

TC Document

I. Basic Information for TC

▪ Country/Region:	MEXICO
▪ TC Name:	Supporting the Transparency and Integrity Agenda in Mexico and Subnational Entities
▪ TC Number:	ME-T1484
▪ Team Leader/Members:	Lagarda Cuevas, Guillermo (IFD/ICS) Team Leader; Dassen, Nicolas (IFD/ICS) Alternate Team Leader; Aguilar Blandon, Maria Alejandra (IFD/ICS); Alvarez Bollea, Maria Cecilia (IFD/ICS); De Dobrzynski, Esteban (LEG/SGO); De Michele, Roberto (IFD/ICS); Doris Henriquez (IFD/ICS); Estrazulas De Souza, Francisco Hugo (INT/TIN); Katia Rivera (IFD/ICS); Maday, Monica (INT/INT); Santa Maria, Benjamin R (IFD/ICS)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	19 Apr 2022.
▪ Beneficiary:	Mexico
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$350,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	30 months
▪ Required start date:	August 2022
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/ICS-Innovation in Citizen Services Division
▪ Unit of Disbursement Responsibility:	IFD/ICS-Innovation in Citizen Services Division
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Institutional capacity and rule of law; Productivity and innovation

II. Objectives and Justification of the TC

- 2.1 The objective of this TC is to support Mexico in fostering transparency, integrity, improve internal controls and prevent money laundering through specific interventions. In particular, to strengthen the framework of transparency and integrity in the use of public resources in the Federal Government and its Subnational Entities (use of technologies to promote transparency, accountability of public resources, integrity and transparency of public procurement, integrity of public-private relations, and public ethics). The specific objectives are: (i) promote transparency and anti-corruption policies and regulations in accordance with the requirements in the United States-Mexico-Canada Trade Agreement (USMCA), both at Federal and Subnational Level; (ii) promote adequate anti-money laundering policies and regulations in accordance with Financial Action Task Force (FATF) recommendations both at federal and subnational level; and (iii) contribute to the implementation of a transparency platforms for public investment and purchases.
- 2.2 This TC pursues two novel approaches to contribute to addressing these gaps. First, by focusing in the USMCA, the IDB will support the Federal Government to design and

implement a transparency and anti-corruption agenda aim at building institutional capacities and converge to transparency and integrity standards required in the treaty. Second, by supporting transparency efforts in subnational entities this TC will contribute to address institutional gaps to improve their standards vis a vis the Federal Government. The Bank has worked for several years in collaboration with the government of Mexico in the design and implementation of transparency and innovation solutions, positioning it as a benchmark in the area. In addition, the Bank has specific experience in the execution of the activities foreseen in this TC, particularly through the following TCs: Open Data for Inclusion and Transparency in LAC (ATN/AA-16240-RG), Open innovation to combat corruption (ATN/AA-16197-ME) or Supporting the Transparency Agenda in Mexico (ATN/AA-17774-ME, ATN/OC-17773-ME).

- 2.3 The Transparency International Corruption Perception Index (CPI) scored Mexico with 31 points in 2021 is significantly lower than Latin American and the Caribbean (LAC) countries, which reported an average CPI of 37.6 and with OECD countries that scored an average CPI of 59.7 points on a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean (Transparency International, 2022). This result is also found in the Worldwide Governance Indicators (WGI), which scale ranges between -2.5 (weak performance) and 2.5 (solid performance). Mexico scored for Control of Corruption -0.84 in 2020. In contrast, the OECD countries reported an average of 1.08 points while LAC countries average is -0.30. Moreover, according to the National Survey of Regulatory Quality and Governmental Impact on Businesses (ENCRIG) in 2020 71.2% of economic units stated that corruption acts among public servers are highly frequent, in comparison with the 82.2% stated in 2016. At a subnational level, State of Mexico's perception of corruption acts goes up to 94.7%, while in Baja California is only 45.6%.
- 2.4 The USMCA is the first trade treaty in the world including anticorruption actions. Chapter 27 in USMCA is dedicated to Anti-corruption policies and regulations. The chapter points out specific requirements for the enforcement and promotion of public and private integrity and transparency. It also addresses issues to improve efficiency and transparency in public procurement. Specifically, 18 commitments are included to combat corruption. Mexico has only fully implemented some of them, such as: (i) the creation of a National Digital Platform; (ii) the criminalization of the misuse of public resources; (iii) the adoption of a module in COMPRANET to receive electronic bids; and (iv) the criminalization of bribery in international trade and investment matters which are included in the National Anticorruption Plan (PNA).
- 2.5 While Mexico has made progress in complying with the USMCA anti-corruption commitments, there are still areas for improvement. Several commitments have been partially implemented, but full compliance requires adaptations and modifications to the legal framework both at Federal and Subnational level. Among the pending actions are the adoption of an action plan by COMPRANET to implement the regulations and processes per standards in USMCA chapter 13 on public procurement. Some of the pending actions include the publication of statistical reports on procurement or the appointment of non-public sector representatives in the Government Procurement Committee. Moreover, there are larger gaps related to the strengthening of private firms' integrity framework. For instance, there is no regulation, guidelines or standardized procedures auditing accounting and Know Your Client (KYC). Also, there is no framework or normative for internal control audits. This TC will contribute to promote compliance of these anti-corruption and integrity commitments.

- 2.6 In 2018, the FATF completed the most recent Mutual Evaluation (MER) of Mexico. The review found that Mexico's legal and institutional framework for anti-money laundering and anti-terrorist financing framework is adequate from a technical point of view to cover the criminalization of these crimes. It also found that the financial sector has implemented a risk-based approach to comply with the FATF requirements on anti-money laundering and the financing of terrorism (AML/CTF). However, the FATF also acknowledges that Mexico can improve effectiveness of the AML/CFT framework in key areas. Among them are: (i) non-financial vulnerable activities; and (ii) challenges related to beneficial ownership information including the lack of information or limited access to information at subnational level. In 2021, the FAFT qualified in the 3rd Enhanced Follow-Up Report (FUR) 8 recommendations as compliant, 22 as largely compliant, 9 as partially compliant and 1 as non-compliant. More recently, the 4th FUR, carried out in May 2022, evaluated Mexico's progress in recommendations 32, 37, and 38, previously qualified as partially compliant. Mexico was able to show proof of improvement leading to requalify 37 and 38 as compliant. In summary the FUR acknowledged the implementation of a case management system to follow-up mutual legal assistance (MLA) requests (upgrading R.37), and the establishment of a formal memorandum that applies criteria for the execution of MLA requests (upgrading R.38).
- 2.7 In terms of AML legal framework, yet there are important challenges to be addressed. The Federal Antimoney Laundering Law ensures beneficial ownership information of legal persons to identify illicit activities. The law requires the FIU to keep a national beneficial ownership registry, a task that has not been easy to undertake. Behind the challenges are the fragmentation of data sources within Federal Government and that property registries are generated by subnational entities. Moreover, other related data sources, frequently associated with beneficial ownership, are not necessary covered by the federal law requiring normative adjustments, for instance registries for vehicles, private aircrafts, nautical vehicles, and certain kinds of trusts. This TC will contribute to promote a single national beneficial ownership registry including information sources from the Federal Agencies and subnational entities.
- 2.8 Digital Transparency Platforms in Public Procurement. Mexico updated the public procurement e-portal COMPRANET between 2018-2020. While most public purchases (goods and services) take place via COMPRANET, there is still opportunities for promoting transparency and citizen control through better access to procurement results and performance of execution. Digital transparency platforms have created new opportunities to improve transparency and dissemination of information related to public procurement for investment or good and services. Countries adopting these types of transparency-oriented platforms have fared well in favor of the objective of enhancing transparency as an instrument to carry out more effective controls. According to various studies, these technologies contribute to deepen and quantify the relationship between state and citizens^{1,2}. However, technology cannot solve all the problems. One example of such digital tools is Investment Map, an IDB regional initiative to provide member countries with a digital platform for transparency of public investment and public procurement. Since 2016, the IDB launched the initiative that serves as an online platform allowing any person to navigate the information openly, monitor the physical investment projects through

¹ Sæbø, Ø., Rose, J., & Flak, L. S. (2008). The shape of eParticipation: Characterizing an emerging research area. *Government information quarterly*, 25(3), 400-428.

² Medaglia, R. (2012). eParticipation research: Moving characterization forward (2006–2011). *Government Information Quarterly*, 29(3), 346-360.

data visualizations and visualize geo-referenced maps. This initiative has been successfully adopted by several countries since then, including Paraguay, Costa Rica and Peru in 2018, and recently in Jamaica in 2020.

- 2.9 Countries who have implemented Investment Map and similar initiatives have shown positive effects on execution of projects and other procurement indicators. For example, the *MapaRegalias* platform in Colombia generated an average increase in execution efficiency of 7.9 percentage points plus contributed to a reduction in project implementation time (increasing project completion rates) and preventive suspensions of royalty distributions^{3,4}. *MapaInversiones* platform in Costa Rica has shown also positive results, for instance, financial progress increased by 18% and physical progress by 8%⁵. In Argentina, the e-procurement platform COMPR.AR has decreased the duration of procurement processes and the prices paid by public bodies by expanding the number of bidders through electronic purchases⁶. In Peru, *InfObras* and the *Invierte.pe* application have shown a significant impact in terms of reducing cost overruns for public works outsourced to construction firms⁷. In a more novel approach, transparency platforms in procurement interoperate with asset and interest declarations of public servants and exchange information of beneficial ownership registries. This allows a stronger ability to manage conflict of interest, inhibits some procurement irregular practices and contributes to the AML system. Certainly, in order to get to this point, Mexico will require to close gaps among the various digital platforms serving the FIU and *Secretaría de la Función Pública* (SFP).
- 2.10 **Strategic Alignment.** This TC is consistent with the Second Update of the Institutional Strategy (AB-3190-2) and is strategically aligned with the challenge of developing Technology and Innovation through the use of digital information and artificial intelligence tools. Moreover, it aligns with cross-cutting themes of Institutional Capacity and the Rule of Law, specifically, control of corruption, government effectiveness and the rule of law. Likewise, this TC is aligned with the objectives of the Strategic Program for Development (GN-2819-14) consistent with the expected results: (i) strengthen the quality of institutions and policies, as well as the provision of services and implementation of policies, to improve public management and promote the development of the private sector; and (ii) leveraging digital transformation to promote more effective, efficient and transparent governments, better and more equitable opportunities for citizens, and more productive and innovative companies. In particular (i) contributing to more effective, efficient, transparent, and citizen-centered public policies and institutions; and (ii) strengthen the application of the rule of law and the fight against corruption, including the promotion of transparency and integrity. The operation will contribute to the indicators of the Corporate Results Framework 2020-2023 (GN-2727-12) of: (i) institutions with enhanced transparency and integrity practices; and (ii) institutions with strengthened management and digital technology capabilities. It is also consistent with the Sectoral Framework for Transparency and Integrity (GN-2981-2). Additionally, it is aligned with the IDB's Vision 2025 by

³ Lauletta, M., Rossi, M. A., Cruz Vieyra, J., & Arisi, D. (2019). *Monitoreando la inversión pública: El impacto de MapaRegalias en Colombia* (No. IDB-WP-1059). IDB Working Paper Series.

⁴ Kahn, T., Baron, A., & Vieyra, J. C. (2018). Digital Technologies for Transparency in Public Investment: New Tools to Empower Citizens and Governments. Inter-American Development Bank.

⁵ Rossi, M. A., Vazquez, A., & Vieyra, J. C. Information Disclosure and the Performance of Public Investment. The Case of Costa Rica.

⁶ De Michele, R., & Pierri, G. (2020). Transparency and Digital Government: The Impact of COMPR. AR in Argentina.

⁷ Pierri, G., & Lafuente, M. (2020). Digital Government and Corruption.

strengthening good governance and adequate institutions to achieve sustainable and inclusive economic growth. There is also an alignment with the Country Strategy with Mexico 2019-2024 (GN-2982), which includes as cross-cutting issues strengthening institutions for transparency and integrity, with interventions at the federal and subnational levels.

III. Description of activities/components and budget

- 3.1 The proposed TC is organized in three components: (i) Support to strengthening transparency and anti-corruption policies and regulations in accordance with the requirements in the United States-Mexico-Canada Trade Agreement (USMCA); (ii) Support to anti-money laundering and financial transparency; (ii) Support the implementation of a Transparency Platform for Public Investment.
- 3.2 **Component I. Support to strengthening transparency and anti-corruption policies and regulations in accordance with the USMCA (US\$200,000).** Specifically, will include: (i) gap analysis between the USMCA and Mexico's status, involving contribute to the design of regulatory and capacity improvement projects in transparency and anti-corruption systems in accordance with USMCA; (ii) technical support to design regulations and procedures to comply with the anti-corruption chapter in USMCA and their impact on financial integrity by contributing to the design of regulatory and capacity improvement projects in transparency, anti-corruption and gaps towards the anti-money laundering regulation for a subnational case in accordance with USMCA; and (iii) technical support to subnational entities to close the gaps vis a vis the Federation by undertaking a diagnosis and comparison of normative standards and capacities between subnational and the federation vis-à-vis the USMCA standard.
- 3.3 **Component II. Support to anti-money laundering (AML) and financial transparency (US\$75,000).** This component supports reforms and capacity building to help the Federal and Subnational Entities improve their level of compliance with the FATF Recommendations. Specific activities: (i) technical support to design regulations and procedures to ensure that AML measures are commensurate with vulnerabilities involving the evaluation of capacities to respond to FATF recommendations that are currently in partial or non-compliance; and (ii) strengthening the legal and operational framework to implement a Beneficial Ownership (BO) registry by performing a capacity diagnostic of technology, human, and normative environments. For this component is expected the dissemination of the implementation outcomes of the BO registry.
- 3.4 **Component III. Support the design of an implementation plan of a Transparency Platform for Public Investment (US\$75,000).** This component will focus on identifying the needs of interoperability between national and subnational databases by analyzing the technological gaps identifying the main databases to be included and designing an implementation plan. To do so, it will be undertaken a diagnosis and proposal of a model for the adoption of a transparency platform specialized in public contracting.
- 3.5 **Indicative Budget.** The total budget of the TC is US\$350,000 financed via resources from the Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C) of the Strategic Program for Development financed with Ordinary Capital (OC-SDP). No local counterpart is foreseeing.

Indicative Budget (US\$)		
Activity / Component	Description	Total Funding
Component I	Gap analysis between the USMCA and Mexico's status, including the design of regulatory and capacity improvement projects in transparency and anti-corruption systems in accordance with USMCA	55,000
	Regulatory and capacity improvement projects in transparency, anti-corruption and gaps towards the anti-money laundering regulation for a subnational case in accordance with USMCA	55,000
	Diagnosis and comparison of normative standards and capacities between subnationals and the federation vis-à-vis the USMCA standard	90,000
Component II	Diagnostic of technology, human, and normative environments and capacities relevant for the Beneficial Ownership registry per international standards	55,000
	Evaluation of capacities to respond to FATF recommendations that are currently in partial or non-compliance	20,000
Component III	Diagnosis and proposal of a model for the adoption of a transparency platform specialized in public contracting	75,000
TOTAL		350,000

IV. Executing agency and execution structure

- 4.1 This TC will be executed by the Bank through the Innovation in Citizens Services Division (IFD/ICS) at the request of Mexican authorities. In accordance with Annex 2 of OP-619-4, the TC will be executed by the Bank mainly due to procedural constraints that would delay the execution of the TC. This TC is working with three counterparts from different Ministries of the Mexican government, namely the Federal Ministry of Economy, the Federal Government Ministry for Internal Control (SFP), the Financial Intelligence Unit (FIU) in the Federal Ministry of Finance and subnational Ministries of Internal Control. Thus, to facilitate the effective coordination, carry out an efficient monitoring and support our beneficiaries to deliver the intended outputs will be requested that the Bank acts as the Executing Agency. Moreover, the Bank Execution is justified as otherwise the whole process would be complex, since each of the executing agencies would have to allocate in their own budget the TC financial contribution and carry out their own fiduciary procedures and financial audits.
- 4.2 The project team is led by IFD/ICS who will supervise the TC components. In addition, execution by the Bank in this topic has proved to enhance information sharing among beneficiaries, allowing an efficient exchange of best practices by countries engaged in comparable reform processes
- 4.3 The Bank, has worked for several years in collaboration with the government of Mexico in the design and implementation of transparency and innovation solutions, positioning it as a benchmark in the area. In addition, the Bank has specific experience in the execution of the activities foreseen in this TC, particularly through TCs mentioned in ¶2.2.
- 4.4 All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in accordance with Bank policies as follows:

(a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (c) GN-2303-28 for logistics and other related services.

V. Major issues

- 5.1 No significant risks are expected. The technical capacity of the counterparts in these topics might slow down the implementation of components. In order to mitigate this risk, assistance will be provided to facilitate drafting Terms of Reference and help them throughout the procurement process from start to implementation.
- 5.2 Sustainability will be secured by closely working with counterparts in order to build institutional capacity to continue with the activities funded by this TC.

VI. Exceptions to Bank policy

- 6.1 No exceptions to the Bank are foreseen.

VII. Environmental and Social Strategy

- 7.1 This TC will not finance feasibility or pre-feasibility studies of investment projects or associated environmental and social studies; therefore, it does not have applicable requirements of the Bank's Environmental and Social Policy Framework (MPAS).

Required Annexes:

[Request from the Client - ME-T1484](#)

[Results Matrix - ME-T1484](#)

[Terms of Reference - ME-T1484](#)

[Procurement Plan - ME-T1484](#)

- [Gender and Diversity Checklist](#)