

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

**PROGRAM TO PROMOTE DIGITAL TRANSFORMATION AND SOCIAL
INCLUSION IN MEXICO**

(ME-L1297)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Antonio García-Zaballos (IFD/CMF), Project Team Leader; Enrique Iglesias (IFD/CMF), Alternate Project Team Leader; Pau Puig Gabarró, Claudia Marquez, Isabelle Braly-Cartillier, Fanny Porras, and Maria Cabrera (IFD/CMF); Leticia Riquelme (CMF/CME); Elena Arias Ortiz (SCL/EDU); Ariel Nowersztern (IFD/ICS); Harold Villalba (SPD/SDV); Ignacio Barragan (LEG/SGO); Miriam Garza and Ariel Rodriguez (VPC/FMP); Hugo Amador Us Alvarez (SCL/GDI).

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REQUIRED LINKS	
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2.	Monitoring and evaluation plan
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OPTIONAL LINKS	
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2.	Program Operating Regulations
3.	Program alignment with the Mexican regulatory framework
4.	Prioritization of public sites for connection
5.	Applicable legislation on active and passive infrastructure
6.	Safeguard policy filter and safeguard screening form

ABBREVIATIONS

BIT	Banco de Información de Telecomunicaciones [Telecommunications Data Bank]
CFE	Comisión Federal de Electricidad [Federal Electricity Commission]
CIDs	Centros de Inclusión Digital [Digital inclusion centers]
CONACYT	Consejo Nacional de Ciencia y Tecnología [National Council of Science and Technology]
DGPTR	Dirección General de Política de Telecomunicaciones y de Radiodifusión [Telecommunications and Broadcasting Policy Bureau]
ENDUTIH	Encuesta Nacional sobre Disponibilidad y Uso de Tecnologías de la Información en los Hogares [National Survey on the Availability and Use of Information Technologies in Households]
GDP	Gross domestic product
HHI	Herfindahl-Hirschman Index
ICB	International competitive bidding
ICTs	Information and communication technologies
IDBA	Índice de Desarrollo de la Banda Ancha [Broadband Development Index]
IFT	Instituto Federal de Telecomunicaciones [Federal Telecommunications Institute]
IMF	International Monetary Fund
INEGI	Instituto Nacional de Estadística, Geografía e Informática [National Institute for Statistics, Geography, and Information Technology]
ITU	International Telecommunication Union
LFTR	Ley Federal de Telecomunicaciones y Radiodifusión [Federal Law on Telecommunications and Broadcasting]
NCB	National competitive bidding
OECD	Organisation for Economic Co-operation and Development
PEU	Program execution unit
RNEI	Red Nacional de Educación e Investigación [National Research and Education Network]
SCT	Secretaría de Comunicaciones y Transportes [Department of Communications and Transportation]
SEP	Secretaría de Educación Pública [Department of Public Education]
SFP	Secretaría de la Función Pública [Civil Service Department]
SHCP	Secretaría de Hacienda y Crédito Público [Department of Finance]
SSC	Subsecretaría de Comunicaciones [Communications Division]

PROJECT SUMMARY

MEXICO PROGRAM TO PROMOTE DIGITAL TRANSFORMATION AND SOCIAL INCLUSION IN MEXICO (ME-L1297)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility ^(a)	
United Mexican States			Amortization period:	14.5 years
Executing agency:			Disbursement period:	5 years
Department of Communications and Transportation (SCT)			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
			Credit fee:	^(c)
IDB (Ordinary Capital):	120	100	Inspection and supervision fee:	^(c)
			Weighted average life:	10 years
Total:	120	100	Approval currency:	United States dollar
Project at a Glance				
Project objective/description: The general objective of this program is to increase citizens' access to the Internet through digital transformation and inclusion in Mexico, in support of social development. To that end, the program has the following specific objectives: (i) to promote telecommunications infrastructure in critical, high-performance networks; (ii) to promote digital inclusion through the development of digital capacity and skills, especially in remote and marginalized areas; and (iii) to promote institutional strengthening in support of digital transformation and inclusion.				
Special contractual conditions precedent to the first disbursement of the loan: The executing agency will present evidence to the Bank of: (i) the approval and entry into force of the program Operating Regulations previously agreed upon with the Bank; and (ii) the power of attorney with the financial agent (paragraph 3.7).				
Exceptions to Bank policies: None				
Strategic Alignment				
Challenges: ^(d)	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
Crosscutting themes: ^(e)	GD <input checked="" type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>	

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

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

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

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

^(e) 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 **Macroeconomic context.** During the current crisis, an economic downturn of around -6.6% is forecast for 2020.¹ The government has clarified its intention to support the fiscal effort through public savings accumulated in prior periods. To preserve its spending on existing social programs and infrastructure works, the government announced a cut in current spending; moreover, it does not intend to issue any new taxes or contract additional external debt beyond the level established in the 2020 Law on Revenue. The Central Bank has made several rounds of cuts to the interest rate, which currently stands at 5%. Meanwhile, inflation has stayed within the Central Bank target range (3%±1%) for over a year; in June 2020, it was 3.3%. The most recent forecasts by local and international analysts suggest inflation of 3.4% and an exchange rate of Mex\$22.7/US\$1 on average for 2020, as well as an uptick in economic growth on the order of 3% in 2021.
- 1.2 On 31 March, among its “extraordinary actions to address the health emergency,”² the Government of Mexico declared telecommunications to be an essential activity and a fundamental sector of the economy. The COVID-19 pandemic has highlighted the importance of affordable access to high-capacity telecommunications services. In places with broadband access, people and companies have been able to continue studying, working, conducting bank transactions, and using health applications. However, gaps in digital access and use have limited the ability of the most vulnerable populations (older adults, low-income households, and the rural population) to participate in digital services, telemedicine, online education, and telework.
- 1.3 In this context, an analysis of the economic impact of SARS-CoV in 2003³ showed that countries with stronger digital infrastructures were able to counteract, by up to 75%, the associated economic losses and socioeconomic impact of health measures like quarantining, social distancing, etc.
- 1.4 The current health emergency has revealed that for Mexicans to benefit from using the Internet, they need basic digital literacy. With this in mind, the Department of Public Education (SEP) introduced the “Aprendiendo en Casa” program, which provides a platform with educational content for individuals who have access and know how to use information and communication technologies (ICTs) and also broadcasts the courses for all educational levels on open television for individuals who do not have such digital access or knowledge. Meanwhile, the Department of Communications and Transportation (SCT) has introduced basic courses and workshops using an online platform in order to meet an immediate need among the population for digital skills training and development during the health emergency.

¹ International Monetary Fund (IMF) World Economic Outlook, April 2020.

² [Agreement establishing extraordinary actions to address the SARS-CoV2 health emergency](#). Official Gazette of the Federation, March 2020.

³ Development Bank of Latin America. [El estado de la digitalización de América Latina frente a la pandemia COVID-19](#).

- 1.5 **Telecommunications context.** Mexico has a population of over 126 million people and a gross domestic product (GDP) of US\$1.221 trillion,⁴ of which 2.6% comes from the telecommunications sector.⁵ Since the legal reforms to telecommunications of 2013, significant changes have been observed in the sector. For example, an autonomous entity—independent of the federal government—was constitutionally created to regulate and promote competition in the sector and oversee the use and exploitation of telecommunications and broadcasting. It is also important to recognize that public-private coordination has helped accelerate digitalization processes and will be especially important for the sustainability of future tenders in the framework of this operation.
- 1.6 From June 2013 to September 2019, the telecommunications GDP increased 88%, compared with growth of 12.1% for the rest of the economy; mobile phone prices dropped 43.6% and the number of subscriptions to mobile Internet access services increased 198.8%.⁶ However, only 70.1%⁷ of the population uses the Internet, while 11% do not have access to mobile coverage, mainly in the country's rural areas.⁸

Table 1. Principal changes in the sector since the 2013 legal reform⁹

Indicator	Change from June 2013 to September 2019
Total mobile Internet access service lines	198.8%
Total landline Internet access lines	62.0%
National consumer price index	27.4%
Communications price index	-26.7%
Internet service price index	3.4%
Mobile phone service price index	-43.6%
Herfindahl-Hirschman Index (HHI ¹⁰) for mobile telephone services	-13.3%
HHI for mobile Internet access services	-22.9%
HHI for landline Internet access services	-37.5%
HHI for landline telephone services	-31.0%

Source: BIT of the IFT.

- 1.7 Three companies account for nearly 98% of the mobile Internet and telephony services market: América Móvil, Telefónica, and AT&T. As of the fourth quarter of 2019, their respective shares of the mobile telephony market were 62.4%, 20.6%, and 15.3%.¹¹ In terms of the mobile Internet market, América Móvil had a 69.8% share, AT&T had 17.2%, and Telefónica had 10.9%.¹² With respect to fixed

⁴ <https://data.worldbank.org/country/mexico>.

⁵ [Telecommunications Data Bank](#) (BIT) of the Federal Telecommunications Institute (IFT).

⁶ BIT of the IFT.

⁷ National Institute for Statistics, Geography, and Information Technology (INEGI), [National Survey on the Availability and Use of Information Technologies in Households \(ENDUTIH\)](#), 2019.

⁸ [SCT Social Coverage Program](#), page 15.

⁹ [BIT of the IFT](#).

¹⁰ The HHI is an index used in economics to measure market concentration.

¹¹ BIT of the IFT.

¹² Ibid.

telecommunications, four companies account for over 95% of the telephony and Internet markets: América Móvil, Grupo Televisa, MegaCable, and TotalPlay.¹³

- 1.8 Mexico trails other members of the Organisation for Economic Co-operation and Development (OECD) in terms of percentage of Internet users (70.1% vs. 83.8%¹⁴). According to various studies¹⁵ conducted in the past few years, this low percentage of Internet users mainly results from three major obstacles: (i) the lack of high-performance digital infrastructure with national coverage; (ii) the population's lack of digital literacy; and (iii) the lack of public policies driving the development of digital solutions for this infrastructure.
- 1.9 The 2018 Broadband Development Index (IDBA) for Latin America and the Caribbean compares Mexico with the OECD member countries in three categories. The most significant differences are noted in the indices related to infrastructure, digital literacy, and public policy and strategic vision.

Table 2. Comparison of Mexico and the OECD¹⁶

IDBA indicator in 2018	Mexico index value	OECD index value	Difference (%)
IDBA	4.86	6.27	-22
Public policy and strategic vision index	4.07	5.65	-28
Strategic regulation index	6.22	6.71	-7
Infrastructure index	4.43	6.13	-28
Applications and training index	4.80	6.46	-26

Source: IDBA in Latin America and the Caribbean 2018.

- 1.10 In November 2018, a study conducted for Mexico¹⁷ estimated that increased penetration of ICTs would boost the country's GDP by 7% to 15% by 2025.
- 1.11 The government, in line with its vision of promoting the population's well-being by digitizing the country, prioritized digital transformation as a lever for social development. In Mexico, access to telecommunications and broadcasting, including broadband and Internet, is a right to be guaranteed by the State. In addition, the State ensures the population's integration into the knowledge and information society through a universal digital inclusion policy.
- 1.12 To that end, the Communications Division (SSC) of the Department of Communications and Transportation (SCT) is working on targeted guidelines to ensure that the country's public places and spaces have broadband and Internet. In the forum on public policies for telecommunications and broadcasting, the SSC has identified five strategic pillars: (i) development of critical, high-performance network infrastructure for Mexico's social and economic advancement; (ii) social coverage

¹³ Ibid.

¹⁴ [OECD Digital Economy Outlook 2017](#).

¹⁵ For example: [OECD Telecommunication and Broadcasting Review of Mexico 2017](#), the [Social Coverage Program](#), [Connectivity in Public Places Program](#), and the [conclusions of the first public policy forum on telecommunications and radio broadcasting](#).

¹⁶ BIT of the IFT.

¹⁷ How Mexico can Become Latin America's Digital-Government Powerhouse, McKinsey & Company, November 2018.

and access as fundamental elements for well-being and social inclusion; (iii) skills development and capacity-building for digital transformation and inclusion; (iv) technologies, standards, data, interoperability, cybersecurity, and governance in telecommunications and broadcasting to support Mexico's development; and (v) coordination of the public policy design and evaluation process and interagency participation.¹⁸

- 1.13 **Legal framework.** Article 6 of the Constitution of the United Mexican States establishes the preparation of a policy for universal digital inclusion. The Federal Law on Telecommunications and Broadcasting (LFTR) and the Law Establishing the Federal Public Administration, as well as the SCT's internal regulations, define the powers and duties of the SCT. This regulatory framework clearly establishes the responsibilities of the various government agencies.¹⁹
- 1.14 The country's digital transformation is also positioned as a priority in the National Development Plan 2019-2024, which sets the government's strategies, and in the SCT's policy for the sector ([optional link 3](#)). The installation of wireless Internet throughout the country will give the population connectivity on roads, in public venues, health clinics, hospitals, schools, and community spaces. It will be instrumental in combating marginalization and poverty and integrating depressed areas into the productive fabric.
- 1.15 In this context, the government has designed two independent strategies to address the challenges of digital transformation:
 - (i) The creation, in 2019, of a subsidiary company of the Federal Electricity Commission (CFE): CFE Telecomunicaciones e Internet para Todos,²⁰ which seeks to bring telecommunications services to locales and priority areas that lack coverage;²¹ and
 - (ii) SSC development of projects to strengthen the critical, high-performance network infrastructure, in order to ensure that universities, research centers, specialty hospitals, and other mission critical sites have a backbone network to connect with each other and with external entities, as well as to ensure digital inclusion of the population by promoting digital and technological development.
- 1.16 The main challenges to Mexico's digital transformation are the:²² (i) limited coverage of critical, high-performance infrastructure; (ii) limited offering of digital literacy courses; and (iii) lack of public policies for technology development and innovation. These challenges justify program implementation. The primary problem identified in this operation is the general public's limited access to the Internet, for which reason the government considers it necessary to ensure the country's digital

¹⁸ [SSC](#), 2019.

¹⁹ [Optional link 3](#).

²⁰ Formed by a board (with seven members—six from the federal government and one independent) plus CEO. It is financed by the federal budget and is included therein under category 53 of the International Telecommunication Union (ITU) unit.

²¹ Strategy coordinated by CFE Telecomunicaciones e Internet para Todos, not included in the scope of this operation.

²² According to the ITU, a 10% increase in fixed broadband would yield a 1.9% increase in GDP per capita. Furthermore, a 10% drop in prices would boost adoption by more than 3.0%. [Economic Contribution of Broadband, Digitalization and ICT Regulation: Econometric Modelling for the Americas](#).

transformation²³ by spurring infrastructure improvements, digital literacy, and technological development. In Mexico, 80.6 million people (70.1% of the population over 6 years old) are Internet users, meaning that 34.5 million people are not.²⁴ Mobile broadband coverage extends to 89% of the urban population, while 44% of rural dwellers in Mexico (11.38 million people) lack mobile data coverage.²⁵ Given this context, the following specific problems have been identified:

a. Limited coverage of critical, high-performance infrastructure

- 1.17 In 2019, the Official Gazette of the Federation²⁶ published the Social Coverage Program,²⁷ which establishes an increase in telecommunications services coverage from the existing 89% of the population to 95%. The government is currently participating in the [Red Compartida](#) (a Bank-financed project),²⁸ which is in the second stage of deployment and will provide 4.5G mobile services to at least 92.2% of the population by 2024.²⁹ In addition, through the company CFE Telecomunicaciones e Internet para Todos, broadband access is being expanded to the priority areas lacking coverage. The government also has the Mexican Satellite System (MEXSAT³⁰), which can serve as an alternative in areas where using other technologies is not technically or economically feasible.
- 1.18 The existing telecommunications infrastructure, both active and passive³¹ (see [optional link 5](#)), does not meet Mexico's specific needs for critical, high-performance infrastructure coverage. The National Council of Science and Technology (CONACYT), in coordination with the SCT, will create a network connecting higher education institutions (public universities) and research centers (including specialty hospitals).³² Currently, in the absence of an exclusive high-performance network specifically designed for them, educational institutions and mission-critical sites have to connect to commercial networks.
- 1.19 In the current context, the aim is to improve the operation of and services provided by 340 specialty hospitals through this high-capacity network, which will make it possible for specialty hospitals to work more effectively with research centers during health emergencies like the present one and will facilitate provision of telemedicine

²³ According to the ITU and the World Economic Forum, the term “digital transformation” refers to technological changes that fuse the physical, digital, and biological worlds.

²⁴ ENDUTIH, 2019.

²⁵ [Social Coverage Program 2019](#), SCT.

²⁶ [Official Gazette of the Federation](#), 2019.

²⁷ [Social Coverage Program 2019](#), which will impact the number of persons connected to the internet.

²⁸ This intervention will improve Mexico's digitization, driving competency and coverage for unconnected households.

²⁹ The [Red Compartida](#) project target is to reach 92.2% coverage of the population in January 2024 and to cover 111 “magical towns” (*pueblos mágicos*) by then. More information [here](#).

³⁰ MEXSAT has two satellites, the Bicentario and the Morelos 3, which enable satellite-based mobile communications throughout the national territory and offer social connectivity services.

³¹ Active infrastructure comprises the components of networks that store, send, process, receive, and transmit information of any kind; passive infrastructure comprises the components or devices that provide support for active infrastructure (cable, rights-of-way, etc.).

³² Article 213 of the LFTR establishes that CONACYT, jointly with the SCT, will establish the necessary administrative and technical mechanisms and will provide financial support for interconnecting its networks, to form a national network with sufficient capacity for education and research.

services and electronic consultation of clinical files for first- and second-level hospitals.

- 1.20 Developing this network requires a logical design for interconnecting the centers. The network is expected to provide service to at least 1,300 sites (1,257 sites that need high-performance networks to operate have already been identified) (see [optional link 4](#)).
- 1.21 **Scale of the infrastructure challenge.** The principal gaps between digital services users and non-users correlate with socioeconomic status and place of residence.
- (i) **Socioeconomic divide.** Over 55% of the population in the lowest socioeconomic stratum (14.3 million people) does not have access to telecommunications services, while 92% of the population in the highest stratum does.³³
 - (ii) **Urban/rural divide.** Only 44.7% of the rural population uses the Internet, while 76.6% of the urban population does.³⁴ The gap between rural and urban users is on the order of 29 percentage points.
 - (iii) **Gender gap.** Furthermore, 67.3% of men and 64.4% of women are Internet users.³⁵ The largest gender gaps are seen in: computer use (6.2%); downloads of content from the Internet (4.8%); creation of text files (3.1%); sending and receiving email (3.4%); copying files across folders (3.7%); creating presentations (1.9%); creating spreadsheets (2.9%); installing peripheral devices (6.2%); creating or using databases (2.4%); and using programs in specialized languages (2.1%).³⁶ The gender gap varies by region and socioeconomic group. It is larger among people with medium-high incomes than among low-income individuals.³⁷
- 1.22 One of the main causes of these divides³⁸ is the low level of investment in telecommunications infrastructure³⁹ in highly and very highly marginalized areas and the lack of modernization of sector public policies for incentivizing private investment.

b. Limited offering of digital literacy courses

- 1.23 Mexico needs a strategy to promote digital inclusion and, in turn, social development. Mexicans mainly use the Internet for entertainment, information, and communication purposes (91.5%, 90.7%, and 90.6%, respectively),⁴⁰ with fewer using it for productivity-related matters: 35.6% to interact with the government; 22.1% to purchase goods; and 16.8% for banking transactions.⁴¹ This is primarily due to the lack of digital literacy.

³³ Calculations performed with information from ENDUTIH, 2019.

³⁴ Idem.

³⁵ Idem.

³⁶ ENDUTIH, 2018.

³⁷ There is a gender gap in the use of digital solutions in certain states and for certain socioeconomic groups. [Estadísticas con Perspectiva de Género](#), BIT.

³⁸ In the [OECD Telecommunication and Broadcasting Review of Mexico 2017](#), the [Social Coverage Program](#), and the [Connectivity in Public Places Program](#).

³⁹ Another cause is the lack of competition in the sector. This issue is the exclusive responsibility of the IFT.

⁴⁰ Calculations performed with information from ENDUTIH, 2018.

⁴¹ Idem.

- 1.24 The ITU calculates that millions of jobs will be created for people with digital skills,⁴² but the digital transformation calls for a population that has basic digital literacy and the development of more specialized skills to shrink the existing divide. To that end, the government has developed a digital literacy framework.⁴³
- 1.25 To address the challenge, the government will revamp the operating model and renovate the infrastructure⁴⁴ of the 32 digital inclusion centers (CIDs)⁴⁵ open for people residing in highly and very highly marginalized areas of the country.
- 1.26 The CIDs serve people in the following age groups: 6-8; 9-12; 13-18; 19-25; 26-40; 41-60; and 61 and older. In 2019, 844,000 people were registered. Of them, 685,415 enrolled in courses and 487,941 graduated. In all, 55% of CID users were women, and most users were adults (41%), followed by children (29%).
- 1.27 At present, the digital literacy course offerings are limited, but the potential demand for such courses is 195,000 persons per year. The SCT's current capacity is only 93,500 persons per year.
- 1.28 This limited supply can be attributed to the: (i) insufficient CID infrastructure and equipment; (ii) lack of flexible learning experiences in remote places that do not have access to a CID (there is only one per federative entity); and (iii) lack of online learning experiences with standardized, centralized contents from the offerings under the digital literacy framework. Therefore, the courses must be updated and expanded to bring them into line with the digital literacy framework, which focuses on the skills required to drive the information and knowledge society via a platform that allows courses to be delivered online, for attendance at home or in other community centers or public spaces.

c. Lack of public policies for technology development and innovation to drive the digital transformation

- 1.29 The ITU recognizes artificial intelligence and big data as two of the new technologies that will most significantly impact society.⁴⁶ In Mexico, the level to which companies have adopted technology is 4.60 (on a scale of 1 to 7), meaning the country lags behind several countries in the region with scores over 5⁴⁷ and the OECD (5.43). By developing public policies that enable early adoption of digital infrastructure solutions, Mexico will advance its own digital transformation.
- 1.30 The institutional framework for designing and executing telecommunications-related public policies is currently limited by: (i) lack of coordination between key actors in the digital ecosystem;⁴⁸ (ii) insufficient protection of the national digital space;⁴⁹

⁴² The State of Broadband 2018, ITU.

⁴³ [2020 Digital Literacy Framework](#), SCT.

⁴⁴ Available at: <https://cid.gob.mx/information/>.

⁴⁵ There is a CID in every federal entity. Since they are a federal government initiative, the state and municipal governments are not involved.

⁴⁶ The State of Broadband 2018, ITU.

⁴⁷ Barbados (5.01), Guatemala (5.01), Costa Rica (5.03), Chile (5.20), Panama (5.34). 2018 values. Source: [DigiLAC](#).

⁴⁸ There is no venue where academia, the public sector, and the private sector can coordinate and cooperate to study and formulate public policies.

⁴⁹ According to a 2016 report prepared jointly by the Organization of American States and the IDB, the Government of Mexico needed to address policy, education, and technology challenges with regard to cyber risks. In 2017, the government published a [National Cybersecurity Strategy](#), which now must be implemented.

(iii) scarce statistical information on the use of and access to Internet services;⁵⁰ and (iv) minimal real-time information from the telecommunications sector for decision-making.

- 1.31 **Bank experience and lessons learned.** The Bank has provided multidimensional support in the form of: (i) updates to public policy and regulatory frameworks, through the Program for Strengthening the Digital Agenda: Connectivity, Electronic Government, and Digital Productive Transformation in Argentina ([4755/OC-AR](#)), Program for Improvement and Digitalization of the Economy in Colombia ([4701/OC-CO](#)), and the Public Policy Support Program for the New Economy in Paraguay ([4985/OC-PR](#)); (ii) through investment programs that support the deployment of digital infrastructures, like the Broadband Program in Nicaragua ([3612/BL-NI](#)), the Digital Agenda Support Program in Paraguay ([4650/OC-PR](#)), and the Puerto Cortés Expansion and Modernization Program in Honduras ([4942/BL-HO](#)); and (iii) specifically for Mexico, through the following programs: Conditional Credit Line for Investment Projects ([ME-O0004](#)) with the Program for the Financing of the Shared Telecommunications Network ([4666/OC-ME](#)) with the additional participation of IDB Invest;⁵¹ and the technical-cooperation operations [ATN/OC-14768-ME](#), Support to the Strategic and Regulatory Modernization of the IFT, and [ATN/OC-13987-ME](#), to prepare the National Broadband Plan for the SCT.
- 1.32 The lessons learned were: (i) the importance of digitization to economic development, incorporated into the program through the connection of critical infrastructure; (ii) the need for coordination between the public and private sectors to universalize digital services, incorporated through the signing of an interagency agreement with CONACYT; and (iii) the need for digital infrastructure to enable the continuity of public services and digital solutions, incorporated through the creation of a technology observatory at the SCT that will help universalize digital services in Mexico. The program will also benefit from the studies on the [DigiLAC](#) platform and the dialogue network established as part of the regional public goods initiative ([ATN/OC-17689-RG](#)).
- 1.33 The experience that the government acquired during its 2019 overhaul of the comprehensive operating model for the CIDs pointed up the importance of putting sustainability plans into place for the continuity of the CIDs, as well as the need for differentiated strategies for vulnerable populations and by gender, to expand the reach of digital inclusion and access to it for these groups.
- 1.34 **Technical cooperation.** The technical-cooperation operation [ATN/KK-18012-ME](#) was approved to support the development of a strategy to increase broadband connectivity and policies to facilitate new trends in broadband services, as well as implementation of the program.

⁵⁰ The ENDUTIH is conducted annually, but is currently only representative of the nation overall (not of the federal entities).

⁵¹ In the Country Program Evaluation: Mexico 2013-2018 (document RE-536-1), the Bank Office of Evaluation and Oversight identified an example of IDB Group synergies for investing in Mexico's future growth, by using a public-private partnership structure to create a wholesale broadband network ([Red Compartida](#)) that will ensure equal access for service providers and maximum network coverage in the shortest amount of time possible. In view of the large financing needs, the IDB Group approved a direct loan to SGS through IDB Invest to develop the network ([4516/CH-ME](#)), as well as an operation ([4666/OC-ME](#)) to finance some of the funds contributed by BANCOMEXT.

1.35 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy (document AB-3190-2) and is strategically aligned with the development challenges of: (i) productivity and innovation, by supporting the use of digital infrastructures in Components 1 and 2 that promote connectivity between higher education institutions, research centers, specialty hospitals, and mission critical sites; and (ii) social inclusion and equality, by increasing broadband access and improving service quality, as well as support for the prioritization of marginalized and remote areas in Component 2 and the development of specific modules through the CIDs. The program is also aligned with the crosscutting themes of: (i) gender equality and diversity, through specific digital literacy activities and content for girls and women at the CIDs under Component 2;⁵² and (ii) institutional capacity and the rule of law, by strengthening the SCT's operational capacity for implementing the assigned functions, specifically with regard to Component 1, since enhanced institutional capacity will also lead to improvements in the digitization process for critical infrastructures and specialty hospitals. Furthermore, the program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: (i) students benefited by education projects; (ii) beneficiaries receiving health services; (iii) women beneficiaries of economic empowerment initiatives; (iv) government agencies benefited through projects that strengthen technological and management instruments to improve the provision of public services; (v) teachers trained; and (vi) accountability agencies strengthened. The operation also aligns with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), in the components of enhancing productivity and institutional strengthening for innovation and technological development. It is consistent with the Innovation, Science, and Technology Sector Framework Document (document GN-2791-8) in the dimension of promoting the capacity of the region's economies to take full advantage of the potential of the digital economy. The program is aligned with the IDB Group Country Strategy with Mexico 2019-2024 (document GN-2982) through the strategic objective of contributing to more balanced and sustainable territorial development through investment in telecommunications infrastructure, promoting stronger broadband penetration in urban and rural areas, digitization, and the deployment of advanced networks. Lastly, the operation has been included in the Update of Annex III to the 2020 Operational Program Report (document GN-2991-3).

B. Objectives, components, and cost

1.36 **Program objective.** The general objective of this program is to increase citizens' access to the Internet through digital transformation and inclusion in Mexico, in support of social development. To that end, the program has the following specific objectives: (i) to promote telecommunications infrastructure in critical, high-performance networks; (ii) to promote digital inclusion through the development of digital capacity and skills, especially in remote and marginalized areas; and (iii) to promote institutional strengthening in support of digital transformation and inclusion.

⁵² There is a gender gap in the use of digital solutions in certain states and for certain socioeconomic groups. [Estadísticas con Perspectiva de Género](#), BIT.

1.37 **Component 1. Telecommunications infrastructure: investment in critical, high-performance networks (US\$55.2 million).** This component will expand (critical) high-bandwidth network coverage throughout the country⁵³ and areas designated as priorities by the government.⁵⁴ The following outputs have been established for this component:

- (i) **Active infrastructure consisting of the design, architecture, and technical specifications for the backbone network and prioritization of sites** to which higher education institutions (public universities), research centers, specialty hospitals, and mission critical sites will connect. This active infrastructure includes the methodology for prioritizing the sites to be connected to the backbone network.
- (ii) **Active and passive infrastructure for deployment of the high-performance backbone network to connect Mexico's National Research and Education Network (RNEI) and mission critical sites.** A high-performance mission critical network will be developed for connecting higher education institutions, research centers, specialty hospitals, and mission critical sites. Based on the design proposal for the backbone network, active and passive infrastructure will be developed so that at least 1,300 sites⁵⁵ can be connected to a virtual private network. This contract will guarantee that the necessary capacity, security, and sovereignty are in place for the long term, given the large volumes and sensitivity of data that will be transmitted on it.
- (iii) **Design, development, and implementation of the active infrastructure for prioritizing connected public sites and sites to be connected.** The active infrastructure needed to provide a system with the information from the connected public sites and the sites to be connected will be generated.⁵⁶ This infrastructure will provide information on all the sites, including their exact location and connection status, as well as if they are located in areas with coverage or priority areas. The infrastructure to be deployed will support the implementation of systems that are highly/more energy efficient.
- (iv) **Design and implementation of policy actions for modernizing the sector.** Public policies will be developed and modernized to promote telecommunications coverage and access, especially for vulnerable groups. Policies will be implemented to incentivize private investment through use of the State's passive infrastructure.

⁵³ The connectivity of mission-critical sites is necessary to guarantee the viability of their operations, especially during crisis, emergency, or disaster situations when the commercial networks are overloaded.

⁵⁴ [Optional link 4.](#)

⁵⁵ The 1,300 sites will primarily consist of institutions belonging to CONACYT's RNEI, which includes specialty hospitals, public universities, and public research centers, and according to the following criteria: (i) potential impact (number of users benefited, public officials trained, etc.); (ii) potential savings (difference between the available commercial offers and the costs of providing the network); and (iii) research impact of connecting the mission critical sites. The specific connection needs resulting from COVID-19 will also be taken into account. [Optional link 4.](#)

⁵⁶ In line with the provisions of Article 9 (VII) of the LFTR and the Program for Connectivity in Public Sites that is prepared each year.

1.38 **Component 2. Digital inclusion (US\$43.2 million).**⁵⁷ This component will build capacity for digital inclusion and transformation based on the digital literacy framework published by the SCT. The following outputs have been established:

- (i) **Digital inclusion centers.** Digital inclusion center (CIDs) are public spaces that are open to the population in every federal entity in Mexico. The purpose of these centers is to build digital skills in the community, using technology tools⁵⁸ and human resources to promote social inclusion. The CIDs are located in areas classified as highly and very highly marginalized. This component will invest in modernizing and renovating the CIDs and their technology, including connectivity between the centers via a private virtual network connected to the backbone. The CIDs, for example, will offer activities with a gender focus, such as courses in robotics, programming, and entrepreneurship.
- (ii) **Digital inclusion modules.** Digital inclusion modules will be set up, via the necessary infrastructure, in public spaces operated by public agencies throughout the country. Whereas the CIDs are intended exclusively as spaces to build digital skills in the community, the digital inclusion modules are public spaces provided by federal, state, or municipal agencies that will have the infrastructure needed to be able to offer courses similar to the ones provided by the CIDs (including for women and girls) and will be connected to both the CIDs and the backbone network. This intervention will make it possible to use hundreds of existing public spaces to foster the digital transformation and inclusion of the vulnerable population.⁵⁹
- (iii) **Certification platform.** A platform for obtaining an official certificate of achievement of skills taught in some of the CID courses will be designed and launched (active infrastructure). The platform will interface with the online learning platform. The certificates available through this infrastructure will focus on the development of competitive job profiles in the digital era.
- (iv) **Online learning platform.** A platform for obtaining the material and courses offered at the CIDs and the digital inclusion modules will be designed and launched (active infrastructure). This infrastructure will foster the digital transformation and inclusion of the population, even in areas located far from a CID or a digital inclusion module. It will interface with the certification infrastructure, in cases in which the courses offer the possibility of earning a certificate.

1.39 **Component 3. Development of digital infrastructure solutions (US\$21.6 million).** This component will identify solutions and tools for technological development. The following outputs have been established for this component:

- (i) **National Observatory of Technology Trends in Information and Communication Technologies.** The observatory will be created within the SCT with its own physical and active infrastructure to identify, based on the degree of digital maturity, actions to promote the social and economic

⁵⁷ This component will be applied nationwide since there is a CID in every federal entity.

⁵⁸ Equipment includes the hardware and software for the centers' operation (videoconferencing, audiovisual, peripheral, and other equipment).

⁵⁹ The government has public spaces where it provides services to the communities (such as the Welfare Department's Integration Centers for Development in highly and very highly marginalized areas).

development of the country. In addition, active infrastructure demonstration projects will be carried out that incorporate new technologies to meet the country's social and productive needs. The observatory will be open to the participation of actors from academia, government agencies, industry, specialized organizations, and civil society. Financing will be used to design the observatory's active and physical infrastructure and implement the actions and pilot initiatives on new technologies associated with reducing the digital divide in the country's social and productive fabric. Financing will also be used to design and implement a cybersecurity strategy.

- (ii) **Active infrastructure for the aggregation and publication of information in the communications sector.** Active infrastructure will be designed and implemented to consolidate, based on open-source data, information from the communications sector that is generated by various actors, in order to monitor public and private policies and projects.⁶⁰ An analysis of telecommunications and broadcasting service coverage, as well as market information, will help identify priority areas of attention, provide inputs for the preparation of programs such as the social coverage program, and contribute elements so that operators can serve areas without coverage or share infrastructure.
 - (iii) **Comprehensive strategic planning and monitoring platform.** The SSC national information technology platform for strategic planning (active infrastructure), or the administrative area that replaces it, will be modernized to follow up on and monitor all national public projects in execution and will include a specific section for the components and activities financed by the program. The system will have active infrastructure including a dashboard fed by each of the SSC's national projects, in order to support decision-making.
 - (iv) **Sustainability and action plan.** A plan will be developed with strategic actions that help ensure the sustainability of all of the operation's components after program completion. The plan will include a combination of short-, medium-, and long-term actions to guarantee the continuity of the products financed with the program.
 - (v) **Communication and governance model.** A governance system will be established, with a clear mechanism for communication, change management, and interagency coordination both within the SSC, or the administrative area that replaces it, as well as with various industry stakeholders. The model will set clear, standardized rules to guarantee proper dissemination of results and coordination between public and private actors.
- 1.40 **Main beneficiaries.** The federal government, highly specialized hospitals, institutes of higher education, research centers, and mission critical sites will be beneficiaries owing to the savings derived from efficiency achieved in the delivery of public services through the connection and interoperability of the backbone network, as will too the users of these more efficient services. As a result of Component 2, the project will also benefit the residents of highly and very highly marginalized areas. The CIDs

⁶⁰ The plan is to purchase equipment, develop software, and gather information to support the design and implementation of policy actions.

are located in highly and very highly marginalized areas, and the digital inclusion modules will be set up in public spaces where government support is provided through social programs. Lastly, the general public will benefit, thanks to the public policy measures that will contribute to digital inclusion and transformation in Mexico.

C. Key results indicators

- 1.41 **Expected impacts and results.** At the impact level, the program is expected to contribute to the digital transformation of Mexico by driving social development and the full enjoyment of human rights. Specifically, the number of Internet users in the country per 100 inhabitants is expected to increase. In 2019, there were 70.1 Internet users per 100 inhabitants; by 2024, this figure should increase to 78. The expected outcomes of the program are: (i) an increase in coverage of critical, high-performance infrastructures, measured by the number of higher education institutions (public universities) and research centers (including specialty hospitals) connected to a high-performance broadband network; (ii) development of digital skills and capacity, measured by the number of people who have graduated and received certificates from the CIDs; and (iii) strengthening of key institutions for digital development, measured by monitoring the evolution of the country's public policy pillar score on the Bank's Broadband Development Index.⁶¹
- 1.42 **Economic analysis.** The economic evaluation identified the program's income and expenditure flows. Components 1 and 2 were first analyzed individually and then the overall program income and expenditure streams were analyzed. The benefits derived from the implementation of Component 1 are due to the improved commercial offerings as a result of connecting the critical, high-performance institutions to the backbone network. In turn, the benefits derived from digital inclusion were monetized through graduates' improved employability and wages. The program's total benefits were calculated by discounting and updating the Component 1 and 2 benefits and including the amount allocated to Component 3, to account for all program costs. Once the aforementioned flows were discounted at 12%, the program was shown to yield benefits of US\$124.7 million at an internal rate of return of 34.9%. Furthermore, the sensitivity analysis consistently returns positive results in the program's net present value when the main parameters used in the calculations are varied ([economic analysis of the project](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is structured under the specific investment loan modality, for a total amount of \$120 million from the Bank's Ordinary Capital. The operation will not have a local counterpart contribution. The executing agency plans to execute all project activities in five years.⁶²

⁶¹ [DigiLAC](#).

⁶² The execution time was estimated based on the infrastructure required for the high-performance networks and on capacity-building at the participating institutions.

Table 3. Program budget (US\$ millions)

Components	Amount	%
Component 1: Telecommunications infrastructure: investment in critical, high-performance networks	55.2	46
Output 1: Active infrastructure consisting of the design, architecture, and technical specifications for the backbone network and site prioritization	0.176	0.15
Output 2: Active and passive infrastructure for deployment of the high-performance backbone network to connect RNEI and mission critical sites	54.016	45.01
Output 3: Design, development, and implementation of active infrastructure for prioritizing connected public sites and sites to be connected	0.265	0.22
Output 4: Design and implementation of policy actions for modernizing the sector	0.742	0.62
Component 2: Digital inclusion	43.2	36
Output 5: Digital inclusion centers	39.877	33.23
Output 6: Digital inclusion modules	1.418	1.18
Output 7: Certification platform	0.484	0.40
Output 8: Online learning platform	1.419	1.18
Component 3: Development of digital infrastructure solutions	21.6	18
Output 9: National Observatory of Technology Trends in Information and Communication Technologies	5.409	4.51
Output 10: Active infrastructure for the aggregation and publication of information in the communications sector	15.088	12.57
Output 11: Comprehensive strategic planning and monitoring platform	0.801	0.67
Output 12: Sustainability and action plan	0.150	0.13
Output 13: Communication and governance model	0.150	0.13
Total	120	100

2.2 The project disbursement period will be five years.

Table 4. Disbursement schedule (US\$ millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Amount	8.49	28.46	27.90	27.58	27.58	120
%	7	24	23	23	23	100

B. Environmental and social risks

2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program has been confirmed as a category "C" operation since no environmental or social risks are foreseen in connection with the planned activities. The project will only use existing infrastructure and will only contract services from providers and companies already on the market. Compliance with applicable local regulations and the restriction to use of existing infrastructure will be included in the project [Operating Regulations](#), whose approval by the Bank is a condition precedent to the first disbursement.

C. Fiduciary risks

- 2.4 The Communications Division (SSC), attached to the Department of Communications and Transportation (SCT), has extensive experience executing digital connectivity projects. However, the institutional capacity analysis, conducted in April 2020 using the institutional capacity assessment platform methodology, shows that this operation has a medium level of fiduciary risk due to the SSC's lack of experience executing operations with the Bank for the procurement of goods and works and the selection and contracting of consultants. As a mitigation measure, the executing agency will participate in specific trainings to support compliance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15). The executing agency will have the support of a financial officer responsible for, among other tasks, providing advisory services on financial, disbursement, and procurement matters. In addition, financing will be provided for a comprehensive strategic planning and monitoring system that will make it possible to monitor the executing agency's fulfillment of its commitments.

D. Other project risks

- 2.5 **Macroeconomic and fiscal sustainability.** The lack of resources for guaranteeing the sustainability of the program-financed solutions is identified as a high risk. As a mitigation measure, a sustainability plan will be designed in connection with the actions financed under each of the program components (paragraph 1.39).
- 2.6 Along these lines, the lack of budget for financing the investments required for technical and operational support at the CIDs was identified as a medium risk. To mitigate it, the executing agency, bearing in mind the budget structure, will design and implement a sustainability plan to ensure the continuity of program activities, based on lessons learned from past experience with running the CIDs (paragraph 2.10). Furthermore, as part of program completion, an action plan will be prepared to ensure program sustainability (paragraph 1.39).
- 2.7 **Public management and governance.** The lack of a communications strategy for bidding processes and for the projects executed under the program has been identified as a high risk. To mitigate it, a communications and change-management strategy (paragraph 1.37) will be developed and implemented. It will be included within the scope of the outputs of the proposed components.
- 2.8 A medium risk identified in this area is the lack of an interagency coordination mechanism for the SCT that would set clear, standardized rules and include actors like the ITU, the World Economic Forum, and regional and international sector regulatory authorities.⁶³ To mitigate this risk, a governance model will be designed and implemented and included within the scope of the outputs of the proposed component. The framework defined for strategic coordination mechanisms will be taken into account (paragraph 3.6).
- 2.9 **Development.** Difficulties in preparing and executing complex procurement processes were identified as a possible medium risk for the project. The fiduciary units will coordinate and support the financial officer to mitigate this risk.

⁶³ Interaction with these actors will not be governed by signed interagency agreements, but will essentially be limited to identifying lessons learned and success cases, for later implementation in Mexico.

- 2.10 **Program sustainability.** This program lays the foundation for its future sustainability by the government. For Component 1, this operation will finance the design and development of the high-performance backbone network for the institutes of higher education (public universities) and research centers, as well as for the mission critical sites. CONACYT will be in charge of maintaining and operating this network.⁶⁴ No sustainability risk is anticipated for this component since CONACYT and the parties responsible for the mission critical sites already have dedicated areas for these tasks. For Component 2, the SCT provides for maintaining CID operations over the long term. However, this model will be expanded through the Bank-financed digital inclusion modules on existing public properties. This is so that after the adaptations, the agency holding the property will continue to be responsible for operation without incurring additional costs. Based on the experience of running the CIDs in 2019 and the lessons learned (paragraph 1.33), the SCT plans to implement a strategy for the CIDs to become self-sustainable, which could include: (i) identification of public and private sponsorships; (ii) collection of fees for access and certification of CID users; (iii) creation of a membership system for users of various institutions. Lastly, for Component 3, the proposed strategy for the National Observatory of Technology Trends in Information and Communication Technologies included in the SCT calls for it to become self-sustaining within five years through the establishment of a membership system for participation and other mechanisms that give the project access to funding for its operation. None of the components provides for a transfer of responsibility to other institutions, as they are SSC functions.

III. IMPLEMENTATION AND MANAGEMENT PLAN

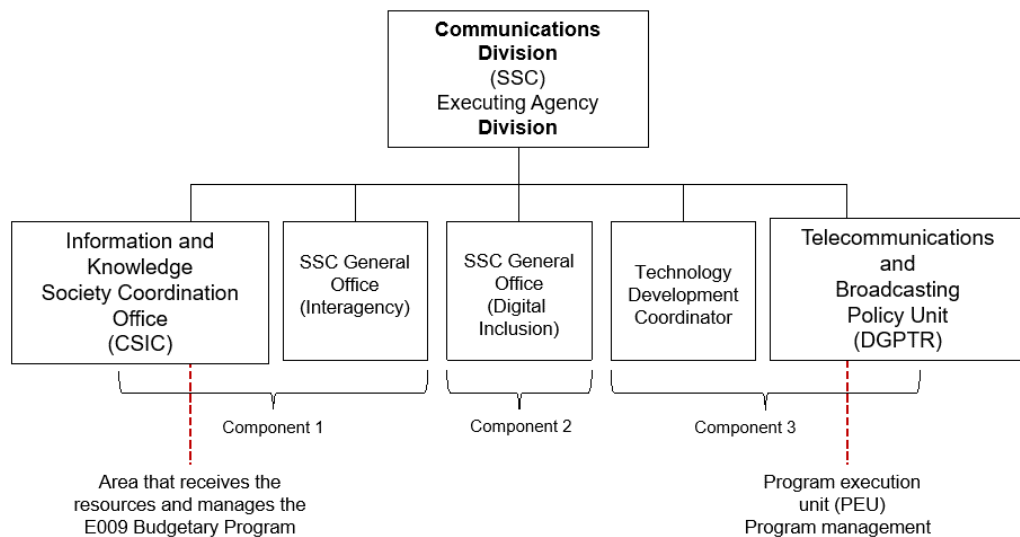
A. Summary of implementation arrangements

- 3.1 **Execution mechanism.** The executing agency will be the Department of Communications and Transportation (SCT), acting through its Communications Division (SSC), or the administrative area that replaces it. NAFIN will act as the borrower's financial agent on the program for supervision and administration of the loan. The Department of Finance (SHCP) will be responsible to the Bank for execution. The program is aligned with the executing agency's legal mandate and existing administrative and operational structure. The applicable rules and regulations establish that the executing agency is responsible for regulating all aspects of implementation of the program-financed plans and projects in support of the universal digital inclusion policy. The main functions of the SSC, or the area that replaces it, will be: (i) to define the program's strategic guidelines; (ii) to monitor and supervise implementation thereof; and (iii) to review and approve the following documents prior to submittal to the Bank by the program execution unit (PEU): annual work plan, procurement plan and any modifications thereto, semiannual progress reports, audited financial statements, and midterm and final evaluation reports.
- 3.2 At the operations level, the PEU will report to the Telecommunications and Broadcasting Policy Bureau (DGPTR), or the area that replaces it, and will be in direct contact with the Bank and the financial agent. The PEU will be responsible for planning and monitoring, project management, administration, procurements,

⁶⁴ As stipulated in Article 213 of the Federal Law on Telecommunications and Broadcasting (LFTR).

financial management, environmental and social management, and communications processes. The PEU will execute the program based on the technical guidelines set by the executing agency's specialty units for each of the different components,⁶⁵ as described in the [Operating Regulations](#). The PEU will be formed in accordance with the laws in force in Mexico against duplicity and financing of current expenditure and will include a program officer who will be responsible to the Bank, as well as the following core team: (i) planning and monitoring specialist; (ii) procurement specialist; (iii) administrative-financial specialist; (iv) communications specialist; and (v) legal specialist. For program execution, financing will be provided for consulting services, in order to have technical specialists in place for each component as established in the [Operating Regulations](#).

Figure 1. SCT structure for execution⁶⁶



- 3.3 The SCT finances the country's digital transformation projects through the E009 Budgetary Program,⁶⁷ which, accordingly, will be the programmatic category for financing the projects in the operation's three components. Pursuant to this program, the SSC information and knowledge society coordination office is the unit in charge of the program and receives the funds to run it on an annual basis.
- 3.4 Through this budgetary program, the digital transformation projects are aligned with the objectives of the 2019-2024 National Development Plan and contain the following aspects: (i) evaluation of projects and programming of execution; and (ii) potential expenditures. Hiring procedures are subject to Mexican legislation, as are the requirements for contracts and payments and the procedures for transparency,

⁶⁵ Component 1: Information and Knowledge Society Coordination Office; Component 2: Digital Transformation and Inclusion Bureau; Component 3: Telecommunications and Broadcasting Policy Bureau (DGPTR) and Bureau of Technologies, Standards, Data, Interoperability, and Cybersecurity.

⁶⁶ Or the areas that replace it in case of a change in the SCT's internal regulations.

⁶⁷ A budgetary program is the programmatic category that helps organize, in a representative and standardized manner, allocations of resources from federal programs for executors of the federal public expenditure to achieve their objectives and goals.

internal control, and oversight. The budgetary program establishes that the proceeds may only be spent on digital transformation projects.

- 3.5 The PEU, in coordination with the financial agent, is accountable to the Bank for this program and will have the following duties: (i) engaging with the Bank; (ii) planning and monitoring the program; (iii) handling procurement;⁶⁸ (iv) administering program funds, which includes processing disbursement requests and preparing reports on the use of funds; and (v) preparing and sending the following documents to the Bank (once approved by the SSC, or the administrative area that replaces it): project execution plan, annual work plan, procurement plan and any modifications thereto, semiannual progress reports, audited financial statements, midterm and final evaluation reports, and any other document specified in the [Operating Regulations](#).
- 3.6 **Strategic coordination mechanisms.** Currently, the public universities, research centers, and specialty hospitals that will be connected over the high-performance networks included in Component 1 coordinate closely through CONACYT. In March 2017, the SCT signed a partnership agreement to establish the administrative and technical mechanisms necessary to create this network under Article 213 of the LFTR.⁶⁹ This agreement is renewed annually. Lastly, the SCT developed a governance mechanism (presently in a public consultation process) for the observatory planned in Component 3; this mechanism establishes the rules for the participation of academic institutions, industry, and civil society and government organizations.
- 3.7 **Special contractual conditions precedent to the first disbursement of the loan. The executing agency will present evidence to the Bank of: (i) the approval and entry into effect of the program [Operating Regulations](#) previously agreed upon with the Bank; and (ii) the power of attorney with the financial agent.** The first special condition will ensure that all execution agreements and operational aspects of the project are in place prior to the startup of activities. Likewise, the second special condition will ensure the correct execution of program activities.
- 3.8 **Retroactive financing.** The IDB may retroactively finance, as a charge against the loan proceeds, up to US\$24 million (20% of the proposed loan amount) in eligible expenditures made by the SCT prior to the date on which the loan was approved by the Board of Executive Directors, provided that requirements substantially similar to those established in the loan contract have been met. These expenditures may be tied to: Component 1: Output 1: Active infrastructure consisting of the design, architecture, and technical specifications for the backbone network and site prioritization, designed; Output 3: Design, development, and implementation of active infrastructure for prioritizing connected public sites and sites to be connected, implemented; and Output 4: Design and implementation of policy actions for modernizing the sector, completed; Component 2: Output 8: Online learning platform, developed; and Component 3: Output 9: National Observatory of Technology Trends in Information and Communication Technologies, launched; Output 11: Comprehensive strategic planning and monitoring platform, implemented; and Output 12: Sustainability and

⁶⁸ The PEU will have autonomy in managing procurement processes.

⁶⁹ Article 213 of the LFTR stipulates that CONACYT, jointly with the SCT, will establish the necessary administrative and technical mechanisms and will provide the financial support needed by public higher education institutions and research centers to interconnect their networks, forming a national network with sufficient capacity for education and research, as well as to interconnect this national network with specialized international networks in the academic sphere.

action plan, developed. These expenses must have been incurred on or after 6 March 2020 (date on which the Bank approved the project profile), but in no case will expenses incurred more than 18 months prior to the loan approval date be included.

- 3.9 **Procurement of goods and nonconsulting services.** Procurements financed with the loan proceeds will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15), or any subsequent amendment thereto once the policies have been notified to the borrower and the borrower and the executing agency have agreed and accepted application thereof in writing. Use of Mexico's CompraNet system will apply to the operation under the terms set forth in Annex III.
- 3.10 **Audits.** During the execution period, the SCT will submit the audited financial statements for the program, on an annual basis, according to the terms stipulated by the Bank, within 180 days after the end of the fiscal year, and the closing statements, within 180 days after the date set for the final disbursement, and the eligibility of the audit firm, which will be designated by the SFP. The auditing work will be reviewed based on the terms of reference agreed upon by the Bank and the SFP. The costs associated with the financial audit will be charged to the executing agency in all cases.

B. Summary of arrangements for monitoring results

- 3.11 **Monitoring system.** Project execution will be monitored through semiannual progress reports to be prepared by the executing agency and submitted within 60 days following the end of each six-month period. The reports will reference the commitments set forth in the Results Matrix (Annex II) and the financial progress reports indicated in the general conditions of the loan contract. These reports will be reflected in the progress monitoring report (PMR). The tools for monitoring the program are described in the [monitoring and evaluation plan](#). The semiannual progress reports must also include updates and monitoring of the project risk matrix.
- 3.12 **Information for program monitoring.** The executing agency will be responsible for maintaining the data collection and monitoring systems. The annual work plan will include: (i) an estimated budget; (ii) an updated procurement plan; (iii) the Annex II indicators; (iv) the planned activities; and (v) an execution schedule. The executing agency commits to maintaining a monitoring and evaluation systems for all components, on the basis of which it will prepare the reports and data to be sent to the Bank. The executing agency will have a specialist in charge of monitoring its activities ([monitoring and evaluation plan](#)).
- 3.13 **Monitoring by the Bank.** Administrative missions and inspection visits will be conducted. The executing agency will use the progress monitoring report, which includes an estimate of disbursements and the physical targets and results achieved. The executing agency and the Bank will meet annually to discuss: (i) progress made on the activities identified in the annual work plan; (ii) fulfillment of the indicators established in Annex II; (iii) the annual work plan for the following year; and (iv) the procurement plan for the next 12 months, and potential changes to the budget by component. The executing agency commits to maintaining a monitoring and evaluation system for all the components, on the basis of which it will prepare the reports and data to be sent to the Bank. The executing agency will have a specialist in charge of monitoring its activities ([monitoring and evaluation plan](#)).

- 3.14 **Evaluation.** The strategy for evaluating the program results includes: (i) an ex post cost-benefit analysis of the expenditure and revenue flows derived from the intervention, replicating the ex ante analysis ([economic analysis](#)) conducted at the end of the execution period; and (ii) an impact assessment using an experimental methodology to measure the operation's contribution to the results associated with the digital inclusion activities ([monitoring and evaluation plan](#)). The executing agency will bear all monitoring and evaluation costs.
- 3.15 The Bank will prepare a project completion report (PCR), which will be submitted within 180 days after the final disbursement and will be based on the executing agency's semiannual progress reports, progress monitoring reports, results matrix, audited financial statements, midterm and final evaluation reports, and the results of the evaluation workshops and potential studies, research, and other actions considered relevant.
- 3.16 **Information for program evaluation.** The executing agency will collect, store, and maintain all information, indicators, and parameters necessary for preparing the project completion report, including the annual plans and the final evaluation. For the impact assessment, the PEU will hire a principal investigator—an expert in impact assessment with experience in random controlled experiments—to lead the research. This individual will provide technical guidance on defining the sample, treatment group, survey design, and terms of reference for contracting a survey firm and will support production of the statistical analysis of the final evaluation report.

Development Effectiveness Matrix		
Summary		ME-L1297
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Students benefited by education projects (#)* -Beneficiaries receiving health services (#)* -Women beneficiaries of economic empowerment initiatives (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Teachers trained (#)* -Accountability institutions strengthened (#)*	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2982	Contribution to a more balanced and sustainable territorial development through investment in telecommunications infrastructure, promoting greater broadband penetration in urban and rural areas, digitization and the deployment of advanced networks.
Country Program Results Matrix	GN-2991-3	The intervention is included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.6
3.1 Program Diagnosis		2.4
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		2.2
4. Ex ante Economic Analysis		9.0
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		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.3
5.1 Monitoring Mechanisms		1.8
5.2 Evaluation Plan		7.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
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		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	A Technical Cooperation was designed to support the execution of this operation (ME-T1436) whose objective is to support the process of digital transformation and social inclusion in Mexico.

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

The main goal of the operation is to increase citizens' access to the internet through transformation and digital inclusion in Mexico. To achieve this, the proposal defines three specific areas of intervention. The first area proposes increasing access and broadband connectivity and internet service; the second area focuses on improving the digital skills of citizens; The third area proposes developing monitoring tools and a cybersecurity framework to promote a stronger institutional framework in telecommunications.

The project proposal diagnosis describes limited access of citizens to the internet. In particular, 62% of low-income households don't have access to the internet [ENDUTIH, 2018]. Additionally, the diagnosis presents a limited offer of digital skills training for a potential demand of 195,000 students per year. The diagnosis also shows a weak institutional framework for developing public policies in telecommunications. Overall, the diagnosis identifies problems and their causes. The solutions are aligned to the problems. There is no evidence on effectiveness for some proposed solutions in the country.

The economic analysis provides a quantification of some economic benefits. It quantifies benefits associated with an increase of the broadband users and the benefits related to an increase in human capital derived from digital skills training. The assumptions on the magnitude of the expected benefits are not based on evidence. The calculus doesn't show benefits related to the institutional strengthening activities included in the third component. The costs include maintenance and investments associated with the loan. The analysis concludes the project has a net present value of USD130.1 million.

Monitoring relies on reports by the telecommunication sub secretary of Mexico and the EDUTIH survey. The evaluation plan includes an impact evaluation. The evaluation aims to quantify the effect of component two on the creation of human capital, employment, and the inclusion of women in ICT.

RESULTS MATRIX

Project objective:	The general objective of this program is to increase citizens' access to the Internet through digital transformation and inclusion in Mexico, in support of social development. To that end, the program has the following specific objectives: (i) to promote telecommunications infrastructure in critical, high-performance networks; (ii) to promote digital inclusion through the development of digital capacity and skills, especially in remote and marginalized areas; and (iii) to promote institutional strengthening in support of digital transformation and inclusion.
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EXPECTED IMPACT

Indicators	Unit of measurement	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Impact 1: The digital transformation of Mexico, driving social development and the full enjoyment of human rights											
Internet users, per 100 inhabitants	Users per 100 inhabitants	70.1	2019	72	73	76	77	78	78	Results of the ENDUTIH, conducted by the INEGI	The ENDUTIH is the official source of the Government of Mexico. Published by the IFT and the ITU.

EXPECTED OUTCOMES

Indicators	Unit of measurement	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Outcome 1: Increase in coverage of critical, high-performance infrastructures											
Higher education institutions (public universities) and research centers (including specialty hospitals) connected to a high-performance broadband network	% coverage of the RNEI	0	2019	0	25	25	25	25	100	Audited SSC report	Increased coverage of research centers and higher education institutions.
Outcome 2: Development of digital skills and capacity											
CID graduates	# of persons	93,500	2019	103,000	120,000	130,000	145,000	152,000	650,000	Audited SSC report	
Persons certified by the CIDs	# of persons	348	2019	350	380	400	420	450	1,500	Audited SSC report	The certificate is issued by CONOCER, a sectorized parastatal agency in the SEP whose tripartite governing body has worker, business, and government representatives.
Outcome 3: Strengthening of key institutions for digital development											
Broadband Development Index public policies pillar	Index	4.1	2019	4.2	4.4	4.6	4.8	5	5	Recommendations published	The index range is 1 to 8.

OUTPUTS

Outputs	Unit of measurement	Baseline	Year Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 1. Telecommunications infrastructure: investment in critical, high-performance networks											
Output 1: Active infrastructure consisting of the design, architecture, and technical specifications for the backbone network and site prioritization	Active infrastructure	0	2019	1	0	0	0	0	1	Delivery of model	See monitoring and evaluation plan .
Output 2: Active and passive infrastructure for deployment of the high-performance backbone network to connect RNEI and mission critical sites	# of higher education institutions, research centers, specialty hospitals, and mission critical sites connected to the high-performance backbone network	0	2019	0	325	325	325	325	1,300	Audited SSC report	
Output 3: Design, development, and implementation of active infrastructure for prioritizing connected public sites and sites to be connected	Platform	0	2019	1	0	0	0	0	1	Audited SSC report	
Output 4: Design and implementation of policy actions for modernizing the sector	# of public policy actions	0	2019	1	1	1	0	0	3	Audited SSC report	
Component 2. Digital inclusion											
Output 5: Digital inclusion centers (CIDs), equipped and implemented	# CIDs	2019	0	0	8	8	8	8	32	Audited SSC report	See monitoring and evaluation plan .
Output 6: Digital inclusion modules, implemented	# of digital inclusion modules	2019	0	192	192	192	192	192	960	Audited SSC report	
Output 7: Certification platform, implemented	Evaluation platform	2019	0	0	1	0	0	0	1	Audited SSC report	
Output 8: Online learning platform, designed and launched	Platform	2019	0	1	0	0	0	0	1	Audited SSC report	

Outputs	Unit of measurement	Baseline	Year Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Component 3. Development of digital infrastructure solutions											
Output 9: National Observatory of Technology Trends in Information and Communication Technologies, launched	Observatory	0	2019	1	0	0	0	0	1	Audited SSC report	See monitoring and evaluation plan .
Output 10: Active infrastructure for the aggregation and publication of information in the communications sector, designed and implemented	# of systems	0	2019	1	1	1	1	1	5	Audited SSC report	
Output 11: Comprehensive strategic planning and monitoring platform, modernized	Platform	0	2019	1	0	0	0	0	1	Audited SSC report	
Output 12: Sustainability and action plan, developed	Plan	0	2019	0	1	0	0	1	2	Plan developed	
Output 13: Communication and governance model	Strategy	0	2019	0	0	1	0	0	1	Strategy developed	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Mexico
Project number:	ME-L1297
Project name:	Program to Promote Digital Transformation and Social Inclusion in Mexico
Executing agency:	Department of Communications and Transportation (SCT)
Fiduciary team:	Miriam Garza (Financial Management Specialist, FMP/CME) and Ariel Rodriguez (Procurement Specialist, FMP/CME)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 1.1 The executing agency will be the Department of Communications and Transportation (SCT), acting through its Communications Division (SSC), or the administrative area that replaces it. NAFIN will act as the borrower's financial agent on the program for supervision and administration of the loan. The Department of Finance (SHCP) will be responsible to the Bank for execution. The program is aligned with the executing agency's legal mandate and existing administrative and operational structure. The applicable rules and regulations establish that the executing agency is responsible for regulating all aspects of implementation of the program-financed plans and projects in support of the universal digital inclusion policy. The main functions of the SSC, or the area that replaces it, will be: (i) to define the program's strategic guidelines; (ii) to monitor and supervise implementation thereof; and (iii) to review and approve the following documents prior to submittal to the Bank by the program execution unit (PEU): annual work plan, procurement plan and any modifications thereto, semiannual progress reports, audited financial statements, and midterm and final evaluation reports.

II. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 2.1 The Communications Division (SSC), attached to the Department of Communications and Transportation (SCT), has extensive experience executing digital connectivity projects. However, the institutional capacity analysis, conducted in April 2020 using the institutional capacity assessment platform methodology, shows that this operation has a medium level of fiduciary risk due to the SSC's lack of experience executing operations with the Bank for the procurement of goods and works and the selection and contracting of consultants. As a mitigation measure, the executing agency will participate in specific trainings to support compliance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15). The executing

agency will have the support of a financial officer responsible for, among other tasks, providing advisory services on financial, disbursement, and procurement matters. In addition, financing will be provided for a comprehensive strategic planning and monitoring system that will make it possible to monitor the executing agency's fulfillment of its commitments.

III. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

- 3.1 The applicable exchange rate for rendering accounts will be the exchange rate in effect on the last working day of the prior month in which the respective payments were made.
- 3.2 The SCT will submit the audited financial statements for the program, on an annual basis, according to the terms stipulated by the Bank, within 180 days after the end of the fiscal year, and the closing statements within 180 days after the date set for the final disbursement, and the eligibility of the audit firms.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 The SCT will carry out all procurement processes through the SSC, applying the provisions of the Policies for the Procurement of Goods and Works (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants (document GN-2350-15), both from 2019. If these documents are modified, the new versions may be applied, with the executing agency's written agreement.
- 4.2 **Procurement of goods and nonconsulting services.** Contracts for goods and nonconsulting services arising under the project and subject to international competitive bidding (ICB), and bidding processes subject to national competitive bidding (NCB), will be executed using the bidding documents harmonized by the Civil Service Department (SFP) and the Bank.
- 4.3 **Selection and contracting of consultants:**
 - a. **Consulting services contracts with firms:** These contracts will be executed using the standard request for proposals agreed upon by the Bank and the SFP. Notices of consulting services contracts for over US\$200,000 will be published internationally. For contracts for less than US\$500,000, the shortlist may be comprised solely of national firms.
 - b. **Selection of individual consultants.** Selection of individual consultants for contracts will take into account their qualifications to perform the work, based on a comparison of at least three candidates' qualifications. The contracts will be executed using the individual consultant contract model agreed upon between the SFP and the Bank.
- 4.4 The project's sector specialist is responsible for reviewing the terms of reference for the contracting of consulting services and the technical specifications for procurements during the preparation of selection processes.

- 4.5 **Use of the country procurement system:** Notably, in February 2013, the Bank's Board of Executive Directors accepted the enhanced use of Mexico's public procurement and contracting system (adoption of Mexico's public procurement system), in accordance with the updated country strategy (document GN-2595-3).¹ This system can be used once the corresponding implementation agreement has been signed with government.

Table 1. Procurement thresholds (US\$)

Goods ²			Consulting services	
ICB	NCB	Shopping	International advertising	Shortlist 100% national
≥3,000,000	<3,000,000 ≥100,000	<100,000	>200,000	<500,000

- 4.6 **Main procurement items:**
- a) Internet access services for higher education institutions, research centers, specialty hospitals, and mission critical sites connected to the high-performance backbone network. This includes the procurement of existing stretches of fiber optics and the network equipment necessary for connectivity. In the bidding process, the required service quality conditions will be specified and the participants will propose the most cost-effective technology solution.
 - b) Equipment and connections for the 32 digital inclusion centers (CIDs).
 - c) Gathering of market information, including the work necessary to conduct the National Survey on the Availability and Use of Information Technologies in Households (ENDUTIH).
- 4.7 **Procurement supervision and plan.** Based on the medium-low institutional assessment risk rating, procurement processes will be reviewed pursuant to the express stipulations of the procurement plan. For specific cases, the review will be ex ante. The Bank will hold training workshops on procurement and will guide execution of the procurement processes. The procurement plan may be reviewed and updated at any time.
- 4.8 **Procurement records and files.** The procurement files will be available for any review that the Bank deems relevant.

¹ Mexico's federal public contracting system will be used for all contracts for amounts up to the threshold established by the Bank for applying ICB in the procurement of works (as reference, US\$15 million), goods, and services (as reference, US\$3 million). Contracts for greater than these amounts will be governed by Bank policies GN-2349-15 and GN-2350-15. The system will not be used for the following: (i) contracts for consulting services; (ii) PEMEX contracts; (iii) contracts executed under state and municipal government regulations; and (iv) direct contracting among public agencies (interadministrative contracts). Neither do the federal government provisions on the exclusion of foreigners and the degree of national integration apply.

² Includes nonconsulting services.

V. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 5.1 **Programming and budget.** Since all of the government-executed projects, including the ones financed by international organizations, are included in the agencies' and entities' authorized budgets, each public institution is required to carry out a comprehensive control thereof. Furthermore, it is important to note that the SCT needs sufficient budgetary resources for execution of the program. The executing agency's functions, programs, and projects are included in its annual expenditure budget; the approved budget is programmed and budgeted annually. The functions of programming, budgeting, expenditure control, accounting, and accountability based on the financial information are governed by various regulatory provisions mostly generated by the Department of Finance (SHCP) and registered in the Comprehensive Federal Financial Administration System (SIAFF), ensuring consistency in the criteria for registration and use of the established systems.
- 5.2 **Accounting and information systems.** The accounting records and reports will come from the SCT's accounting. To that end, expenditures eligible for payment with Bank funds should be identifiable in SCT's accounting records.
- 5.3 **Disbursements and cash flow.** Disbursements will be processed according to the reimbursements of expenditure methodology. The SCT, acting through the financial agent, will submit to the Bank, for reimbursement to the country, the eligible expenditures incurred by the SCT. The SCT will present, to the IDB, an itemized statement of the transfers previously paid and the corresponding supporting documents, including certified accounts payable, which will be reviewed on an ex post basis.
- 5.4 **Internal control and auditing.** The head of the SCT internal control body is appointed by the SFP and is responsible for inspecting, overseeing, and implementing the good governance agenda at the institution, based on transparency, accountability, and strict compliance with regulations, adhering to the SFP requirements and other applicable regulations. The exercise, control, and evaluation of federal government spending fundamentally follows the federal budget and the Federal Budget and Fiscal Responsibility Law and its corresponding regulations.
- 5.5 **Retroactive financing.** The IDB may retroactively finance, as a charge against the loan proceeds, up to US\$24 million (20% of the proposed loan amount) in eligible expenditures made by the SCT prior to the date on which the loan was approved by the Board of Executive Directors, provided that requirements substantially similar to those established in the loan contract have been met. These expenditures may be tied to: Component 1: Output 1: Active infrastructure consisting of the design, architecture, and technical specifications for the backbone network and site prioritization, designed; Output 3: Design, development, and implementation of active infrastructure for prioritizing connected public sites and sites to be connected, implemented; and Output 4: Design and implementation of policy actions for modernizing the sector, completed; Component 2: Output 8: Online learning platform, developed; and Component 3: Output 9: National Observatory of Technology Trends in Information and Communication Technologies, launched; Output 11: Comprehensive strategic planning and

monitoring platform, implemented; and Output 12: Sustainability and action plan, developed. These expenses must have been incurred on or after 6 March 2020 (date on which the Bank approved the project profile), but in no case will expenses incurred more than 18 months prior to the loan approval date be included.

- 5.6 **External control and reporting.** Audits. During the execution period, the SCT will submit the audited financial statements for the program, on an annual basis, according to the terms stipulated by the Bank, within 180 days after the end of the fiscal year, and the closing statements, within 180 days after the date set for the final disbursement, and the eligibility of the audit firm, which will be designated by the SFP. The auditing work will be reviewed based on the terms of reference agreed upon by the Bank and the SFP. The costs associated with the financial audit will be charged to the executing agency in all cases.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Mexico. Loan ___/OC-ME to the United Mexican States
Program to Promote Digital Transformation and
Social Inclusion in Mexico

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the United Mexican States, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Program to Promote Digital Transformation and Social Inclusion in Mexico. Such financing will be for the amount of up to US\$120,000,000 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)