

TC Document

I. Basic Information for TC

▪ Country/Region:	MEXICO
▪ TC Name:	Program for Enhancing the Institutional Capacity of BANCOMEXT to Implement the Program to Support Economic Recovery in Mexico
▪ TC Number:	ME-T1441
▪ Team Leader/Members:	Nieto Ituarte, Enrique (IFD/CMF) Team Leader; De Olloqui, Fernando (IFD/CMF) Alternate Team Leader; Alatorre Frenk, Claudio (CSD/CCS); Barragan Crespo, Enrique Ignacio (LEG/SGO); Barrios Nunez, Uriel (CID/CME); Braly-Cartillier, Isabelle Frederique (IFD/CMF); Gonzalez Murillo, Lidice Alexa (IFD/CMF); Marquez, Claudia M (IFD/CMF); Martinez Alvarez, Juan (IFD/CMF); Miranda Monroy, Edna (CID/CME); Netto De A. C. Schneider, Maria E. (IFD/CMF); Porras Herrera, Fanny Eliana (IFD/CMF); Riquelme Arriola, Leticia (IFD/CMF); Urteaga Dufour, Jose Antonio (INE/ENE) De Olloqui, Fernando (IFD/CMF) Alternate Team Leader; Alatorre Frenk, Claudio (CSD/CCS); Barragan Crespo, Enrique Ignacio (LEG/SGO); Barrios Nunez, Uriel (CID/CME); Braly-Cartillier, Isabelle Frederique (IFD/CMF); Gonzalez Murillo, Lidice Alexa (IFD/CMF); Marquez, Claudia M (IFD/CMF); Martinez Alvarez, Juan (IFD/CMF); Miranda Monroy, Edna (CID/CME); Netto De A. C. Schneider, Maria E. (IFD/CMF); Porras Herrera, Fanny Eliana (IFD/CMF); Riquelme Arriola, Leticia (IFD/CMF); Urteaga Dufour, Jose Antonio (INE/ENE) Nieto Ituarte, Enrique (IFD/CMF) Team Leader; De Olloqui, Fernando (IFD/CMF) Alternate Team Leader; Alatorre Frenk, Claudio (CSD/CCS); Barragan Crespo, Enrique Ignacio (LEG/SGO); Barrios Nunez, Uriel (CID/CME); Braly-Cartillier, Isabelle Frederique (IFD/CMF); Gonzalez Murillo, Lidice Alexa (IFD/CMF); Marquez, Claudia M (IFD/CMF); Martinez Alvarez, Juan (IFD/CMF); Miranda Monroy, Edna (CID/CME); Netto De A. C. Schneider, Maria E. (IFD/CMF); Porras Herrera, Fanny Eliana (IFD/CMF); Riquelme Arriola, Leticia (IFD/CMF); Urteaga Dufour, Jose Antonio (INE/ENE)
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	ME-L1300
▪ Date of TC Abstract authorization:	09/10/2020
▪ Beneficiary:	Banco Nacional de Comercio Exterior, SNC, IBD (BANCOMEXT)
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Clean Technology Fund(CTF)
▪ IDB Funding Requested:	US\$953,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	48 months
▪ Required start date:	June 01 2021
▪ Types of consultants:	Firms and Individuals
▪ Prepared by Unit:	IFD/CMF-Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	CID/CME-Country Office Mexico
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Institutional capacity and rule of law; Environmental sustainability

II. Description of the Associated Loan/Guarantee

- 2.1 The objective of the multisector Conditional Credit Line for Investment Projects (CCLIP), ([ME-O0004](#)) is to facilitate access to long term financing for investment in infrastructure to promote productivity and sustainability. The general objective of the second program under the CCLIP is to support the sustainable recovery of Mexico's economy and jobs in the face of the COVID-19 pandemic crisis. The specific objective is to support the inclusive economic recovery of Small and Medium Enterprises (SME) in the manufacturing and tourism sectors through long term financing for productive investment, considered as infrastructure for sustainability, including investment for energy efficiency. This program is the second individual operation under the CCLIP for the Program to Finance Productive Infrastructure and Sustainability in Mexico ([ME-O0004](#)) approved by the Board of Executive Directors under Resolution DE-89/18.
- 2.2 The Mexican financial sector's capacity for providing the financing needed to support SME during this crisis is limited. As a result of the recent COVID-19 crisis, credit supply in general has been more restricted. Financing for productive investments and average tenor of loans, essential to stimulate rapid economic and employment recovery in the country, are expected to fall more sharply, as resources available have initially been directed to supporting efforts to sustain activity of SME via short-term funding injections for liquidity. To address these restrictions, and consistent with the overall objective of the CCLIP, the proposed program will channel long-term financing to SME in two sectors heavily affected by the crisis, manufacturing, and tourism, to help promote productive investments needed to improve their operational efficiency and respond to the surge in demand during the recovery. This includes investments in energy efficiency in the target sectors, which present an opportunity to align recovery investments more specifically with pre COVID-19 goals to tackle climate change.
- 2.3 Single component: Long-term repayment credit lines. The program will be implemented through a single financing component under which BANCOMEXT will use program resources to provide long-term financing for eligible SME in the manufacturing and tourism sectors. Resources will be allocated mainly through second-tier sub loans via commercial FI and used exclusively for productive investment needs for recovery.
- 2.4 The banking sector has a relatively small share of long term loans in its portfolio,¹ while institutional investors shy away from ventures considered relatively high risk.² The low levels of bank credit to the private sector and the incipient participation of capital markets in the sector combine with structural and circumstantial factors, including: (i) the risk profile of energy efficiency – distributed generation projects, with high initial investment required and long payback periods; (ii) the limited technical capacity of the financial system to evaluate and manage projects with more complex financial structures and/or unknown risks; (iii) the allocation of capital by the banking system,

¹ The average maturity of loans to firms by the banking sector stands at 26 months. The banking sector is financing working capital, much less investment projects, certainly not infrastructure.

² The main institutional investors, pension funds, are smaller in Mexico than in the rest of Latin American and the Caribbean (LAC), total funds at 14% of Gross Domestic Product (GDP) (vis a vis 22% in LAC) and their investment profile is conservative, partly on account of compulsory regulations, and based on hold-to-maturity strategies that limit choices (and impact market liquidity).

which prioritizes lower-term lending and less use of capital due to financial regulations (e.g. Basel III); and (iv) the incipient development of capital market instruments at the regional level. All these factors have resulted in the lack of adequate financial instruments to fund energy projects, which translate in high transaction costs and high interest rates or excessive requests for collateral. Some banks have been active in financing energy efficiency and distributed generation, but, as stated above, the rhythm and scale of energy efficiency and distributed generation investments should improve if financial resources at competitive rates were made available to developers.

- 2.5 Productive investment needs to be financed may include acquisition of machinery, equipment, parts, industrial systems, IT and automation goods, new vehicles (buses, trucks) and other production goods and services (which may include software, innovation services, or certifications to support improvements in the overall quality of products or services provided by SME), as well as investment projects mainly related to minor construction, expansion or reform of facilities (store, warehouse, storage, factory, office, etc.). In particular, productive investments in energy efficiency have high upfront costs and long payback periods, which translates into more complex financial structures and/or risks that are hard for the financial system to assess. Following the principle that the need for greater efficiency in SME is an opportunity to align recovery investments with pre COVID-19 goals to tackle climate change, CTF resources with the corresponding matching IDB resources will be used to finance energy efficiency investments, namely distributed generation from renewable sources like solar photovoltaic installations, in eligible SME. This concessional blended loan resources will be used to offset the incremental risk profile of this type of investments to incentivize the implementation of this type of efficiency measures. Additional support to create a database monitoring access of women owned or led SME, will contribute to the design and execution of a Gender Action Plan to address SME credit access gap by gender in year 3 of the program. The program has been prepared waiting for confirmation of the Mexican government to be included in the Pipeline "A" estimated in the QIII 2021.

III. Objectives and Justification of the TC

- 3.1 The main objective of this Technical Cooperation (TC) is to support BANCOMEXT to develop relevant institutional capacities and operational support to design and implement Energy Efficiency – Distributed Energy projects. These projects are included in the Program to Support Economic Recovery in Mexico due to their environmental and social benefits.
- 3.2 The transition to a low-carbon system requires building flexible power systems that can manage the variability of the renewable sources. Wind and solar alone cannot guarantee the scale and continuity needed to efficiently respond to the country's energy demand. This is especially critical in the case of industrial sectors that require high-temperature heat and uninterrupted supply. Combining renewable utility-scale generation with readily on base-load power plants and smaller-scale distributed generation sources and storage can help address this issue.
- 3.3 The ideal combination to drive sustainable energy transition in MSME is the combination of energy efficiency and the use of renewable energies, specifically distributed photovoltaic generation. In 2018, the 4.2 million micro and small enterprises recorded an electricity consumption of 15,251 GWh, while for the 392,000 mediums

sized industries it was 87,578 GWh. It is estimated that the energy-saving potential in MSMEs range from 15% to 40%, only by replacing inefficient equipment; while in terms of distributed generation it is estimated that in 2018, only about 29,000 MSMEs had installed photovoltaic systems, with a total capacity of 248 MW. The proper and coordinated implementation of these two actions makes it possible to size the capacity of photovoltaic systems more precisely and, in general, improves the profitability of projects, since investments to implement actions aimed at the replacement of motor equipment, cooling, lighting and environmental conditioning have short recovery periods.

- 3.4 Financing still represents a barrier to meeting the investment needs for Energy Efficiency and Distributed Generation. The availability of financial resources is essential in supporting the progress of these investments at the pace needed. However, difficulties in the financing of infrastructure prevail, because of shortage of credit or inadequate conditions of available resources in terms of price, tenors, or collateral requirements. According to the International Energy Agency (IEA), in Mexico, the availability of credit has been of particular importance in reducing the cost of capital and making recently developed projects viable. Going forward, an estimated investment of US\$10 billion per year will be necessary to cover the increase in the demand for electricity by 2040. More than 40% of these investments will go to new capacity from clean energy (wind and solar).
- 3.5 Because of this market failure, National Development Banks have acquired an important role in boosting investment in the sector, assuming the incremental risk and making available financial and risk mitigation instruments to incentivize the participation of commercial banks in the financing of these investments.³ In addition, National Development Banks (NDB) also play their part in facilitating access to national and international climate finance funds, and in combining all available sources of funding efficiently, within the framework of the energy transformation process.⁴ This has proven effective in prior similar programs with Mexican NDBs. For instance, the Renewable Energy Financing Facility (REFF) executed by *Nacional Financiera S.N.C., Institución de Banca de Desarrollo* (NAFIN) and financed by the IDB and the Clean Technology Fund (CTF), offered an instrument to finance renewable energy infrastructure. The instrument effectively addressed perceived risks of these projects, offering interest rates and tenors that made it possible to achieve financial viability in the structuring of the projects, without impacting the required profitability to the private developer. In addition, TC activities helped NAFIN enhance its capacity to analyze these projects and achieve financial efficiency in the allocation of resources, turning the institution in a reference model for the financing of the sector. With a total cost of US\$210 million, the REFF mobilized some US\$1,400 million in financing from third parties. The development of these projects increased participation of commercial banks in the financing, and in some cases also mobilized financing from the capital markets.
- 3.6 **Strategic alignment.** The Program and TC, contemplated in the Country Program Document (CPD), are consistent with the Second Update of the Institutional Strategy (UIS) (AB-3190-2) and is aligned with the challenge of: Productivity and Innovation, as

³ Smallridge, D., et al., "[The role of national development banks in catalyzing international climate finance](#)", IDB, March 2013.

⁴ Carlino, H., et al., "[El papel central del financiamiento en el Acuerdo de París y las oportunidades para los bancos nacionales de desarrollo](#)", IDB, 2017.

it promotes access to finance by SME for productive investments needed to improve their operational efficiency. The program is also aligned to environmental sustainability, specifically via the energy efficiency investments financed. In accordance with the objective of the TC it is also aligned to the cross-cutting area of institutional Capacity and the rule of law. It is also consistent with IDB's priorities as set out in its integrated strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy. According to the [joint Multilateral Development Banks \(MDB\) approach on climate finance tracking](#), 5.96% (US\$19 million) of total IDB funding for this operation result in climate change mitigation activities. This contributes to the IDB Group's climate finance goal of 30% of approvals annually. The program will contribute to the Corporate Results Framework (CRF) 2020-2023 (GN272712) through the following indicators: (i) increasing the number of SME financed; (ii) emissions avoided; and (iii) installed power generation capacity from renewable sources. The program is also consistent with the Support to SME and Financial Access/Supervision Sector Framework Document (GN-27687), which underlines the importance of promoting access to financing by the productive sector in the region. It is also aligned with the IDB Country Strategy for Mexico 2019-2024 (GN-2982), in its priority area of boosting investment, specifically contributing to the strategic objective of strengthening access to credit and the expected outcome of increased bank lending to the private sector by development banks.

IV. Description of activities/components and budget

4.1 The TC proposes to support the strengthening of the institutional capacity and operational support for BANCOMEXT through the following activities:

4.2 **Component 1: Diagnosis and identification of priority sectors of interventions in distributed and/or storage energy (US\$100,000.00).**

This component will result in a deeper assessment of the actual demand for distributed energy in different sectors of the Mexican economy. It is expected to address this matter through consultancy service contracts, either individuals or firms.

4.3 **Activity 1: Market assessments of the Distributed Generation in different sectors SMEs in Mexico.**

With the demand assessment, this activity will help to develop financial schemes to address different needs within the sectors attended by BANCOMEXT, mainly industrial, export and tourism companies in accordance with the regulation in place in Mexico. This will include the design of bankable and marketable financial and commercial instruments on which the program could be based and will include assessments on the potential intermediaries and final clients to ensure the success of the program.

4.4 **Component 2: Capacity Building, Institutional Strengthening, Development of monitoring and verification systems of results (US\$453,000.00).**

This component will support BANCOMEXT and possibly some of its intermediaries in the development of institutional capacities for the implementation of the program, operational support, and development of human resources capabilities in support of BANCOMEXT own structures to develop performance monitoring, training, and communication plans to implement and operate the program, including budgets, methodologies, and systems for implementation.

4.5 Activity 1: Capacity building and institutional strengthening.

This activity will support BANCOMEXT not only in tracking and analyzing the impact of their portfolio in terms of environmental and social benefits, but also in defining the added value these benefits could have in the development of the program as well as in the identification, promotion, and technical assistance to the relevant sectors and types of clients, as well as internal capacity building in BANCOMEXT to manage all aspects of the program. It is expected to address this matter through multiple consultancy service contracts, mainly individuals.

4.6 Activity 2: Development of monitoring and verification systems of results.

Based on the activities above, BACOMEXT would be supported in developing a result-based framework for assessing the results of their portfolio. The application of the system will allow for the identification of needed adjustments of the systems as well as the metrics and indicators specified in the diagnostic and planning phases. These activities will be also addressed through consultancy services.

4.7 Component 3: Support for market failures (US\$400,000.00).

The availability of appropriate financing, in terms of interest rate costs or guarantees needed, will improve the financial viability of distributed generation projects. This will in turn reduce the risk perception of financial intermediaries and promote good contractual practices and schemes. The resources will be provided to BANCOMEXT who will apply the funds as needed for this purpose, mainly for SMEs in the industrial, manufacturing, exports, and tourism sectors. The expected output is one or more financial instrument developed, whether blending for interest rate reduction or guarantees. The expected results are a minimum of 20 MW of installed distributed generation capacity. The impact this will have is an annual GHG emissions reduced or avoided of 443,500 tons of CO₂-eq during the lifetime of the project.

4.8 Activity 1: Support for market failures.

The development of new programs always implies that demand is not necessary ready SMEs and especially with new storage technologies. This component has been defined as a possibility to contribute mainly when intermediaries are in place, to support specific transactions where risks are perceived as high. These resources could be applied to encourage participants, either financial intermediaries or final clients through interest rate incentives or guarantee tools that will allow to address possible market failures during the process of establishing and developing the program. Schemes like these have been applied successfully in other programs funded by the CTF in Mexico.

4.9 The CTF has committed US\$953,000.00 to be granted in the form of this TC. The TC timeline indicates a 4-year period of execution.

4.10

Indicative Budget (in US\$)

Component	Description	IDB/Fund Funding	Total Funding
Component 1	Diagnosis and identification of priority sectors of interventions in distributed and/or storage energy.	100,000.00	100,000.00

Component 2	Capacity Building, Institutional Strengthening, Development of monitoring and verification systems of results.	453,000.00	453,000.00
Component 3	Support for Market failures.	400,000.00	400,000.00
Total		953,000.00	953,000.00

V. Executing agency and execution structure

- 5.1 The TC will be bank executed, through IFD/CMF, BANCOMEXT will be the beneficiary of the resources. BANCOMEXT will designate a focal point for these purposes and the supervision of the TC will be realized under periodic reviews by the Bank's teams. As in previous operations, due to the great confidence on the Bank's procurement procedures and the operational constraints that the NDBs have in this type of matters, BANCOMEXT has requested the Bank to execute this TC. According with (OP-619-4) this TC responds to a request from a beneficiary, but instead of being fully executed by an Executing Agency, the Bank exceptionally and at the request of the beneficiary, agrees to be responsible for the contracting of consultancies.
- 5.2 BACOMEXT will implement the program under its current organizational structure, and will be responsible, among others, for supervising the adequate use of program financial resources and of the timely provision of human and technical resources necessary for its implementation. BANCOMEXT will channel program resources From Component 3 to eligible projects, to be agreed between the IDB and BANCOMEXT, using performance guarantees or interest rate incentives. BANCOMEXT will select a portfolio of projects that meet these conditions and finance them upon.
- 5.3 The program follows implementation schemes like previous operations implemented by the IDB in Mexico in partnership with the local NDBs (such as BANCOMEXT, NAFIN and FIRA). This experience has served to build an enduring and robust relationship between IDB and BANCOMEXT that is expected to contribute to an efficient implementation of the program.
- 5.4 The estimated execution period of the Program and the TC is expected to be a maximum of four years, due to the difficulties that these types of innovative programs present during the planning, development, and execution in the Mexican financial markets, as experienced in other similar operations in Mexico.
- 5.5 On January 23, 2020, the Government of Mexico, through the Ministry of Finance, made a request for an IDB loan as well as up to \$10 million in concessional financing and non-reimbursable resources from the CTF, for the financing of, among others, distributed generation projects.
- 5.6 Regarding procurement, the Bank will contract the services of individual consultants, consulting firms and different consulting services, in accordance with the policies and procedures in force in the Bank. All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for individual consultants; (b) GN-27465-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (c) GN-2303-28 for logistics and other related service.

- 5.7 As requested by BANCOMEXT , the Bank has been proposed as executing agency, see the annex [Request for the Client](#).
- 5.8 The project team will be responsible for the preparation and submission to the donor of the project reporting, in compliance with the stipulations of the Administration Agreement.

VI. Major issues

- 6.1 There is a risk that accompanying loan (ME-L1300) could not be needed by BANCOMEXT. Although this possibility should not affect the implementation of the TC resources, BANCOMEXT could still provide loan resources to SME through its own capital whereby the TC can still be executed in accordance with the plan.

VII. Exceptions to Bank policy

- 7.1 This cooperation does not require any exception to the policies established in the Bank policy.

VIII. Environmental and Social Strategy

- 8.1 Given that the current TC revolves around a study, there are no social or environmental risks associated with it. Based on the Environmental and Social Safeguard Compliance Policy (OP-703), this TC has been classified as a Category “C” according to the classification toolkit of the Bank (see: [Safeguard Policy Filter](#) and [Safeguard Screening Form](#)).

Required Annexes:

[Request from the Client - ME-T1441](#)

[Results Matrix - ME-T1441](#)

[Terms of Reference - ME-T1441](#)

[Procurement Plan - ME-T1441](#)