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MEXICO

GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE FABRIC AND EMPLOYMENT IN THE AGROINDUSTRIAL SECTOR

(ME-L1301)

LOAN PROPOSAL

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ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
CNBV	Comisión Nacional Bancaria y de Valores [National Banking and Securities Commission]
FAO	Food and Agriculture Organization of the United Nations
FEFA	Fondo Especial para Financiamientos Agropecuarios [Special Fund for Agricultural Financing]
FIRA	Fideicomisos Instituidos en Relación con la Agricultura
FND	Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero [National Finance Agency for Agricultural, Rural, Forestry, and Fisheries Development
GDP	Gross domestic product
ICAS	Institutional Capacity Assessment System
IMF	International Monetary Fund
INEGI	Instituto Nacional de Estadística y Geografía [National Institute of Statistics and Geography
Mex$	Mexican pesos
MSME	Micro, small, and medium sized enterprises
NAFIN	Nacional Financiera S.N.C. Institución de Banca de Desarrollo
PDB	Public Development Bank
SME	Small and medium sized enterprises
UDIs	Unidades de inversion [Investment units]

PROJECT SUMMARY

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GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE FABRIC AND EMPLOYMENT IN THE AGROINDUSTRIAL SECTOR
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Financial Terms and Conditions

Borrower:			**Flexible Financing Facility**[a]	
Nacional Financiera S.N.C. Institución de Banca de Desarrollo (NAFIN)			**Amortization period:**	25 years
Guarantor:				
The United Mexican States				
Executing agency:			**Disbursement period:**	2 years
Bank of Mexico, acting its capacity as trustor of the Special Fund for Agricultural Financing (FEFA), part of Fideicomisos Instituidos en Relación con la Agricultura (FIRA)			**Grace period:**	5.5 years[b]
			Interest rate:	LIBOR-based
Source	**Amount (US$ million)**	**%**	**Credit fee:**	[c]
IDB (Ordinary Capital)	100	100	**Inspection and supervision fee:**	[c]
Total	100	100	**Weighted average life:**	15.25 years
			Approval currency:	U.S. dollar

Project at a Glance

Project objective/description: The general objective of this project is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Mexico amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of MSMEs in the agroindustrial sector.

Special contractual conditions precedent to the first disbursement of the loan proceeds: As special contractual conditions precedent to the first disbursement of the loan proceeds, (i) the program coordinators at NAFIN and the executing agency will have been appointed; (ii) the program Operating Regulations will have been approved in accordance with the terms previously agreed upon with the Bank; and (iii) a contract to open a revolving credit facility between NAFIN, as the borrower, and the executing agency, for the transfer of loan proceeds and associated obligations will have entered into force in accordance with the terms previously agreed upon with the Bank (paragraph 3.10).

Exceptions to Bank policies: None

Strategic Alignment

Challenges:[d]	SI	☑	PI	☑	EI	☐
Crosscutting themes:[e]	GD	☐	CC	☐	IC	☐

[a] Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions, subject in all cases to the final amortization date and the original weighted average life. The Bank will take market conditions as well as operational and risk management considerations into account when reviewing such requests.

[b] Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

[c] The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

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

[e] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Background.** On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic. COVID-19 is a respiratory disease caused by the 2019 novel coronavirus, or nCoV-2019. According to WHO, there were more than 6 million confirmed cases of COVID-19 as of 1 June, which had resulted in more than 373,000[1] deaths. In Latin America and the Caribbean, there have been approximately 1 million cases and 50,000 deaths,[2] while those figures stand at 90,000 and around 10,000, respectively, in Mexico. The number of cases and deaths in Mexico are expected to rise, as the country is still in phase 3, in which the spread of the disease is at its most intense. WHO classifies Mexico at level four in terms of its preparedness and ability to manage public health events.[3]

1.2 **Macroeconomic and/or social context.** The economic impacts of COVID-19 will be felt through different channels at different times. The first, associated with the priority of saving lives in the very short term, is the direct costs of the health sector response. The second is the costs associated with the necessary changes in people's behavior to "flatten the curve" of COVID-19 progression, which will contribute to saving lives. These behaviors may be the result of government mandates (closing schools, canceling public events, etc.), decisions made by companies and other institutions (teleworking, cutting back production, etc.), or decisions made by consumers (reducing social contact).

1.3 Public policies and changes in behavior will lead to a very significant economic downturn with immediate manifestations and lingering effects, even once the health emergency is over. From a macroeconomic perspective, in addition to shrinking domestic demand, the Economic Commission for Latin America and the Caribbean (ECLAC) sees at least five channels for transmission of the crisis impacts to the region's economy:[4] (i) slowing economic activity of key trading partners that will impact the demand for exports; (ii) less demand for tourism services; (iii) interruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms. For general aspects of the intervention, see optional link 2.

1.4 With regard to Mexico, International Monetary Fund (IMF) projections indicate that gross domestic product (GDP) could contract up to 6.6% in 2020, greater than the 5.2% forecast for Latin America and the Caribbean.[5] However, more recent private sector estimates predict that GDP will fall by as much as 8.9% due to a sharp drop in private consumption, a contraction in exports resulting from lower demand in the United States, and a slowdown in industrial activity—notably manufacturing and construction—that began in 2019.[6] The effects of this began to show in the first

1 WHO Coronavirus Disease (COVID-19) Dashboard.

2 COVID-19 Situation in the Region of the Americas. Report of the Pan American Health Organization (PAHO).

3 WHO COVID-19 Country Preparedness and Response Status for COVID-19. Based on five levels of operational capacity compared to response category, with five indicating greatest capacity.

4 Press release by the Economic Commission for Latin America and the Caribbean (19 March 2020).

5 IMF, *World Economic Outlook* 2020. For comparative purposes, Mexico's GDP fell by 5% in 2009, for example.

6 IDB (2020). *El impacto del COVID-19 en las economías de la región (Centroamérica)*.

quarter of this year, with GDP contracting 1.6% relative to the previous quarter. The recent drop in oil prices will also have a negative impact on public finances as a result of decreased tax revenue and the precarious financial position of Petróleos Mexicanos (PEMEX).

1.5 **Diagnostic assessment of micro, small, and medium-sized enterprises (MSMEs) in the agroindustrial sector.** There are 4.1 million MSMEs in Mexico,[7] of which 97% are microenterprises. A large share of economic activity (52%) and jobs (79%) is closely linked to these companies. The Mexican financial system has low levels of penetration, which is reflected in financing conditions, particularly for MSMEs. Domestic credit issued to the private sector in the country amounts to 36% of GDP, versus 49% in Latin America and the Caribbean and 90% in countries of the Organisation for Economic Co-operation and Development.[8] The share of credit provided to small and medium-sized enterprises (SMEs) through nonfinancial private sector financing is just 11.8%, significantly lower than for consumer credit (26.3%) and housing credit (20.2%), and the SME loan portfolio accounts for just 23.7% of total business loans.[9] On top of that, a survey reveals that only 23% of MSMEs have obtained financing from commercial banks.[10]

1.6 The agroindustrial sector faces its own set of hurdles that limit the supply of financial services or make them less advantageous in terms of price and/or tenor, especially for MSMEs.[11] This has led the formal financial system, especially, the private-sector side, to have low penetration in the rural economy: only 2.1% of the economy's total bank financing goes to the primary sector,[12] and at year-end 2016, total credit issued to the sector in real terms was similar to 2000 levels, i.e. around 23.7% of primary GDP.[13] Looking specifically at the agroindustrial sector, financing amounts to just 11.3% of primary GDP.[14] What is more, only 16% of MSMEs in the agrifood sector reported having access to financing, versus 46% of MSMEs in the garment industry, 50% in the petrochemical industry, and 78% in the machine tool industry.[15] Seventy percent of agrifood MSMEs use their own resources to finance investments.[16]

1.7 The financial sector is up against a series of constraints on providing all the financing that MSMEs will need during this crisis, both in the short term, to ensure MSMEs' immediate survival, and in the medium term, to stimulate a rapid recovery of

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7 According to the Department of Economy's official classification, MSMEs can have up to 250 employees and Mex$250 million in sales.

8 Other countries like Chile (112% of GDP), Colombia (47% of GDP) or Brazil (60% of GDP) have higher rates than Mexico. The indicator is defined as domestic credit provided by financial and nonfinancial entities and the public sector to the private sector (as a percentage of GDP). This is a broad World Bank definition from its World Development Indicators. Data from 2017.

9 Basic indicators on loans to SMEs (data from July 2017), Bank of Mexico.

10 National Business Financing Survey conducted by the National Institute of Statistics and Geography (INEGI) (2015).

11 There are greater implicit risks in the primary sector, which serves as input for agroindustry, including climate, marketing, and price volatility risks. These negatively affect income and hinder investment. There are also high operating costs for monitoring and evaluation due to the geographic dispersion and small scale of the enterprises.

12 Bank of Mexico figures through December 2017. This factors in commercial bank data.

13 As a point of reference, levels in Brazil hover around 60% and, in the United States, exceed 100%.

14 2015 data from INEGI, FIRA, Bank of Mexico, and FND.

15 INEGI (2014).

16 World Bank (2010). Enterprise Surveys.

economic activity and employment in the country. Looking to the 2009 crisis, credit to businesses sharply declined, with the percentage of businesses that used bank credit falling from 30% in late 2008 to 20% in late 2009.[17] The proposed intervention focuses on supporting financial mechanisms to stimulate financial intermediaries' supply of short-term liquidity for MSMEs through a global credit program that targets the agroindustrial sector, which is both vulnerable to the crisis and strategic due to the pivotal role it plays in the functioning of food chains. The program seeks to alleviate the constraints on access to credit faced by MSMEs affected by the COVID-19 crisis, thus supporting their survival and preserving employment in these enterprises. This, in turn, will minimize the burden on social protection systems and maximize the speed of economic recovery, once the health emergency has passed.

1.8 **Challenges and progress.** In shielding the economic fabric from the economic hardships associated with the COVID-19 crisis, the challenge will be to keep open as many as possible of the MSMEs that were commercially viable before the crisis, while also supporting the value chains to which many of these enterprises belong, so that they can continue operating normally.

1.9 Mexico has been relying on public development banks (PDBs) to provide MSMEs with access to financing. The numerous entities comprising the PDB system[18] assist MSMEs based on the economic sector to which they belong (e.g. industrial, export, rural, construction, etc.). An estimated 65% of loans given to SMEs in Mexico are backed by PDBs.

1.10 Through this program, the government aims to strengthen the response of PDBs to the current crisis, in addition to the other measures it has announced in the financial sector, namely: (i) the government has said that it will implement a program through which it will issue one million microloans of approximately US$1,000 each for microbusinesses registered in the Federal Government Welfare Census;[19] (ii) the Bank of Mexico announced measures to ensure liquidity for banks and businesses that may require U.S. dollars to contend with deteriorating financial conditions worldwide, as well as additional actions aimed at providing liquidity to stimulate domestic markets and solidify the channels through which credit is issued, particularly to SMEs and households whose sources of income have temporarily dried up; and (iii) the National Banking and Securities Commission (CNBV) temporarily issued special accounting criteria for credit institutions on consumer, home, and commercial loans for customers whose source of payment has been affected by the crisis. As a result, banks may offer loan payment facilities, such as freezing debt payments.

1.11 **Program targeting.** The program will focus on providing access to financing for MSMEs, striving to prioritize a vulnerable productive sector that generates high levels of employment and is also strategic for food security: agroindustry.[20] In

[17] Evolución del Financiamiento a las Empresas durante el Trimestre Octubre – Diciembre de 2009, Bank of Mexico (February 2010).

[18] NAFIN, BANCOMEXT, Sociedad Hipotecaria Federal [Federal Mortgage Bank], FND, FIRA, and BANOBRAS.

[19] The government program targets a different market than this operation, as it focuses mainly on smaller-sized businesses and loans (microloans).

[20] The agroindustrial sector encompasses activities related to the transformation of, addition of value to, and sale of products derived from the primary sectors, such as agriculture, forestry, and fisheries.

Mexico, the primary sector accounts for around 3% of GDP[21] and remains relevant in terms of job creation, employing approximately 12.7% of the economically active population.[22] Agroindustrial activity accounts for 4.8% of GDP[23] and employs roughly another 20% of the economically active population. MSMEs are responsible for 23% of total production in the food industry and around 12% of beverage and tobacco production.[24]

1.12 The MSMEs in the agrifood sector that will be hit the hardest by the health emergency, seeing their liquidity and ability to resume activities compromised, are those involved in industrial production.[25] These businesses in particular need relief from their financial burdens and require additional financing, as they will face workforce mobility issues, difficulty securing packing supplies (which are imported), supply logistics constraints, and raw material supply problems. The industry is also affected by the impact that the exchange rate, the availability of labor, and the supply and price of inputs have on primary activity and sales. Examples of affected areas are the grain, high-value crop packaging, and livestock processing industries. This is supported by the analysis on the Vulnerability of the Productive Sectors to the Spread of COVID-19 in Mexico prepared by the Bank. This analysis points out how vulnerable the sector is given the elevated risk perception among domestic consumers, the accumulation of liabilities (like rent payments), serious supplier risks, and transportation and communications service constraints that make it difficult to get products to market.

1.13 Beyond the fact that it accounts for a large share of employment and its vulnerability to the current crisis, the agrifood sector (including agroindustry) is crucial in this context given its role in ensuring Mexico's food security. Changes to people's behavior are having an impact on the labor supply and disrupting value chains. The United Nations Food and Agriculture Organization (FAO)[26] has suggested that the world faces the risk of a food crisis, unless measures are taken to keep global food supply chains operating and mitigate the pandemic's impact on the food system. Border closings and lockdowns, as well as disruptions in markets, the supply chain, and trade, could limit access to adequate food sources. Furthermore, restrictions on movement and the risk aversion that underlies worker behavior may impede the activities of farmers and the ability of processers, who handle most agriculture products, to process food. It is vital for countries to maintain their national supply chains.

1.14 The consequences of the health emergency, including logistics and labor issues that disrupt the supply chain, lead to a decline in the underlying economic activity of businesses and individuals operating in the agroindustrial sector, who already face challenges accessing credit under normal circumstances. This makes it necessary to not only alleviate the financial burden on existing loan holders, but also offer them—and other businesses that do not currently have credit—financial support so they can continue to operate and maintain the jobs they offer, while seeking to keep

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[21] INEGI. For comparative purposes, in 2014, Latin America and the Caribbean's farming sector accounted for 6% of GDP. FAO, 2015.

[22] INEGI.

[23] INEGI, considering the food and beverage and tobacco subsectors.

[24] Information from the 2014 economic census.

[25] FIRA.

[26] http://www.fao.org/2019-ncov/q-and-a/en/.

food chains alive and ensure food security. Hence, the proposed operation aims to provide funding for PDBs to extend lines of credit to financial intermediaries, thereby expanding the supply of short-term commercial credit to MSMEs in the agroindustrial sector. By benefiting MSMEs, which tend to face greater hurdles accessing credit amid a crisis, the program would help maintain more jobs in a sector that employs a high share of the economically active population (20%). It should be noted that 66% of private financing to the sector comes from funding and guarantees issued by Fideicomisos Instituidos en Relación con la Agricultura (FIRA),[27] which shows how relevant this institution is in ensuring that this type of financing will continue to flow to the sector. In fact, between March and mid-May, demand for financing for the sector and for eligible beneficiaries exceeded US$80 million. In this context, FIRA officially announced measures to support MSMEs in response to the crisis.[28]

1.15 **The Bank's experience and lessons learned.** The Bank has extensive experience in designing sovereign guaranteed loan programs aimed at improving MSME access to finance through financial intermediaries ([8] of optional link 3). These programs have been implemented in times of economic expansion, when support focuses on access to long-term finance for production-oriented investments, and in times of economic recession, when support focuses on ensuring that MSMEs do not lose access to liquidity to continue their economic activity. In the last financial crisis confronted by the region, the Bank played a countercyclical role by expanding the amount of financing and facilities used to address the lack of access to credit faced by the region's MSMEs. For example, liquidity programs for growth sustainability[29] were approved in 2008 and 2009 with the aim of reestablishing access to finance for working capital and foreign trade in the productive sectors. This helped to temporarily offset part of the deficit in financing flows to MSMEs resulting from the international financial crisis. With the same objective of stimulating the supply of credit to the productive sectors, the period following the crisis (2009-2013) saw the approval of contingent credit lines[30] for providing liquidity to the financial sector, as well as global multisector credit programs and—by far the majority—specific productive financing programs for MSMEs (see optional link 2).

1.16 In the 2008-2009 financial crisis, Mexico's PDBs became a vehicle for the implementation of countercyclical policies (see optional link 8) thanks to their experience operating a broad array of instruments to cover producers' financing needs.

1.17 The IDB has ample experience working with the Mexican Development Bank System, including experience in the rural sector through work with the National Finance Agency for Agricultural, Rural, Forestry, and Fisheries Development (FND) and FIRA. This includes two recent conditional credit lines for investment projects

[27] FIRA has 65 years of experience financing the country's agricultural, forestry, fisheries, and rural sectors. It consists of four trusts, each of which is a federal government entity: the Guarantee and Development Fund for Farming, Livestock, and Poultry (FONDO), the Special Fund for Agricultural Financing (FEFA), the Special Technical Assistance and Guarantee Fund for Agricultural Credit (FEGA), and the Guarantee and Development Fund for Fisheries Activities (FOPESCA). Each of these FIRA trusts is an entity of the parastatal public administration system and is managed by Bank of Mexico.

[28] Temporary operating conditions for FIRA financing during the COVID-19 crisis.

[29] In 2008, the IDB created the Liquidity Program for Growth Sustainability under the category of emergency lending (document GN-2492-3).

[30] "Development Sustainability Contingent Credit Line" under the Proposal to Establish Contingent Lending Instruments of the IDB (document GN-2667-2).

(CCLIPs): (i) operation ME-X1024 (US$1 billion) with FND and three operations under the line: "First Program for Productive Rural Financing" (loan 3302/OC-ME, US$400 million), "Second Program for Productive and Inclusive Rural Financing" (loan 3531/OC-ME, US$400 million), and "Third Program for Productive and Inclusive Rural Financing" (loan 4276/OC-ME, US$250 million).[31] The objective of this CCLIP was to help raise primary sector productivity by improving rural economic units' access to financing to make productive investments and promote financial inclusion to benefit the rural sector through access to productive credit for rural economic units; and (ii) operation ME-X1021 (US$300 million) which had FIRA as the executing agency and included two suboperations: "First Program for the Financing of Rural Sector Production Restructuring and Investment Projects" (loan 3335/OC-ME, US$50 million) and the "Second Program for the Financing of Rural Sector Production Restructuring and Investment Projects" (loan 3701/OC-ME, US$45 million), which seek to promote private investment in production-restructuring, investment, and enterprise- and export-development projects that will increase productivity or promote more efficient use of natural resources, primarily in Mexico's rural sector, through long-term financing to help increase the supply of credit. One of the main findings of the latter's project completion report was the importance of finding measures to collect relevant information for measurement of the results of second-tier lending programs through financial intermediaries.[32] Execution of the aforementioned operations in the rural financial sector, which have provided assistance to the primary and agroindustrial sectors, has been satisfactory.[33] This operation is consistent with previous efforts to support agroindustry MSMEs, but stands apart inasmuch as it emphasizes short-term funding to finance working capital loans, loan restructuring, and loan refinancing, to keep viable companies in the agroindustrial sector from going bankrupt during the COVID-19 crisis.

1.18 **Lessons learned.** The Bank has extensive experience and has generated substantial knowledge regarding the design and implementation of policies to support MSME finance with a special focus on certain sectors or value chains ([8] of optional link 3). Lessons learned with respect to ensuring that public policy solutions are effective include: (i) identify the market failure to be addressed; (ii) focus actions on overcoming the obstacles found; and (iii) identify the set of financial instruments that can be implemented in each situation. This program incorporates these lessons learned by appropriately targeting and identifying the funding needed to address the specific financing needs (short-term liquidity) of one particular vulnerable and strategic sector (agroindustry MSMEs) through a public actor specialized in the issue (FIRA) (paragraph 1.14).

1.19 The Bank also has relevant experience in designing solutions to mitigate the problems of access to finance faced by MSMEs. The following lessons learned extracted from those activities have been used in the design of this operation: (i) leverage the countercyclical role of this type of operations in times of tightening credit, such as the current crisis; (ii) target resources toward segments where lending will have the greatest impact on the functioning of the economy and the well-

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31 This operation, currently in execution, targets the primary sector and has US$75 million available for disbursement as of June 2020.

32 For this program, the required information can be collected administratively from the executing agency.

33 See project completion reports from loan 3335/OC-ME and loan 3701/OC-ME.

being of society, in this case, agroindustry MSMEs (paragraphs 1.11 and 1.28); and (iii) guarantee that the executing agency has sufficient institutional capacity to operationalize the intervention and evaluate and monitor the subloans (paragraphs 2.6 and 3.5).[34]

1.20 **Coordination with other Bank projects**: The program coordinates efforts with other initiatives in the pipeline that aim to address needs arising from the pandemic in Mexico, especially the need to safeguard the productive fabric and employment. It complements other operations in the pipeline or under analysis that seek to address the financing needs of MSMEs: (i) a reformulation of a US$54 million program (loan 3178/OC-ME "Geothermal Financing and Risk Transfer Program"), based on a request from the government and the lender, NAFIN, that the program resources be directed to a global credit program for safeguarding the productive fabric and employment; and (ii) a program announced by IDB Invest and the Mexican Business Council, which will finance reverse factoring operations by seeking to leverage US$2.5 billion from private sector banks, ultimately benefiting 30,000 SMEs in one year. The latter complements the proposed program mainly through the instruments adopted, since this operation supports SMEs' immediate working capital liquidity needs, while reverse factoring assists SMEs with discounts on their invoices with large companies for sales made.

1.21 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the challenges of: (i) social inclusion and equality, through its support for employment generated by MSMEs; and (ii) productivity and innovation, through its financing to sustain operations of businesses in the agroindustrial sector. In addition, the operation is consistent with the operational area of resource mobilization, through the proposed mechanisms to stimulate the mobilization of private financial sector resources for MSME finance, as well as the company shareholders' own funds. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the indicator of the number of micro, small, and medium-sized enterprises financed. The program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996), as part of the support for safeguarding the productive fabric and employment. The program is also consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) and the Agriculture and Natural Resources Management Sector Framework Document (document GN-2709-5) through its support for SME financing and for the productivity and sustainability of the agricultural sector, respectively.

B. Objectives, components, and cost

1.22 **Objectives.** The general objective of this project is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Mexico amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of MSMEs in the agroindustrial sector.

1.23 **Sole component. Support for improvement of short-term financial capacity and sustainability of MSMEs in the agroindustrial sector (US$100 million).**

[34] Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) discusses a more extensive and detailed set of lessons learned from the Bank's experience in the sector, as well as the experience of other multilaterals, academic researchers, and other major stakeholders in public policy design of to support MSMEs.

Resources under this component will be used to finance eligible agroindustrial activities, such as the management, development, preparation, conservation, transformation, or storing of domestic products from the agricultural, forestry, and fishing sectors, as well as companies that import raw materials to produce inputs for primary activities. The program will help MSMEs affected by the crisis overcome temporary liquidity problems and continue operating. This component includes mechanisms for providing liquidity to MSMEs in the agroindustrial sector (see optional link 6), especially to secure financing for working capital and debt restructuring or refinancing to head off bankruptcies of viable businesses.

1.24 The loans will be issued via the second-tier institution of the program's executing agency, which will work through eligible financial intermediaries in its network that are active in the rural sector. FIRA generally supports agroindustry by providing financing to businesses so they can invest, enhance the efficiency of their production processes, infrastructure, and distribution network, and ensure the supply of the products and raw materials they need. It also connects them with small and medium-scale producers or enterprises that can become their suppliers. FIRA’s agroindustry portfolio has grown by around 70% since year-end 2015. Through March 2020, its portfolio of working capital loans to agroindustrial sector MSMEs had a balance of approximately US$64 million.

1.25 The main conditions for participation in the program will be reflected in the program Operating Regulations and will include: criteria for MSMEs, in accordance with FIRA’s classification[35] (see additional criteria in paragraphs 1.28 and 3.8); the eligible activities, which will be agroindustrial activities that address the needs of the agricultural, livestock, forestry, fishery, and wider rural sectors (see paragraph 1.23 and optional link 6[36]); the criteria and processes for identifying eligible financial intermediaries (see paragraph 3.7); the maximum credit amount of up to 4 million investment units (UDIs),[37] equivalent to US$1.1 million at time of writing;[38] and the type of eligible credit, which will be loans to finance working capital or debt restructuring or refinancing arising from the impact of the pandemic. The financing conditions of subloans derived from program funds will be the prevailing market conditions in accordance with the lending policies of FIRA and the financial intermediaries,[39] and subloans will be denominated in Mexican pesos (Mex$). Under FIRA guidelines, working capital loans may be issued to businesses regardless of whether they have received financing from FIRA in the past. Debt restructuring loans will be given to final borrowers from the portfolio of loans previously financed or guaranteed by one or more of FIRA’s trusts, as dictated by its internal rules, and issued before the crisis began. No prior authorization from the intermediary will be

35 Classification of the target population is based on the amount of credit per final loan recipient: up to 33,000 UDIs for microenterprises and family businesses, up to 160,000 UDIs for small enterprises, and up to 4,000,000 UDIs for medium-sized enterprises.

36 In line with the analysis in paragraphs 1.11 through 1.14, since the proposed program targets the agroindustrial subsector, deemed to be the most vulnerable to shocks and employment loss generated by the COVID-19 pandemic, primary activities of the agricultural sector are beyond this program’s scope.

37 UDIs. Inflation-indexed units of value established by Bank of Mexico.

38 It will reflect the fact that most MSMEs in the agroindustrial sector receiving assistance are medium-sized enterprises whose requests for credit could reach the indicated amount.

39 It should be noted that FIRA has announced the possibility that it will issue an interest rate discount of up to two percentage points for new loans up to 160,000 UDIs, under certain conditions. Temporary operating conditions for FIRA financing during the COVID-19 crisis.

required, and no additional interest fees will be charged. The financing conditions that first-tier intermediaries offer their borrowers should be met with similar conditions from FIRA.

1.26 The financing provided through the proposed program may be supplemented with technical assistance funds and guarantee facilities managed by the executing agency. These are not part of the program, but would help alleviate collateral constraints for businesses interested in financing projects that promote increased productivity and competitiveness.

1.27 **Program administration**. Administration, monitoring, evaluation, and audit expenses will be covered with the executing agency's funds.

1.28 **Beneficiaries.** Resources under this intervention will be directed to MSMEs in the agroindustrial sector, which have been adversely affected by the COVID-19 crisis due to the logistics and labor issues disrupting the supply chain. Considering an average loan amount of US$85,000, as many as 1,176 MSMEs could potentially benefit from this program, depending on the demand that arises. In turn, it will indirectly benefit those businesses' employees by helping them retain their jobs in the short term, and food value chains insofar as it seeks to prevent further interruption to them.

C. Key results indicators

1.29 **Expected outcomes.** The program's expected impact is to support the sustainability of MSMEs amid the COVID-19 crisis, as measured by the percentage of employment generated by agroindustrial activity as a share of the country's total employment. The program's outcome indicators will be: (i) the rate of arrears of the Special Fund for Agricultural Financing (FEFA) portfolio of working capital credit to agroindustrial sector MSMEs at six months after program start, compared with the rate of FIRA's total portfolio; (ii) the rate of arrears of FEFA's portfolio of agroindustrial sector MSMEs with restructured debt at six months after program start, compared with the rate of FIRA's total portfolio; (iii) the rate of arrears of FEFA's portfolio of working capital credit to agroindustrial sector MSMEs at 12 months after program start, compared with the rate of FIRA's total portfolio; (iv) the rate of arrears of FEFA's portfolio of agroindustrial sector MSMEs with restructured debt at 12 months after program start, compared with the rate of FIRA's total portfolio; and (v) the balance of the agroindustry MSME working capital portfolio.

1.30 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of the reduction in sales revenue losses, the benefits derived from a higher rate of business survival, and the benefits of jobs preserved as a result of the program. Calculations of the aforementioned flows (discounted at a rate of 12%) yield benefits of US$150.4 million and an internal rate of return of 29%. Additionally, the sensitivity analysis shows that the net present value of the program remains positive for a reasonable range of values of the parameters considered key for the analysis (optional link 1).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The total amount of the proposed program will be US$100 million from the Bank's Ordinary Capital. The operation will be structured as a global credit loan, since it involves financial intermediation to the beneficiary MSMEs.

2.2 The execution and disbursement periods will be two years, since the nature of the program is to help companies with urgent liquidity needs and the executing agency has confirmed that there is a high demand for short-term financing among MSMEs (paragraph 1.14).

Table 1. Estimated program costs (US$ million)

Component	IDB	%
Sole component. Support for improvement of short-term financial capacity and sustainability of MSMEs in the agroindustrial sector	100	100
Total	**100**	**100**

Table 2. Disbursement schedule (US$ millions)

Source	Year 1	Year 2	Total
IDB	90	10	100
%	90	10	100

B. Environmental and social safeguard risks

2.3 In accordance with directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation cannot be classified ex ante, since it involves financial intermediation. The environmental and social due diligence was performed in compliance with Directive B.13, analyzing the program's potential socioenvironmental risks and the executing agency's ability to manage them. Based on the due diligence findings, and given the low risk profile of the eligible loans with program resources, this operation is regarded as low financial intermediation risk (FI-3). Given their size and nature, the loans will be classified as category "C." Loans in categories "A" and "B" will be ineligible for financing.

2.4 Resources from the subloans will not be used to finance any activity listed in the IDB's exclusion list (Annex C of the environmental and social management report), such as: (i) activities/sectors that involve high social/environmental risk (Category "A") or (ii) activities that entail: (a) involuntary physical or economic resettlement; (b) negative impact on indigenous groups; (c) damage to cultural sites or critical cultural sites, (d) negative impact on protected areas or Ramsar convention sites, or (e) the use of invasive species.

2.5 The requirements for managing and mitigating potential environmental and social impacts will constitute an Environmental and Social Risk Administration System that will be included in the program Operating Regulations, which will be approved as a condition precedent to the first disbursement (see the environmental and social management report).

C. Fiduciary risks

2.6 The previously conducted institutional capacity assessment of the executing agency shows that FIRA satisfies the necessary conditions to perform fiduciary management activities for the loan operation. Its experience executing prior operations has been satisfactory and corroborates the findings of the previous institutional capacity evaluation. This is also confirmed by the annual audits performed by external auditors under those operations, which had satisfactory findings.

D. Other key issues and risks

2.7 **Macroeconomic and fiscal sustainability risk.** There is a high risk that the combination of the health and economic crisis and external factors, such as the falling price of oil, will significantly affect the country's fiscal and debt position, jeopardizing fiscal sustainability. To mitigate this risk, the Bank, together with other international organizations, is providing technical assistance to the country to prepare and monitor the implementation of post-pandemic economic and fiscal recovery plans that will help put the public finances back on a sustainable trajectory.

2.8 **Development risk.** There is a medium risk that the allocated funds will be insufficient to meet the demand for finance among agroindustry MSMEs should the health and economic crisis worsen or go on for an extended period, causing many to shut down their operations. To mitigate this risk, the Bank has sought to coordinate with the executing agency to ensure that the response be commensurate with the sector's MSME financing needs, especially over the short term. The executing agency also has supplementary programs and resources to support not only this industry, but also others within the agricultural and rural sector (such as primary industries and services that may indirectly affect them), and to meet their needs over the course of the economic recovery.

2.9 **Sustainability.** The program is expected to contribute to easing the temporary difficulties faced by MSMEs in the agroindustrial sector as a consequence of the COVID-19 pandemic and, in doing so, maintain employment at these businesses and keep them operating. This will in turn lead to economic recovery and contribute to medium-term food security. The program offers the country the opportunity to leave support mechanisms in place for future emergencies. The demonstration effect of the interventions is expected to enable the development of preventive programs to reduce MSME vulnerability.

III. Implementation and Management Plan

A. Summary implementation arrangements

3.1 **Borrower and executing agency.** The borrower for this operation will be NAFIN, and the executing agency will be the Bank of Mexico, acting in its capacity as trustor of the Special Fund for Agricultural Financing (FEFA), which is part of FIRA (paragraphs 1.11 and 3.3). The executing agency will be responsible for the administration, risk management, coordination, execution, control, and monitoring of resources under the operation. This operation will also have the sovereign guarantee of the United Mexican States over the borrower's financial obligations.

3.2 **Execution and administration.** NAFIN is a federal government entity with legal personality and its own budget. Its goal is to promote economic development in

Mexico by facilitating access to financing and other business development services for MSMEs, entrepreneurs, and priority investment projects, while helping to build financial markets and serve as a trustee and financial agent of the federal government. In doing this, it seeks to drive innovation and increase productivity, competitiveness, job creation, and regional growth. According to its founding law, NAFIN is authorized to issue loans to public development trusts. The entity is governed by financial regulations and subject to monitoring and oversight by the CNBV. NAFIN is a creditworthy institution with good risk management practices.

3.3 FIRA consists of four public development trusts, whose trustor is the Department of Finance, and whose trustee is the Bank of Mexico. The entity's mission is to provide comprehensive financing to the agricultural and agroindustrial sectors, in order to raise their productivity and the standard of living of those employed by them. It aims to do so with a regional development, environmental sustainability, and gender equity perspective. The NAFIN loan proceeds will be disbursed to FEFA, one of FIRA's trust funds. Given that the executing agency is a second-tier institution, the it is governed by the Federal Parastatal Entities Act and is subject to the monitoring and oversight of the CNBV. The executing agency is a creditworthy institution with outstanding risk management practices.

3.4 The IDB will issue a loan to NAFIN so that it, in turn, can issue credit to the executing agency. The latter will use those funds to provide financing to eligible financial intermediaries, which will then offer subloans under appropriate conditions to eligible beneficiaries (or subborrowers) for them to finance eligible production-oriented projects (or subprojects) (the subloans may be co-financed).

3.5 The executing agency, using its human and technological resources, will be responsible for execution and supervision of appropriate use of subloan proceeds and will perform the following functions: (i) making disbursements to eligible financial intermediaries for lending of the resources to eligible beneficiaries to meet the program objectives under the stipulations of the program Operating Regulations; (ii) preparing execution and physical/financial progress reports for the IDB; (iii) monitoring compliance with environmental and social safeguards; and (iv) program monitoring and evaluation.

3.6 **Implementation considerations.** Through the global credit loan, the operating agency will channel resources through eligible financial intermediaries, which will in turn channel the loan proceeds to eligible MSMEs.

3.7 Eligible financial intermediaries may be those that are already in operation and have been authorized by the executing agency (around 80 have been to date), or they may be new financial institutions accepted into its network. It should be noted that 83% of FIRA's portfolio (funding plus guarantees) is placed in high-capital financial intermediaries (banks) with total portfolio balances of over US$150 million. FIRA's share in commercial bank financing of agroindustry has ranged from 55% to 66% in the last four years (that is, the percentage of commercial bank financing issued to agroindustry driven by FIRA funding or credit guarantees). To be eligible, financial intermediaries must: (i) be financial institutions authorized and supervised by the CNBV or nonbank financial institutions authorized to operate and monitored by FIRA; (ii) comply with federal regulatory requirements for capital, portfolio quality and provisioning, liquidity, and governance; and (iii) pledge to comply with specific executing agency requirements, including the ones for the IDB program. The executing agency will verify that all financial intermediaries satisfy the above

requirements to remain eligible for the IDB program. Eligible financial intermediaries will assess sub-borrower risk and make decisions to issue financing in accordance with FIRA's operating regulations and applicable rules and procedures under Mexican law.

3.8 In addition to the requirements set forth under the description of the "sole component" (paragraphs 1.23 through 1.25), for MSMEs to be eligible to receive credit, they will be individuals or corporations established under Mexican law that are dedicated to eligible activities and will fulfill the requirements established for that purpose by the IFI issuing credit.

3.9 **Credit Regulations.** The program Operating Regulations describe responsibilities in the areas of administration, risk management, and coordination between the executing agency and the Bank, eligibility criteria for beneficiaries, subprojects, and financial intermediaries, and eligibility criteria and procedures for issuing subloans, which will also include environmental and social management considerations. The document also includes agreements for management and monitoring and other arrangements. The program Operating Regulations will be consistent with NAFIN, executing agency, and IDB policies and with Mexico's financial laws and practices. Any modifications to the Credit Regulations will require the IDB's no objection.

3.10 **Special contractual conditions precedent to the first disbursement of the loan proceeds: As special contractual conditions precedent to the first disbursement of the loan proceeds: (i) the program coordinators at NAFIN and the executing agency will have been appointed; (ii) the program Operating Regulations will have been approved in accordance with the terms previously agreed upon with the Bank; and (iii) a contract to open a revolving credit facility between NAFIN, as the borrower, and the executing agency, for the transfer of loan proceeds and associated obligations will have entered into force in accordance with the terms previously agreed upon with the Bank.**[40] These conditions are necessary to establish the structure, guidelines, and procedures to be followed by the executing agency for successful execution of the program.

3.11 **Retroactive financing.** The Bank may retroactively finance up to US$20 million (20% of the loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract were met. Such expenditures must have been incurred on or after 11 March 2020, when the World Health Organization (WHO) declared COVID-19 a global health emergency. Even though this predates the project officially entering the pipeline (document GN-2259-1), authorization of retroactive financing on an exceptional basis is justified as from that date, given the exceptional circumstances surrounding the impact the crisis has had on the deterioration of operations of MSMEs and in light of the need for loan refinancing. The executing agency has seen demand for credit increase since early March, and liquidity needs have increased since the abovementioned date (paragraph 1.14). Thus, the declaration of the pandemic is considered the base date, as the executing agency began to contend with extraordinary levels of demand for resources at

[40] NAFIN and the executing agency will sign a back-to-back contract once the contract between NAFIN and the IDB has been worked out.

financial intermediaries arising from a lack of liquidity among companies in the agrifood sector.

3.12 **Procurement.** As a demand-driven financial intermediation program, no procurement of goods, works, nonconsulting services, or consulting services is likely to be required as part of execution. No project execution plan or procurement plan is therefore included in this proposal. Any procurement of nonconsulting or consulting services required as part of program administration and/or evaluation will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-15), or as subsequently updated. For additional details, see the Fiduciary Agreements and Requirements (Annex III).

3.13 **Disbursements:** Resources for the program components will be disbursed by the IDB to NAFIN via the modality of advance of funds and/or reimbursements, as established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) or current IDB policies. Disbursements will be made as reimbursements to the executing agency for transfers made to financial intermediaries that have both available credit and have submitted contracts for subloans in compliance with the eligibility criteria established in the program Operating Regulations. Disbursement verification will be on an ex post basis, subject to review of the subloans.

3.14 **Financial statements and audit.** The executing agency will deliver annual audited financial statements for the program under the terms of reference agreed upon with the Bank and the Civil Service Department, as part of the entity's annual financial statements. The financial statements will be delivered within 180 calendar days after the close of the fiscal year. The final financial statements for the program will be delivered within 180 calendar days after the date of the last disbursement. In addition, a program audit will be performed by the supreme audit authority or a Bank-eligible external audit firm under the procedures established in the current audit guidelines, the cost of which will be covered by the executing agency.

B. Summary of arrangements for monitoring results

3.15 **Monitoring.** Project execution will be monitored via six-monthly progress reports prepared by the executing agency and delivered within 60 calendar days after the close of each six-month period. The reports will be based on the reporting commitments included in the results matrix for each operation and the financial progress reports indicated in the general conditions of the loan contract, as well as compliance with the eligibility criteria set out in the program Operating Regulations (see required link 1). These reports will be reflected in the progress monitoring reports (PMR). In addition, the semiannual progress reports will include an update and monitoring of program risks, a brief status report on the execution of eligible financial activities, committed and disbursed amounts, the financial terms of the subloans, and other topics as set forth by the program Operating Regulations. In addition, a final report will be prepared and delivered within 180 calendar days after all program funds have been disbursed and justified.

3.16 **Evaluation.** The strategy for evaluating program results will consist of a reflexive evaluation, before and after the program, to determine the scope of its results. The evaluation strategy is described in the monitoring and evaluation plan (see required

link 1). The executing agency will bear the costs of evaluation and monitoring in all cases.

3.17 **Information for program monitoring and evaluation**. The executing agency will be responsible for maintaining data gathering and monitoring systems (see required link 1). The executing agency will commit to maintain a system for monitoring and evaluation of all components, which it will use to prepare the reports and data delivered to the Bank. For the purposes of the evaluation, the executing agency will compile, store, and safeguard all information, indicators, and parameters necessary to prepare the project completion report, including annual plans and the final evaluation. The executing agency will bear the costs of evaluation and monitoring. The additional information required for the evaluation process will be drawn from national and international secondary sources of statistical data and, potentially, reports of relevant organizations.

Development Effectiveness Matrix		
Summary	**ME-L1301**	
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	**-Social Inclusion and Equality -Productivity and Innovation**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Micro / small / medium enterprises financed (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		**The intervention is not included in the 2020 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		**See paragraphs 1.8 to 1.14 of the loan document**
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**9.6**	
3.1 Program Diagnosis	**3.0**	
3.2 Proposed Interventions or Solutions	**3.6**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**10.0**	
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**	
5. Monitoring and Evaluation	**7.0**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**4.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Low**	
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.13**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, External Control, Internal Audit. Procurement: Information System.**
Non-Fiduciary		
The IDB’s involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**No**	

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

The project ME-L1301, in the amount of USD100 million, is framed within the Bank’s operational response to the COVID-19 Pandemic, Global Credit Program from the Defense of the Productive Economy & Employment. The general objective of this project is to support MSME’s sustainability in the face of the COVID-19 crisis as a pillar of employment in Mexico. The specific objective is to support short-term financial sustainability for MSMEs in the agro-industrial sector.

The loan proposal presents a solid diagnosis of the problem and a review of international evidence. The proposed solution is an appropriate response for the identified problem and its contributing factors. In view of the crisis MSMEs in the country face incremental challenges to their survival and the program seeks to mitigate this through the provision of financing. Specifically, the agro-industrial sector was identified as a vulnerable sector in view of the crisis and also a priority sector for its link to food safety.

The Results Matrix is coherent with the project’s vertical logic, presenting adequate indicators at the outcome and impact level. Outcome indicators are properly defined to measure the program’s achievement and fulfillment of the specific objective. The main outcome to be measured will analyze the countercyclical role of the program in the targeted portfolio of providing working capital financing for MSMEs in agroindustry.

The economic analysis shows that the operation is efficient with an IRR of 29% and an NPV of USD150MM. In a context of high uncertainty, the analysis captures the benefits derived from (i) the reduction in the decrease in the incomes of beneficiary firms and (ii) the preservation of employment in firms that survive thanks to the program.

The monitoring and evaluation plan proposes a reflexive analysis of outcome indicators in the Results Matrix, complemented by a qualitative analysis of the main challenges during execution and the proposed solutions. The monitoring and evaluation activities shall be conducted by FIRA, as executing agency, in coordination with the Bank.

Results Matrix

Project objective:	The general objective of this project is to support the sustainability of micro, small, and medium-sized enterprises (MSMEs) as employment providers in Mexico amid the COVID-19 crisis. The specific objective is to support the short-term financial sustainability of MSMEs in the agroindustrial sector.

Expected Impact

Indicators	Unit of measure	Baseline 2020	Final target End of project + 2 years	Means of verification	Comments
GENERAL OBJECTIVE: Support the sustainability of MSMEs amid the COVID-19 crisis.					
Indicator 1. Percentage of employment generated by agroindustrial activity as a share of the country's total employment.	%	20	20	National Institute of Statistics and Geography (INEGI) information, considering the food and beverage and tobacco subsectors	The program should help maintain the sector's share of the total economically active population. A value similar to the precrisis level should be established as a target.

Expected Outcomes

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
Specific objective 1: Support to improve the short-term financial capacity of MSMEs in the agroindustrial sector.					
Indicator 1. Rate of arrears of the Special Fund for Agricultural Financing (FEFA) portfolio of working capital credit to agroindustrial sector MSMEs at six months after program start, compared with the rate of FIRA's total portfolio.	%	65	171	Program monitoring and supervision information collected by the executing agency	Definition: Rate of arrears = overdue portfolio/total portfolio. The indicator will be calculated as: FEFA rate of arrears/FIRA rate of arrears (total rate). The rate of arrears for this portfolio will take into account the full underlying portfolio of FIRA-supported financial intermediaries that fulfills the criteria set forth in the program Operating Regulations (agroindustrial sector MSME working capital financing), and not just the part issued with IDB funds. This measurement will be taken several times throughout the execution period. This indicator and its target are for the first measurement, which will be performed six months from the outset of the crisis (September 2020). The rate of arrears of FEFA's portfolio of working capital credit to agroindustrial sector MSMEs is expected to triple over that six-month period, and then drop gradually until it ultimately reaches the precrisis value (baseline from March 2020). Over the six months, the decline should be worse for the target portfolio, so the ratio goes up to 171%. The target portfolio is expected to see greater

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
					deterioration because, of all the sectors supported by FIRA, agroindustry (and the primary sector in particular) is projected to be hit the hardest by the crisis. That is precisely why the decision to support this sector was made. A rate below the target rate should therefore be taken as performance exceeding expectations, i.e., the target is for the rate to be equal to or less than this value.
Indicator 2. Rate of arrears of FEFA's portfolio of agroindustrial sector MSMEs with restructured debt at six months after program start, compared with the rate of FIRA's total portfolio.	%	31	87	Program monitoring and supervision information collected by the executing agency	Definition: Rate of arrears = overdue portfolio/total portfolio. The indicator will be calculated as: FEFA rate of arrears/FIRA rate of arrears (total rate). The rate of arrears for the restructured debt portfolio will take into account the full underlying portfolio of FIRA-supported financial intermediaries that fulfills the criteria set forth in the program Operating Regulations (agroindustrial sector MSME financing), and not just the part issued with IDB funds. This measurement will be taken several times throughout the execution period. This indicator and its target are for the first measurement, which will be performed six months from the outset of the crisis (September 2020). The rate of arrears of FEFA's portfolio of agroindustrial sector MSMEs with restructured debt is expected to triple over that six-month period, and then drop gradually until it ultimately reaches the precrisis value (baseline from March 2020). The target portfolio should see greater deterioration because, of all the sectors supported by FIRA, agroindustry (and the primary sector in particular) is projected to be hit the hardest by the crisis. That is precisely why the decision to support this sector was made. A rate below the target rate should therefore be taken as performance exceeding expectations, i.e., the target is for the rate to be equal to or less than this value.

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
Indicator 3. Rate of arrears of FEFA's portfolio of working capital credit to agroindustrial sector MSMEs at 12 months after program start, compared with the rate of FIRA's total portfolio.	%	65	139	Program monitoring and supervision information collected by the executing agency	Definition: Rate of arrears = overdue portfolio/total portfolio. The indicator will be calculated as: FEFA rate of arrears/FIRA rate of arrears (total rate). The rate of arrears for this portfolio will take into account the full underlying FIRA-supported portfolio that fulfills the established criteria (agroindustrial sector MSME working capital financing), and not just the part issued with IDB funds. This measurement will be taken several times throughout the execution period. This indicator and its target are for the second measurement, which will be performed 12 months from the outset of the crisis (March 2021). The rate of arrears of FEFA's portfolio of working capital credit to agroindustrial sector MSMEs is expected to triple over that six-month period, and then drop gradually until it ultimately reaches the precrisis value (baseline from March 2020). Twelve months from the outset of the program, it should reach 139%, on its way down from a six-month peak. The target portfolio should see greater deterioration because, of all the sectors supported by FIRA, agroindustry (and the primary sector in particular) is projected to be hit the hardest by the crisis. That is precisely why the decision to support this sector was made. A rate below the target rate should therefore be taken as performance exceeding expectations, i.e., the target is for the rate to be equal to or less than this value.
Indicator 4. Rate of arrears of FEFA's portfolio of agroindustrial sector MSMEs with restructured debt at 12 months after program start, compared with the rate of FIRA's total portfolio.	%	31	63	Program monitoring and supervision information collected by the executing agency	Definition: Rate of arrears = overdue portfolio/total portfolio. The indicator will be calculated as: FEFA rate of arrears/FIRA rate of arrears (total rate). The rate of arrears for the restructured debt portfolio will take into account the full underlying FIRA-supported portfolio that fulfills the established criteria (agroindustrial sector MSME financing), and not just the part issued with IDB funds. This measurement will be taken several times throughout the execution period. This indicator and its target are for the second measurement, which will be performed 12 months from the outset of the crisis (March 2021). The rate of arrears of FEFA's portfolio of agroindustrial sector MSMEs with restructured debt is expected to triple over that six-month period, and then drop gradually until it ultimately reaches the precrisis value (baseline from

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
					March 2020). Twelve months from the outset of the program, it should have fallen to 63%. The target portfolio is expected to see greater deterioration because, of all the sectors supported by FIRA, agroindustry (and the primary sector in particular) is projected to be hit the hardest by the crisis. That is precisely why the decision to support this sector was made. A rate below the target rate should therefore be taken as performance exceeding expectations, i.e., the target is for the rate to be equal to or less than that value.
Indicator 5. Balance of the agroindustry MSME working capital portfolio.	US$ million	64.60	124	Program monitoring and supervision information collected by the executing agency	For the baseline, the balance of the program's target portfolio (FEFA's agroindustry MSME loan portfolio) as of March 2020 was used. This does not take into account the balance of guarantees without financing or the balance of guarantee payments. The portfolio balance is equal to the previous month's starting balance, plus credit issued over the month, minus scheduled or prepayment recoveries. The final target reflects the projected end-of-program balance, taking into account that some credit will be short term (90 days) and require time to be reissued, which takes an average of 120 days. IDB financing will prevent a decline in this portfolio. FIRA predicts that the portfolio would have fallen to US$30 million in the program's absence due to liquidity restrictions in the domestic capital market owing to the current crisis. Based on its projections, FEFA will see a demand for its capital from various vulnerable sectors in need of liquidity that do not fall within the program's target segment, but are still a priority, such as the primary sector and big agroindustrial businesses. Without IDB financing, this target segment would receive less assistance. FIRA's projections for the highest-stress crisis scenario indicate that, without IDB financing, the monthly balance would reach US$30 million, a 53% decline in what FIRA would have been able to continue allocating to this target portfolio in the program's absence. The total target of US$124 million has been determined by adding the US$94 million injected by the IDB program to that amount.

OUTPUTS

Outputs[1]	Unit of measure	Baseline 2020	2021	2022	Final target	Means of verification
Sole component: Support to improve the short-term financial capacity of MSMEs in the agroindustrial sector.						
Output 1: Amount of working capital loans made to MSMEs in the agroindustrial sector.	US$ million	0	94	0	94	Monitoring and supervision information processed by the executing agency
Annual cost:	US$ million	0	94	0	94	
Output 2: Amount of financing issued for MSME debt restructuring in the agroindustrial sector.	US$ million	0	6	0	6	Monitoring and supervision information processed by the executing agency
Annual cost:	US$ million	0	6	0	6	

[1] An exchange rate of Mex$23.5122 per US$1 was used.

Country: Mexico **Sector:** CMF **Project number:** ME-L1301 **Year:** 2020
Cofinancing: Not applicable (N/A) **Co-execution:** N/A

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Bank of Mexico, acting in its capacity as trustor of the Special Fund for Agricultural Financing, part of Fideicomisos Instituidos en Relación con la Agricultura (FIRA)

Project name: Global Credit Program for Safeguarding the Productive Fabric and Employment in the Agroindustrial Sector

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in program[1]

Budget	☒	Reports	☒	Information system	☒	NCB	☐
Treasury	☒	Internal audit	☒	Shopping	☐	Advanced NCB	☐
Accounting	☒	External control	☒	Individual consultants	☐	Consulting firm	☐

Applicable laws/regulations:

2. Fiduciary capacity of the executing agency

As FIRA has previously acted as an executing agency, the Institutional Capacity Assessment System (ICAS) was not applied. The operation instead relies on the ICAS evaluation of FIRA conducted in 2014 under loan 3335/OC-ME and operation ME-X1021, which yielded a weighted rating of 100%, signaling a high level of development in FIRA's fiduciary systems and a low level of risk for the program's fiduciary execution. No weaknesses that could compromise effective project execution were identified.

3. Fiduciary risks and mitigation measures

Fiduciary risk: High ☐ ; Medium ☐ ; Low ☒

Risk	Level of risk (medium/high)	Mitigation plan
No fiduciary risks were identified		

[1] Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation thereof.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

Conditions precedent to the first disbursement: There are no conditions of a fiduciary nature.
Exchange rate: For reporting, the exchange rate used will be the one in effect on the date on which the executing agency makes the respective payments or transfers. Article 4.01(b)(ii) of the general standards published in Mexico's official gazette.
Audited financial reports for the program: The executing agency will deliver annual audited financial statements for the project within 180 days after the close of the fiscal year, in accordance with the terms of reference agreed upon with the Civil Service Department. The final financial statement will be submitted within 180 days after the last disbursement.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

Exceptions to policies and guidelines:

• No exceptions anticipated.

Retroactive financing and/or advance procurement[2]	• The Bank may retroactively finance up to US$20 million (20% of loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract were met. Such expenditures must have been incurred on or after 11 March 2020, when the World Health Organization (WHO) declared COVID-19 a global health emergency. Even though this predates the project officially entering the pipeline (document GN-2259-1), authorization of retroactive financing on an exceptional basis is justified as from that date, given the exceptional circumstances surrounding the impact the crisis has had on the deterioration of operations of MSMEs and in light of the need for loan refinancing. The executing agency has seen demand for credit increase since early March, and liquidity needs have increased since the abovementioned date. Thus, the declaration of the pandemic is considered the base date, as the executing agency began to contend with extraordinary levels of demand for resources at financial intermediaries arising from a lack of liquidity among companies in the agrifood sector.
Additional procurement support	• N/A.
Alternative procurement arrangements	• N/A.

[2] In accordance with Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement (document GN-2259-1) or the equivalent policy in effect at the time of the operation.

Projects with financial intermediaries	• As this loan is for global credit programs and other operations in which resources are provided to financial intermediaries that will in turn issue subloans or resources via other onlending modalities, it will be stipulated that the Bank's prohibited practices clauses are to be included in the agreements between the borrower and its financial intermediaries, and those between the latter and the subborrowers. Alternatively, if the effective inclusion of these clauses in the aforementioned contracts is not possible or practical in view of the program's circumstances, the project team may examine other mechanisms to adopt acceptable controls and duly bind the relevant third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity, with support from the Legal Department, and described in the program Operating Regulations.
Procurement agents	• N/A.
Direct contracting	• N/A.

Operating expenses will be financed: ☐ N/A	**Domestic Preference:** ☐ N/A
General project procurement supervision method: N/A	
Supervision method: N/A	**For:** N/A

Country thresholds: www.iadb.org/procurement

IV. Financial Management Agreement and Requirements

Programming and budget	• The operation's disbursements will be labeled as external credit and counted toward NAFIN's assigned budget ceiling.
Cash and disbursement management	• Disbursements will be made in the form of advances of funds and reimbursements. • Disbursements will be made upon submission of physical disbursement requests. Due to the crisis, requests may be scanned and submitted electronically as established by the Bank's Legal Department. • Exclusive bank account. Program funds will be kept in a FIRA concentration account, which will be used to fund the disbursement account linked to FIRA's automatic loan processing system. The executing agency will submit six-monthly reconciliation reports showing the credits issued to financial intermediaries versus the movements in the disbursement account, as well as the available advance amounts. This arrangement is cost-efficient given that opening a bank account specifically for the executing agency would take at least three months since it would require special authorization from the Treasury Department. As this is an expedited operation in response to the health

	emergency, the use of a concentration account is recommended. It should be mentioned that this arrangement was used successfully in prior operations with FIRA (operations ME-L1145 and ME-X1021). • Financial plan: Advances will be made for a period of up to 12 months, depending on the demand for loans. For advances of more than six months, justification of the need for a period longer than six months will be provided. • Percentage for reporting: 80% of the balance of advances pending justification. • Program resource flow: Funds will be disbursed to NAFIN in its capacity as the borrower, and NAFIN will, in turn, transfer them to the FIRA account.
Accounting, information systems, and reporting	• Specific accounting standards: Government Accounting Act and the government accounting system, partially based on the International Financial Reporting Standards. • Financial reporting: List of transfers made for eligible loans according to the Credit Regulations. • Accounting method and currency: Cash-based. Reports will be presented in the local currency and in U.S. dollars.
External control	• External auditing: The borrower and executing agency will select and engage the services of an eligible auditing firm acceptable to the Bank in accordance with the terms of reference previously agreed upon with the Civil Service Department.
Project financial supervision	• Ex post supervision: Financial supervision will be conducted by means of visits to FIRA, working meetings, and reviewing reports, including the audited financial reports.

V. Relevant Information for the Operation

Policies and guidelines applicable to the operation

Financial management	**Procurement**
• Document GN-2811 [Operating Policy OP-273-12]	• Document GN-2349-15 • Document GN-2350-15

Records and files

FIRA has digital and physical files, as well as procedures and instructions that ensure that the appropriate records and files are kept.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Mexico. Loan ____/OC-ME to Nacional Financiera S.N.C. (NAFIN).
Global Credit Program for Safeguarding the Productive
Fabric and Employment in the
Agroindustrial Sector

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 Nacional Financiera S.N.C.(NAFIN), as Borrower, and with the United Mexican States, as Guarantor, for the purpose of granting it a financing to cooperate in the execution of a “Global Credit Program for Safeguarding the Productive Fabric and Employment in the Agroindustrial Sector”. Such financing will be for 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 ___ ____________ 2020)

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