of the first operation under the CCLIP is to support the public development banking system in providing long-term financing in order to attract private investment for the building of Mexico’s “Red Compartida” network, with the ultimate purpose of increasing the penetration of broadband services.

### II. THE EXECUTING AGENCY’S FIDUCIARY CONTEXT

- 2.1 Banco Nacional de Comercio Exterior, S.N.C. (Bancomext) is a development finance institution of the federal government that helps Mexican companies be internationally competitive, promotes Mexico’s foreign trade, and works to attract foreign investment to Mexico.
- 2.2 Bancomext has been an IDB borrower and executing agency and has experience in managing Bank financing. Bancomext currently has outstanding loan [3563/OC-ME](#), for US\$200 million, which has been fully disbursed and is in the process of being justified, aimed at supporting financing in investment and risk management on gas and clean-energy projects. Previous projects include “Financing for Small and Medium-sized Exporters” (loan [1677/OC-ME](#)), where it demonstrated administrative and operational capacity.

### III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The institutional capacity assessment was conducted in May 2015 as part of the preparation activities, and the outcomes of the assessment are summarized in Table 1. A visit to Bancomext was carried out in May 2017 to evaluate its internal control and reporting systems.

**Table 1. Outcome of institutional capacity assessment**

	System	Quantification			Development (ND, ID, MD, SD)	Risk level (HR, SR, MR, LR)
		Score %	IR %	Weighted %		
Programming and organization capacity	SPA	100.00	50	50.00	Satisfactory development (SD)	Low risk (LR)
	SOA	100.00	50	50.00	SD	LR
<b>Total</b>				<b>100.00</b>	<b>SD</b>	<b>LR</b>
Execution capacity	SAP	100.00	30	30.00	SD	LR
	SABS	96.55	30	28.97	SD	LR
	SAF	100.00	40	40.00	SD	LR
<b>Total</b>				<b>98.97</b>	<b>SD</b>	<b>LR</b>
Control capacity	SCI	100.00	80	80.00	SD	LR
	SCE	100.00	20	20.00	SD	LR
<b>Total</b>				<b>100.00</b>	<b>SD</b>	<b>LR</b>

- 3.2 The institutional capacity assessment and the aforementioned visit allowed the Bank to confirm that Bancomext's control environment, systems, processes, and records are suitable for execution of operations and identification of Bank-financed expenses.

#### **IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS**

- 4.1 Below are the agreements and requirements to be considered in the special provisions of the loan contract:
- The exchange agreed upon with the executing agency for rendering accounts** will be the exchange rate of the payment date listed in Bancomext's financial and accounting systems in accordance with the policies of the Government of Mexico, and it will be the exchange rate in effect in the borrower's country on the effective date of the payment.
  - Audited financial statements:** The executing agency will submit the audited financial statements during the execution period within 120 days after the end of each fiscal period and a final audited financial statement within 120 days after the last disbursement and any extensions thereof.

#### **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 As a financial intermediation program, no procurement of works, goods, or consulting or nonconsulting services is expected to occur as part of program execution. Therefore, no procurement plan is included. If any procurement is carried out, it will comply with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), as follows:
- 5.2 **Retroactive financing.** The Bank may retroactively finance, as a charge against the loan proceeds, eligible expenses incurred by the borrower before the loan approval date up to a maximum of US\$20 million (20% of the loan amount), provided that

requirements substantially similar to those set forth in the loan contract have been met. These expenses will have been incurred no earlier than 26 April 2018 (the project profile approval date), but in no case may expenses incurred more than 18 months before the loan approval date be included.

- 5.3 If the borrowers or beneficiaries of the credit line are individuals, private enterprises, small or medium-sized enterprises, or autonomous public-sector commercial enterprises, procurement processes will be carried out in accordance with current private-sector practices or business practices that are acceptable to the Bank in accordance with Appendix 4 of the Bank's procurement policies. In addition, the provisions of Section 3.12 ("Procurement in Loans to Financial Intermediaries") of document GN-2349-9 and Section 3.14 ("Commercial Practices") of document GN-2350-9 will be observed when appropriate.
- 5.4 If the borrowers or beneficiaries of the credit line are entities of the national, state, or municipal public sector, procurement processes will be carried out in accordance with the following arrangement:
- a. **Procurement execution: Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> arising under the project and subject to international competitive bidding and the bidding processes subject to national competitive bidding will be carried out using the standard bidding documents agreed upon between the Civil Service Department (SFP) and the Bank. These bidding documents are available at the following website:  
<http://www.funcionpublica.gob.mx/unaopspf/credito/normace.htm>.  
The project's sector specialist will be responsible for reviewing the technical specifications for procurement items during preparation of the bidding processes.
  - b. **Selection and contracting of consulting firms.** Consulting service contracts with firms financed with project resources will be carried out using the standard request for proposals agreed upon between the Bank and the SFP, which may be accessed at the link in the preceding paragraph. The project's sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services.
  - c. **Selection of individual consultants.** Consulting contracts with individual consultants will be carried out using the model contract for individual consultants agreed upon with the Bank.
- 5.5 **Procurement supervision.** Because the institutional assessment determined the risk level to be low, any procurement processes will be reviewed on an ex post basis, unless an ex ante review is expressly requested for specific cases.
- 5.6 **Special provisions.** Measures to reduce the likelihood of corruption: The executing agency will diligently observe the provisions on fraud and corruption set forth in the Bank's procurement policies.

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<sup>1</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-9), paragraph 1.1: Nonconsulting services are treated as goods.

- 5.7 **Records and files.** Basic original documentation for verification of expenses vis-a-vis the Bank will be kept at Bancomext. The Office of the Assistant Manager for International Financial Organizations and Financial Agents will be responsible for gathering financial and procurement information for the program and will maintain relations with the Bank.

## **VI. FINANCIAL MANAGEMENT**

### **A. Programming and budget**

- 6.1 Activities related to programming, budget and expenditure control, accounting and rendering of accounts on the basis of financial information are governed by various regulatory provisions issued primarily by the Department of Finance (SHCP), thus ensuring consistency between rules on recordkeeping and how established systems are used.

### **B. Information and accounting systems**

- 6.2 Project activities will be recorded and tracked in Bancomext's own systems, using a separation of front office, middle office, and back office activities. The portfolio management system SUCRE is used for this purpose to record and track financing issued by Bancomext, from the receipt of an application for credit to the issuance of credit. This system interfaces with the accounting system to keep a daily record of all transactions in the loan portfolio. Bancomext records and manages its credit obligations to the Bank or in the debt management system (SITEM).

### **C. Disbursements and cash flow**

- 6.3 Program resources will be deposited into a special or designated bank account for the program.
- 6.4 Disbursements of Bank financing may be made in the form of (i) advances of funds, or (ii) reimbursements of expenditures. Expenditures will be recognized through payments to intermediaries/beneficiaries for eligible activities related to the financing of connectivity infrastructure. The executing agency may request disbursements in local currency, via currency conversion, or in U.S. dollars.

### **D. Internal control and internal audit**

- 6.5 The internal control system used by federal government entities and agencies is governed in Mexico by the SFP. Because Bancomext is a public development bank, it is required observe not only the regular provisions on internal control of public entities, but also the provisions of the National Banking and Securities Commission as the regulatory body in the sector.
- 6.6 The main unit responsible for internal control at Bancomext is its board of directors. The Office of the General Manager and the administrative units are responsible for designing, implementing, monitoring, and evaluating this internal control. To this end, the executing agency has specialized administrative units such as the Office of the Internal Comptroller and the Risk Management Office.

**E. External control and reports**

- 6.7 The program's financial information will be reviewed annually by a firm of independent auditors designated by the SFP in agreement with the Bank, with terms of reference agreed upon with the SFP and other international financial organizations.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Mexico. Conditional Credit Line for Investment Projects (CCLIP)  
for the Program to Finance Productive Infrastructure  
and Sustainability in Mexico (ME-O0004)

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo, as Borrower, and with the United Mexican States, as Guarantor, to establish the Conditional Credit Line for Investment Projects (CCLIP) ME-O0004, for an amount of up to US\$1,000,000,000 chargeable to the resources of the Bank's Ordinary Capital, to cooperate in the execution of the Program to Finance Productive Infrastructure and Sustainability in Mexico.

2. To determine that the resources allocated to the above-mentioned Conditional Credit Line (CCLIP) ME-O0004 shall be used to finance individual loan operations in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, and DE-86/16; (b) the provisions set forth in documents GN-2246-9 and GN-2564-3; and (c) the terms and conditions included in the Loan Proposal for the corresponding individual operation.

(Adopted on \_\_\_\_\_ 2018)



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Mexico. Loan \_\_\_/OC-ME to the Banco Nacional de Comercio Exterior, S.N.C.  
(BANCOMEXT), Institución de Banca de Desarrollo  
Financing of the Shared Telecommunications Network  
First Operation under the CCLIP for the Program  
to Finance Productive Infrastructure and  
Sustainability in Mexico ME-O0004

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT), Institución de Banca de Desarrollo, as Borrower, and with the United Mexican States, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of a program to finance the shared telecommunications network, which constitutes the first operation under the Conditional Credit Line for Investment Projects (CCLIP) ME-O0004 approved by Resolution DE-\_\_\_/18 dated \_\_\_\_\_, 2018. Such financing will be in the amount of up to US\$100,000,000, 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 \_\_\_\_ 2018)