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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT,

INTERNATIONAL FINANCE CORPORATION, AND

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY

FOR

THE UNITED MEXICAN STATES

FOR THE PERIOD FY2014-2019

October 23, 2013

Colombia and Mexico Country Management Unit
Latin America and the Caribbean Region

The International Finance Corporation, Mexico Regional Office
Latin America and the Caribbean Region

Multilateral Investment Guarantee Agency

CURRENCY EQUIVALENTS

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FISCAL YEAR

January 1 to December 31

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Loan
BANSEFI	*Banco del Ahorro Nacional y Servicios Financiero* (Bank of Financial Services)
BB	Bank Budget
CFE	*Comisión Federal de Electricidad* (Federal Electricity Commission)
CONACYT	*Consejo Nacional de Ciencia y Tecnología* (National Council of Science and Technology)
CONAFE	*Consejo Nacional de Fomento Educativo* (National Council of Education Development)
CONEVAL	*Consejo Nacional de Evaluación* (National Council on Evaluation)
CPPR	Country Performance Portfolio Reviews
CPS	Country Partnership Strategy
CTF	Clean Technology Fund
DPL	Development Policy Loan
ECD	Early Childhood Development
ENIGH	*Encuesta Nacional de Ingresos y Gastos de los Hogares* (National Household Income and Expenditure Survey)
EPI	Environmental Performance Index
ESMAP	Energy Sector Management Assistance Program
ESW	Economic Sector Work
FBS	Fee-Based Services
FIRST	Financial Sector Reform and Strengthening Fund
FONDEN	*Fondo de Desastres Naturales* (Natural Disaster Fund)
FY	Fiscal Year
GAC	Governance and Anti-Corruption
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GHG	Greenhouse Gas
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IDF	Institutional Development Trust Fund
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
IMSS	*Instituto Mexicano del Seguro Social* (Mexican Social Security Institute)
INADEM	*Instituto Nacional del Emprendedor* (National Entrepreneurship Institute)
INEGI	*Institutito Nacional de Estadística y Geografía* (The National Institute of Statistics and Geography)

ISSTE	*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado* (Mexican Institute of Social Security for State Officers)
LAC	Latin America and the Caribbean
MIGA	Multilateral Investment Guarantee Agency
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium Size Enterprises
NAMA	National Appropriate Mitigation Actions
NDP	National Development Plan
NHSFO	Non-Honoring of Sovereign Financial Obligation
OECD	Organization for Economic Co-operation and Development
PEC	*Programa de Escuelas de Calidad* (School-based management program)
PEMEX	*Petróleos Mexicanos* (Mexico state oil company)
PET	*Programa de Empleo Temporal* (Temporary Employment Program)
PKS	Programmatic Knowledge Services
PPP	Public-Private Partnerships
PROTRAM	*Programa de Transporte Masivo* (Federal Mass Transit Program)
PSIA	Poverty and Social Impact Analysis
RAS	Reimbursable Advisory Services
REDD+	Reducing Emissions from Deforestation and Degradation
RESOL-V	*Red de Soluciones a la Violencia* (Solutions to Violence Network)
REPSS	*Régimen Estatal de Protección Social en Salud* (*Seguro Popular*)
R&D	Research and Development
SAT	*Servicio de Administración Tributaria* (Mexico's Tax Administration Service)
SBL	Single borrower limit
SCI	Savings and credit sector institutions
SEDESOL	*Secretaría de Desarrollo Social* (Ministry of Social Development)
SHCP	*Secretaría de Hacienda y Crédito Público* (Ministry of Finance)
SHF	*Sociedad Hipotecaria Federal* (Federal Mortgage Society)
SIDAFF	*Sistema Integral de Administración Financiera Federal* (Financial Management Information System)
SME	Small and Medium Size Enterprises
SFP	*Secretaría de la Función de la Pública* (Ministry of Public Administration)
SSA	*Secretaría de Salud* (Ministry of Health)
STPS	*Secretaría del Trabajo y Previsión Social* (Ministry of Labor and Social Welfare)
TA	Technical Assistance
TELECOMM	*Telecomunicaciones de México* (Telecommunications of Mexico)
TRACE	Tool for Rapid Assessment of City Energy
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax
WBG	World Bank Group
WSS	Water and Sanitation Sector

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The Mexico Country Partnership Strategy was prepared by a joint World Bank Group team led by Harold Bedoya, Samuel Freije-Rodriguez, Laura Vila, Gloriana Echeverria, and Dan Biller under the overall guidance of Gloria M. Grandolini, and Roberto Albisetti, Edith Quintrell, and Ravi Vish. Core team members included Jaya Anderman Toiber, Alexandra Ortiz, Wendy Cunningham, Eva M. Gutierrez, Sabine Hader, Jutta Kern, Karim Omar Lara Ayub, Gabriela Vidals and Karina M. Kashiwamoto. Valuable contributions were received from: Aline Coudouel, Andrea Coppola, Carlos Rodríguez Castelán, Daniel Villar, Eduardo Wallentin, Eguiar Lizundia González, Elizabeth Currie, Elizaveta Perova, Ernesto Sánchez-Triana, Jozef Draaisma, Kinnon Scott, Erwin Tiongson, Kiyomi Cadena, Santiago Garriga, Pedro Arizti, Luis de la Plaza Bringas, and Steen Byskov. Many other comments and suggestions were received from numerous participants at the concept review and operations committee meetings. Gabriela Vidals and Karim Lara Ayub prepared the CPS Completion Report under the guidance of Harold Bedoya.

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United Mexican States

COUNTRY PARTNERSHIP STRATEGY (FY14-19)

EXECUTIVE SUMMARY

1. The Mexico Country Partnership Strategy (CPS), covering FY14-19, is fully aligned with the goals of Mexico's National Development Plan (NDP) for 2013-18 and supports the Government of Mexico's development agenda of increased productivity and inclusive and sustainable growth. The World Bank Group (WBG) program under the CPS fosters the twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. The Mexico CPS includes a benchmarking of extreme poverty and shared prosperity and a thorough ex ante diagnosis of development challenges conducted in 2012 utilizing a set of country-specific Policy Notes. It includes a systematic effort at selectivity for highest impact of WBG activities on the twin goals, WBG comparative advantage, and client demand. Finally, it presents a results-based WBG thematic engagement program that integrates financial, knowledge, and convening services in a tailored package of development solutions.

Diagnosis of Mexico's Development Challenges

2. Mexico is an upper middle-income country with one of the highest per capita incomes among Latin American countries. It is a member of the OECD and the G20. Mexico is an open economy with trade agreements with more than 40 countries. It has maintained solid macroeconomic stability in times of crisis and financial sector resilience. Mexico's innovations in social policy have been a matter of global learning. Yet, despite Mexico's significant economic and social improvements, stagnant productivity and insufficient inclusiveness are the critical causes of persistent poverty, inequality, and regional disparities within Mexico.

3. Extreme poverty declined from over 11.3 percent to 9.8 percent between 2010 and 2012 according to Mexico's multi-dimensional poverty measure. However, its monetary dimension increased slightly from 19.4 to 20.0 percent during the same period. This indicates that the recent reduction of extreme poverty in Mexico has been the result of increased access to social goods and services, particularly health care, but labor market opportunities for earning a living are still limited. This is due to long-term problems with productivity but also to a series of shocks–the food price crisis, the global financial crisis, and the A1H1-flu epidemic prevention. A rebound of economic growth during 2010-12 boosted shared prosperity as income growth of the bottom 40 percent of the population increased on average by 2.3 percent, higher than the average income growth of 0.6 percent for the total population for the same period. These national averages, however, hide important regional differences. Poverty rates in Chiapas, Guerrero, and Oaxaca, among the poorest states in Mexico, are 10 times higher than in the richest states.

Selectivity Framework and Principles of Country Engagement

4. The starting point of the WBG program proposed in this CPS is a comprehensive diagnostic of development challenges by WBG staff through a set of Policy Notes and by the Government through its own NDP. Departing from the NDP's 37 strategic development areas, a systematic filtering process then identifies 11 areas of engagement by aligning them with the WBG's twin goals, WBG comparative advantage in Mexico, and country demand. Within these areas of engagement, WBG interventions can have the greatest impact during the next 6 years on 12 specific development outcomes. For each expected outcome of the CPS, the country engagement proposes to deliver tailored development solutions through packages of WBG financial, knowledge, and convening services. Based on the above process of selectivity

assessment, the Bank strategy: (i) exited several areas of previous CPS engagement (e.g., trade competitiveness, customs, judicial, and influenza support programs); (ii) centered its ongoing and new knowledge and convening program, including the growing reimbursable advisory program, around seven selective multi-year/multi-sector Programmatic Approaches for increased effectiveness and reduced transactions costs (e.g., in innovation strategies for poor states; in integrating social protection systems; in managing fiscal challenges; and in disaster risk management and urbanization); and (iii) limited its new financial services to the green and inclusive growth and the social prosperity themes (e.g., Oaxaca water, community education, and second generation *Oportunidades*). Compared to the previous CPS, the selectivity process resulted in a compression from 5 to 4 themes and in a reduction from 28 to 12 outcomes.

WBG Program and Development Solutions

5. To address the country's main development challenges, the Mexico NDP focuses on: (a) achieving peace; (b) making Mexico more inclusive; (c) improving the quality of the education system; (d) promoting prosperity; and (e) consolidating efforts to make Mexico a responsible international player. The NDP also adopts three crosscutting strategies: democratize productivity, foster a modern government, and integrate a gender perspective. The CPS program supports these efforts through focused and selective interventions integrating the WBG goals of reducing extreme poverty and promoting shared prosperity with Mexico's NDP goals, with special attention to states with the highest poverty rates.

6. This CPS proposes a WBG program focused on those areas that are expected to have the greatest impact on improvements in poverty and shared prosperity. Poverty is measured by indicators of access to health, education, nutrition, social security, housing, basic utilities as well as by household income levels, the latter also being key for gauging advances in shared prosperity. This means that policy interventions supported by the WBG ought to affect productivity to influence earnings; inclusiveness to make sure that the poor have access to health, education and social security; and sustainability so that the expansion of urban development and basic utilities do not deteriorate the resource base of the country. Given this multi-dimensionality, and making use of a comprehensive country diagnostic prepared by World Bank staff in 2011-12, this strategy categorizes the main challenges to reduce extreme poverty and promoting shared prosperity into four themes to: (a) increase productivity and ensure its gains are widespread, (b) ensure that poorer segments of society benefit from basic social services and contribute to economic growth, (c) strengthen public finances and improve government efficiency, and (d) combine the economic and environmental aspects of sustainable development.

Risks and Mitigating Factors

7. Four potential risks to the CPS are: (a) sluggish economic performance due to failure to increase competitiveness and enact key structural reforms, (b) little room for countercyclical lending by IBRD in the event of global or local shocks, (c) incomplete or deficient program implementation due to complexities of the WBG program at the national and subnational levels, and (d) crime and violence. Three main approaches are identified to mitigate these risks. First, to address global or local shocks, the WBG is undertaking a comprehensive assessment of its financial instruments to provide viable alternatives to the authorities. Second, in mitigating program risks, the management of thematic business plans and programmatic approaches around results will help focus attention to strategic outcomes and portfolio performance while maintaining the flexibility to adjust to country circumstances and build in continuous learning. Third, the WBG engagement is not concentrated in areas of high criminality, reducing the chances of negative impact to the program.

United Mexican States

COUNTRY PARTNERSHIP STRATEGY (FY14-19)

1. The Mexico Country Partnership Strategy (CPS) covers FY14 to FY19 and is fully aligned with the goals of Mexico's National Development Plan (NDP) 2013-2018. The strategy also focuses on the World Bank Group (WBG) twin goals of *ending extreme poverty* and *promoting shared prosperity in a sustainable manner*. This CPS document has five main parts. Part I summarizes a country analysis based on a set of policy notes and also includes a poverty assessment to benchmark poverty and shared prosperity trends at the global, national, and subnational levels. Part II summarizes the goals and strategies underpinning Mexico's NDP for 2013-18. Parts III and IV explain the principles and the content of the WBG partnership with Mexico for FY14-19. Parts V and VI describe the financial, operational, and fiduciary underpinnings of the activities postulated and the risks facing the strategy. Finally, the annexes provide the results framework, detailed country diagnostic and poverty assessment, assessment of the previous CPS, gender dimensions, and an overview of the emerging WBG engagement in the State of Oaxaca.

I. COUNTRY DIAGNOSIS

A. Poverty and Shared Prosperity Trends

An Innovative Measure of Poverty

2. Mexico is the first country in Latin America to adopt a Multi-dimensional Poverty Index as its official poverty measure. Mexico's official poverty measure includes both monetary and non-monetary indicators, with an indicator of monetary well-being (measured by income below a nationally defined poverty line) as one dimension, and access to social goods and services as another dimension. To be considered poor in Mexico, a person has income below the poverty line and has at least one deprivation in terms of housing, infrastructure, education, health, social security, or food security. An extremely poor person has income below the minimum well-being line and suffers from three or more deprivations. Thus, income poverty alone does not make one poor nor can income growth alone move one out of poverty.[1] These multiple dimensions underline important differences between the poorest and richest states in Mexico, highlighting the importance of reducing extreme poverty as well as the shared prosperity agenda. This new set of poverty indicators will also serve as initial indicative reference points to assess the impact of the policies and programs proposed in this strategy.

3. **Mexico's extreme poverty line is higher than the World Bank's extreme poverty line marker of US$1.25 per day**. As of March 2012, the monthly food poverty line, also called "minimum well-being" (*bienestar económico mínimo*), was equivalent to approximately US$4.0 per day in urban areas and US$2.9 per day in rural areas at purchasing power parity. The implication is that using the World Bank's measure places 4.4 percent of the population below the extreme poverty line, while using Mexico's monetary measure of extreme poverty places approximately 20 percent of the population below the official minimum well-being line. In contrast, in using the Mexican official multi-dimensional measure, which includes both monetary and non-monetary well-being, 9.8 percent of the population would be below the poverty line.

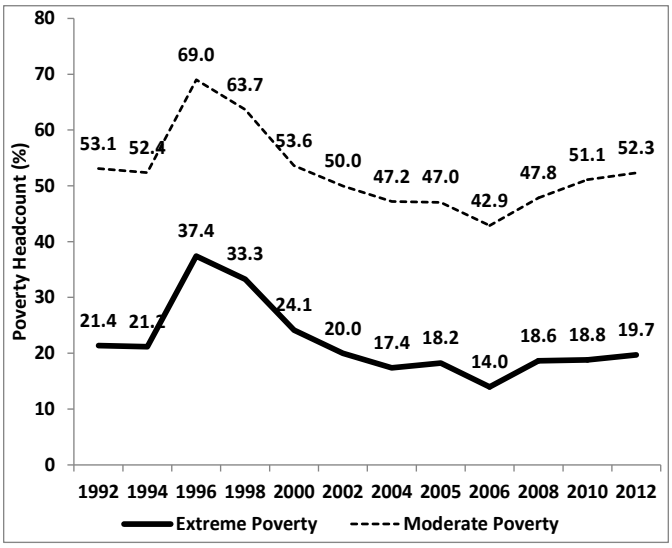
Profile and Trends

4. **Monetary poverty rose between 2006 and 2012**, **breaking a decade-long trend of poverty reduction in Mexico**. A long-term view using data spanning two decades of monetary measures of poverty shows that monetary poverty rates in 2012 are similar to the rates in 1992: the net reduction of moderate and extreme poverty was only 0.8 and 1.7 percentage points, respectively, over 20 years (Figure 1).

5. **Between 2006 and 2012 the extreme poverty rate (food poverty or *pobreza alimentaria*) increased from 14.0 percent to 19.7 percent (affecting 23.1 million people)**. Extreme poverty increased significantly during the period 2006-08 (when the affected population increased by 4.7 percentage points) and stagnated in the years after, hovering around 19 percent. Until 2006, Mexico kept pace with the region in poverty reduction. Nevertheless, since 2008 the economy suffered a series of shocks — food price crisis, global financial crisis, the AH1N1-flu epidemic — that slowed economic growth and reversed the reduction in monetary poverty.

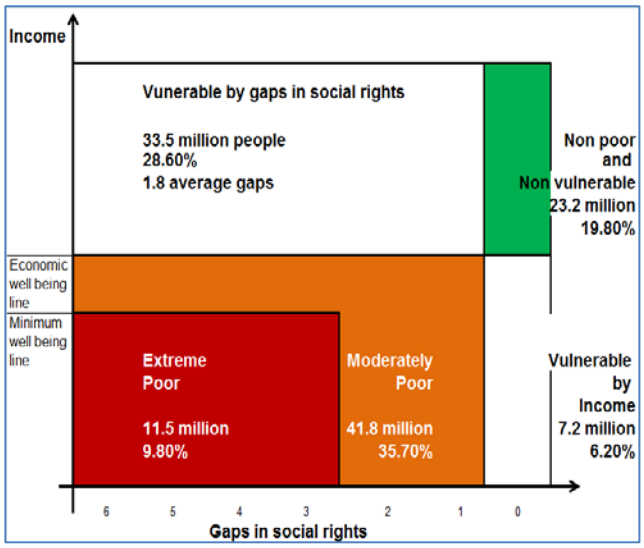
6. **The multi-dimensional measure**, **which allows for a more nuanced and complex view of poverty**, **shows a decline in extreme poverty**.[2] According to this measure, extreme poverty declined from 11.3 percent to 9.8 percent between 2010 and 2012 (Figure 2). This measure not only gauges extreme and moderate poverty but also calls attention to the vulnerable population. Vulnerability of incomes (people with no lack in basic needs but insufficient income) represented 6.2 percent of the population in 2012, a 0.3 percent increase from 2010. Vulnerability by social needs (those with earnings above the poverty line but without access to at least one basic service) reached 28.6 percent, slightly higher than the 28.1 percent in 2010. Only 19.8 percent of Mexicans did not suffer either earnings or basic services gaps in 2012 (Table 1). These numbers indicate very little mobility (i.e., families exiting poverty or vulnerability and entering the middle class). A recent World Bank study finds that Mexico is one of the countries in the region with less income mobility and whose low economic growth is associated with little growth of the middle class.[3]

Figure 1.Monetary Poverty Rates, 1992-2012



Source: CONEVAL using the traditional ENIGH 1992-2012.
Note: Estimations corresponding to 2006-12 use the adjusted expansion factors from the 2010 Population Census.

Figure 2. Multi-dimensional Poverty Rates, 2012



Source: CONEVAL (2013) Comunicado de Prensa 003.

7. **The decline in multi-dimensional poverty is due to increasing access to almost all the social rights included in the measure**, **particularly healthcare**; **but the rise of its monetary component indicates that labor market opportunities for earning a living are still limited**. The largest statistically significant improvement was in access to health care, where 8.2 million more people gained access (Table 1). The only social deprivation for which the share of the population increased was access to social security. The increase in the deprivation to social security arises mainly from the lack of access among the population in the labor force.

Table 1. Components of Multidimensional Poverty in Mexico

Indicators	Percentage		Change	Total		Average	
	2010	2012	2010-2012	2010	2012	2010	2012
Social deprivation indicators							
Educational gap	20.7	19.2	-1.4***	23.7	22.6	3.1	2.9
Access to healthcare	29.2	21.5	-7.7***	33.5	25.3	3.0	2.8
Access to social security	60.7	61.2	0.5	69.6	71.8	2.5	2.3
Quality and spaces of the dwelling	15.2	13.6	-1.6***	17.4	15.9	3.6	3.4
Basic services in the dwelling	22.9	21.2	-1.7***	26.3	24.9	3.3	3.2
Food Security	24.8	23.3	-1.5*	28.4	27.4	3.0	2.9
Well-being							
Population with an income below the minimum well-being line	19.4	20.0	0.6	22.2	23.5	2.9	2.5
Population with an income below the well-being line	52.0	51.6	-0.4	59.6	60.6	2.3	2.1

Indicators	Percentage		Change	Total Population		Average social	
	2010	2012	2010-2012	2010	2012	2010	2012
Poverty							
Poor	46.1	45.5	-0.6	52.8	53.3	2.6	2.4
Moderate Poor	34.8	35.7	0.9	39.8	41.8	2.2	2.0
Extreme Poor	11.3	9.8	-1.5***	13.0	11.5	3.8	3.7
Vulnerable population due to social deprivations	28.1	28.6	0.5	32.1	33.5	1.9	1.8
Vulnerable population due to income	5.9	6.2	0.3	6.7	7.2	0.0	0.0
Non-poor and vulnerable population	19.9	19.8	-0.2	22.8	23.2	0.0	0.0
Social deprivation							
Population with one or more social deprivation	74.2	74.1	-0.1	85.0	86.9	2.3	2.2
Population with three or more social deprivation	28.2	23.9	-4.3***	32.4	28.1	3.6	3.5

Source: CONEVAL using MCS-ENIGH 2010 and 12. Note: Significance levels *10 %, **5 % and ***1 %.

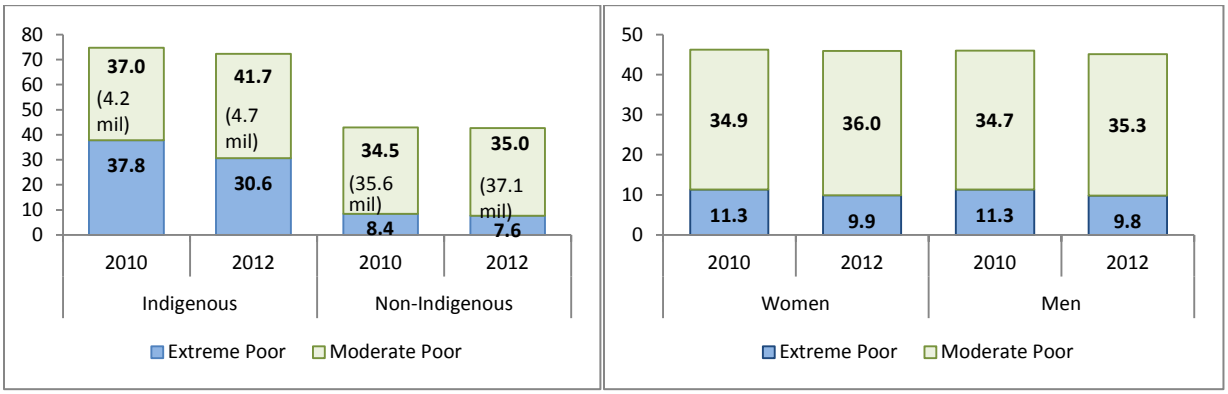
Gender, Ethnicity, and Regional Disparities

8. **Gender and ethnicity specific estimates indicate important differences across groups**. From 2010 to 2012, the extreme poverty rate of the Multi-dimensional Poverty Index was equally reduced among men and females by 1.5 percentage points. However, in 2012, there were 1.5 million fewer men than women living in moderate poverty; but 300,000 more women than men live in extreme poverty. Poverty among the indigenous population has fallen faster, but their poverty levels remain higher than among non-indigenous population. Extreme poverty among indigenous population decreased 7.2 percentage points, lifting more than 800,000 people out of poverty. Despite this progress, 8.2 million indigenous people still live in poverty, of which 3.5 million are among the extreme poor (Figure 3).

9. **Eliminating extreme poverty is a critical challenge in Mexico's poorer states.** The national rate of extreme poverty masks important regional differences. Chiapas, Guerrero, and Oaxaca have extreme poverty rates of 32.2, 31.7, and 23.2 percent, respectively. These are more than 10 times higher than the poverty rates of Nuevo Leon, Distrito Federal, and Baja California (2.4, 2.5, and 2.7, respectively). One out of 3 Mexicans in poverty lives in Chiapas, Guerrero, or Oaxaca (Figure 4). Around 23.5 million Mexicans or 20 percent of Mexico's population live below the official line of minimum well-being of less than US$4.0 a day in urban areas and US$2.9 in rural areas. This national average contrasts with the high dispersion of poverty rates over the territory: 14 states out of the 32 have populations with monetary extreme poverty rates

above the 30 percent mark. This indicates that Mexico has been able to increase the coverage of social goods and services like basic education and health but labor market opportunities for earning a living are still very limited.

Figure 3. Mexico's multi-dimensional poverty measures by gender and ethnicity, 2012

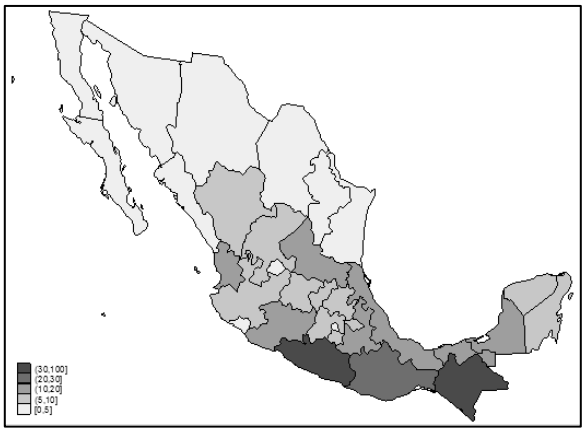


Shared Prosperity Indicators

10. **Regional disparities highlight the importance of promoting shared prosperity in Mexico**. For the period 2010-12, Mexico's income growth for the bottom 40 percent population had an average annual increase of 2.3 percent, higher than the income growth of 0.6 percent for the total population (Figure 5). The increase did not compensate the drop between 2008 and 2010 when income growth of the bottom 40 percent decreased slightly more than the total population (2.4 percent compared to 2.9 percent). Looking at the entire period 2008-12, the average income growth of the bottom 40 percent was negative (but the decline was less pronounced than for the overall population). These recent trends in shared prosperity are accompanied by a reduction of income inequality for the period 2010-2012.

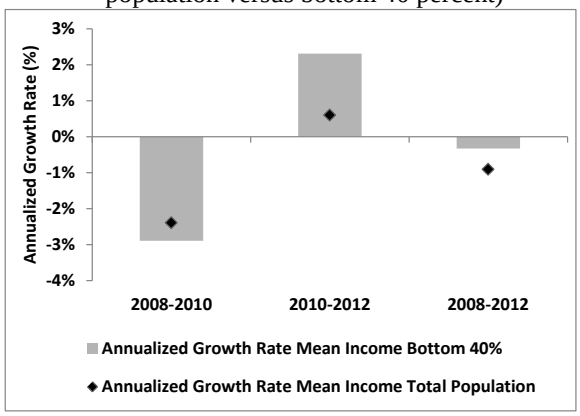
11. **Looking at shared prosperity by gender or ethnicity shows important differences**. The bottom 40 percent of female-headed households experienced negative growth in all periods considered (Figure 6). Between 2008 and 2010, the bottom 40 percent of the indigenous households were severely affected as incomes decreased by 7.6 percent. However, this group was able to fully recover the following period when its income increased by 10.6 percent.

Figure 4. Mexico Poverty Maps 2012
(CONEVAL's multi-dimensional poverty)



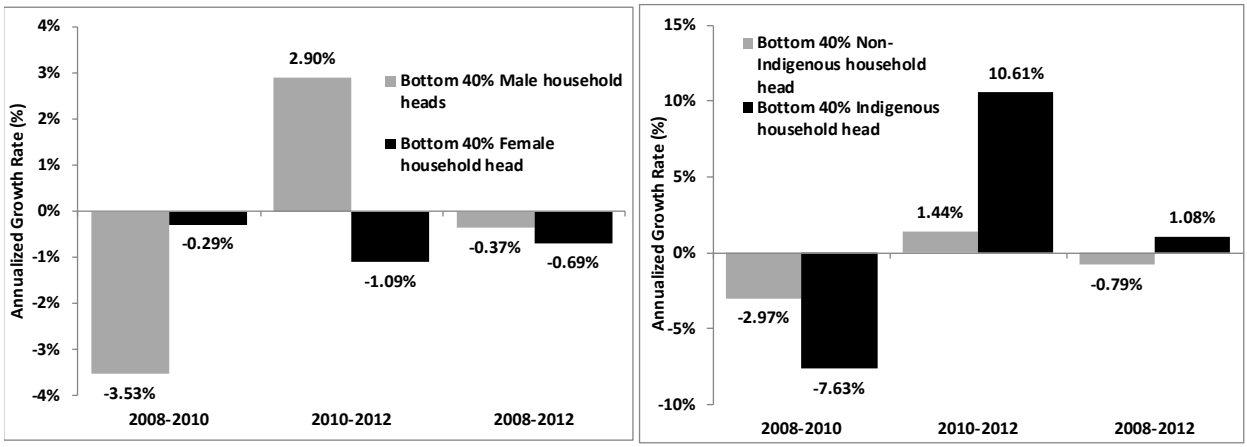
Source Figures 3 and 4: CONEVAL using MCS-ENIGH 2012.

Figure 5. Shared Prosperity in Mexico
(Annualized growth rate mean income of total population versus bottom 40 percent)



Source: Author calculations data from MCS-ENIGH 2008-12.

Figure 6. Measures of shared prosperity by gender and ethnicity



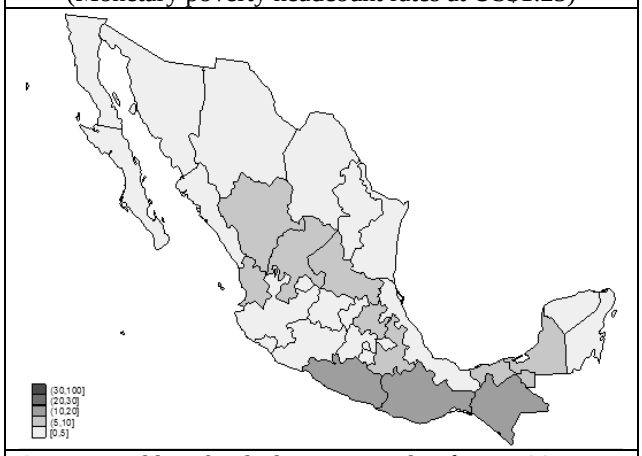
Source: Author calculations using data from MCS-ENIGH 2008-12

Global Comparisons

12. **Using the international poverty line of US$1.25 per day, only 4.4 percent of Mexico's population lived in extreme poverty in 2012.** The extreme poor account for 5.2 million Mexicans and represent around 0.5 percent of the global population in extreme poverty. Eradicating extreme poverty in Mexico would have a small, though not unimportant, impact on the WBG's global target of reducing extreme poverty by 2030.

13. **Despite its limited magnitude, extreme poverty, defined by US$1.25 per day, is a stark reality in some Mexican states**. Using the US$1.25 line (equivalent to around Mex$335 per month at 2012 nominal prices), extreme poverty rates range from 15.2 and 11.9 percent in Oaxaca and Chiapas, respectively, to virtual elimination rates of 1.6 or 0.7 percent in Nuevo Leon and Distrito Federal, respectively. Actually, 41 percent of the Mexican population in extreme poverty resides in Chiapas, Guerrero, and Oaxaca (Figure 7). This reality highlights the importance of a subnational perspective when aiming at eliminating extreme poverty.

Figure 7. Mexico Poverty Map
(Monetary poverty headcount rates at US$1.25)



Source: World Bank calculations using data from MCS

B. Challenges in Poverty Reduction and Promotion of Shared Prosperity

14. Mexico has achieved remarkable economic and social progress over the past two decades; yet poverty reversed its downward trend, and inequality has leveled off at very high levels since 2006. Therefore, in order to influence Mexico's poverty and inequality measures, policy interventions ought to affect productivity to influence earnings; inclusiveness to make sure that the poor have access to health, education and social security; and sustainability so that expansion of urban development and basic utilities does not deteriorate Mexico's resource base. Making use of comprehensive country analysis prepared by World Bank staff in 2012 (http://www.worldbank.org/en/country/mexico/research/all) this strategy categorizes four main

challenges to reduce extreme poverty and promoting shared prosperity: (a) increase productivity and ensure that gains are widespread; (b) ensure that poorer segments of society benefit from basic social services and contribute to economic growth; (c) strengthen public finances and government efficiency; and (d) combine economic and environmental aspects of sustainable development.[4]

15. **Mexico's solid macroeconomic management stands out in a global environment of higher volatility and lower growth.** Economic activity fully recovered from the severe contraction experienced following the global financial crisis and continued growth of exports, domestic investment and consumption managed to close the output gap by the end of 2012. A track-record of prudent monetary and fiscal policies provided the framework, confidence and buffers required for a rapid rebound of economic activity. More recently, a global slowdown, aggravated by the impact of fiscal consolidation and a slow start of public investment led to a significant deceleration of economic growth in Mexico widening the output gap again. This deceleration bodes for a low GDP growth of around 1.5 percent in year 2013, with relatively stable exchange rates, inflation and current account deficits (Table 2). Economic growth is expected to recover in 2014 following strengthening of external demand and the implementation of monetary and fiscal policies in support of economic activity.[5]

Table 2. Mexico: Key economic indicators

	2009	2010	2011	2012	2013 (est)	2014 (proj.)
Real GDP growth (%)	-4.7	5.1	4.0	3.8	1.5	3.5
Unemployment (% of labor force)	4.8	4.9	4.5	4.4	5.0[1]	..
Headline Inflation (end-of-period %)	5.3	4.4	3.8	3.6	3.6	3.5
Exchange rate (MXN/US$, year average)	13.5	12.6	12.4	13.2	12.7	..
Monetary Policy Rate (% - average)	5.6	4.5	4.5	4.5	4.0[2]	..
Public Sector Borrowing Requirements (as % of GDP)	-2.6	-3.5	-2.7	-3.2	-2.9	-4.1
Current account balance (as % of GDP)	-0.5	-0.3	-1.0	-1.2	-1.5	-1.5

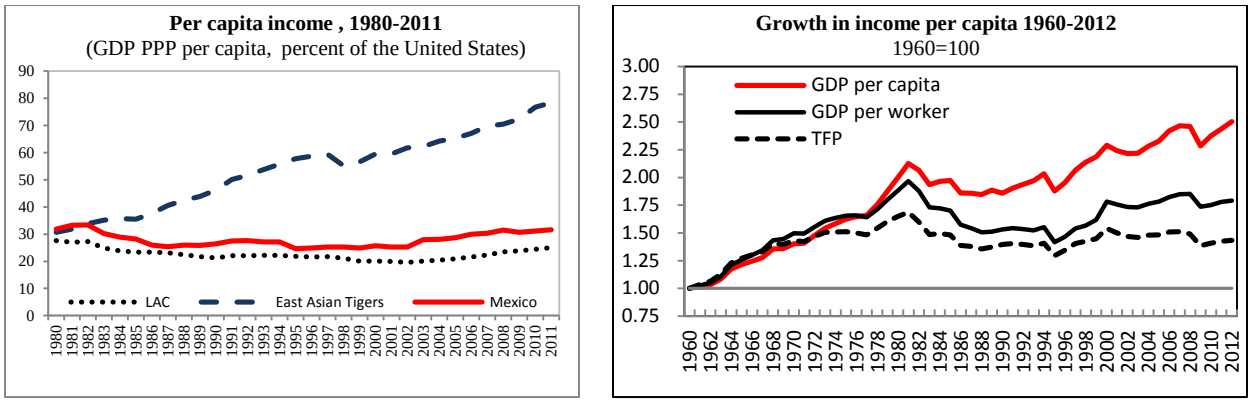
Source: Bank staff based on INEGI, SHCP and Banco de Mexico. (1) Average for first half 2013 (2) At the end of September 2013

16. **Despite excellent short-term macroeconomic management during the 2009-10 global financial crisis**, **slow long-run productivity growth and lack of convergence remain serious problems**. Mexico has enjoyed macroeconomic and financial stability, market-oriented economic policy reforms, openness to foreign trade and investment, and a "demographic bonus" through a growing working-age population. But it has not had sustained high-growth rates, failing to close the gap with high-income economies. Over the past decade, the economy grew at less than 2 percent annually, well below the regional average of 4 percent. Its per capita income has remained at about 30 percent of that of the U.S. By comparison, East Asia Tigers' per capita income tripled over the past three decades and is currently about 60 percent of that of the U.S. (Figure 8).

17. **Mexico's trailing productivity growth partially explains its slow income convergence**. The country's growth has largely been driven by capital and labor accumulation and not by growth in productivity, measured by either average output per worker or combined efficiency of labor and capital. While physical capital accumulation rates are within a reasonable range by international standards, productivity growth is lacking. Productivity collapsed during the 1980s and regained some ground since the early-nineties, but slow productivity growth and recurrent shocks—in 1995, 2001 and 2009—have prevented productivity to recover to its former

levels. The economic literature offers many explanations for low productivity growth, all of which are relevant in the Mexican context: inequality, underdeveloped financial system, regulatory barriers for doing business, uncompetitive markets for utilities, weak innovation and limited market competition, labor market rigidities, and scarce skilled labor.

Figure 8. Unleashing productivity could accelerate growth and convergence to higher income levels



Source: Penn World Tables; and World Bank staff calculations. In this graph, for Asian Tigers we considered Korea, Hong Kong SAR, China, Singapore and Taiwan, China.

18. **High inequality and persistent poverty hamper productivity and are in turn perpetuated by low productivity**. Inequity of opportunity in access to key economic and social services (such as education, credit, and infrastructure) prevents a large segment of the population from fully realizing their economic potential. This reduces productivity, slows growth, and perpetuates existing poverty and income inequality. Breaking this vicious circle is difficult and requires an integrated reform agenda focused on mutually reinforcing economic and social objectives.

19. **A comprehensive structural reform agenda is needed to help boost productivity.** Mexico's financial sector is small for the country's stage of development, impeding the channeling of financial savings into long-term productive investments. Commercial bank credit to the private sector is well below the level in countries with similar characteristics and below the regional average, and half the population still does not use financial services. Concentrated markets, restrictive regulation, and anticompetitive behavior hamper firm productivity and economic growth, with some estimation placing such costs at 1 percentage point of GDP growth each year.[6] Productivity is also constrained by the low quality of education and inefficient matching of workers and firms. The sector composition of jobs has changed over the past decade, with a decline in the share of employment in the tradable sectors and a rise in the services sector, where informality and low productivity jobs concentrate.[7] Mexico has achieved near universal primary school completion and over the past decade the performance of Mexican students on the PISA international learning test (measuring largely cognitive skills) has improved, but it still lags behind its Latin American and OECD peers.[8]

20. **Faster productivity growth will also require improvements in infrastructure, particularly in telecommunications and trade logistics**. Mobile phone penetration is one of the lowest in the Latin America, and fast broadband is scarce and expensive. Mexico also needs to increase digital literacy to close the digital divide. The recent National Digital Plan has four axes for tackling challenges in this area: e-government, innovation in ICT, citizen participation, and open data. With regard to trade, low investment in ports and logistics has resulted in a

diminished capacity to support trade. Mexico ranks 47th on the overall Logistics Performance Index, with weak score on customs, but also low score on infrastructure, logistics competence, and international shipments. Logistics costs as percentage of GDP are 14 percent in Mexico, while for OECD economies this percentage is less than 10 percent.

21. **In addition to addressing challenges for faster productivity growth**, **reforms in social policy are also needed for reducing poverty and inequality**. Despite recent progress, social protection faces important equity and efficiency challenges. Mexico's social protection system includes contributory social security schemes, social assistance, and labor market programs. But the system suffers from fragmentation, weak design, and coverage gaps. Labor market programs overlap and are duplicative. Three health insurance programs operate in parallel with little coordination.[9] The social protection system lacks a range of mechanisms to mitigate the impact of economic shocks; and those that do exist are under-utilized by the poor. More coverage in services for employability and intermediation, unemployment protection, and pension systems are also needed. Furthermore, expenditure in some social programs such as contributory pensions, agriculture development and gasoline subsidies are markedly regressive. Finally, gender gaps in areas ranging from economic opportunities, prevention of violence and equal treatment and rights, can still experience much improvement (Box 1 and Annex 6).

Box 1. Gender Issues in Mexico

In the last decade, much progress has been made toward greater gender equality in Mexico. Between 2005 and 2010 the average years of schooling went up from 7.9 to 8.4 for women and from 8.4 to 8.7 for men. The proportion of women in the House of Deputies has increased from 17.4 percent in 2000 to 36.8 percent in the 2013. Equal treatment and rights, non-violence, public expenditure, awareness of unpaid household work, and political participation are issues incorporated into the public agenda.

However, despite progress in promulgation of laws and budget increases to enhance gender equality, major issues still need to be addressed. Maternal mortality is also a persistent public health issue in Mexico with slow progress in alleviating the problem (from 60 deaths per 100,000 live births in 2002 to 51 in 2010). Between 2006 and 2011 the incidence of violence against women perpetrated in their last relationship increased from 43.2 percent to 46.1 percent in spite of public actions to combat it.

This CPS will support the implementation of the NDP agenda on gender equality. Given its cross-cutting nature, the package of development solutions on gender will bridge the different themes of this CPS.[10] Knowledge products will benchmark, diagnose, and make policy recommendations for furthering gender equality related to productivity, social protection, and environmental policy. Conferences, seminars, and other dissemination and knowledge exchange activities will follow. Financing activities might also materialize provided there is client demand. Key initial efforts will be focused on assisting federal, state, and municipal agencies responsible for gender issues. Preliminary contacts are under way with Chiapas to develop a package of development solutions to accompany their state gender initiative.

22. **Addressing the challenges of ending poverty and promoting shared prosperity require a well-funded and effective government**. Mexico's falling oil revenues and rising public spending needs require increased tax revenue and more efficient and better targeted public spending. An integral fiscal reform is needed that broadens the tax base, narrows special regimes or preferential rates, and generates information flows that facilitate tax compliance and boost tax revenue. On the expenditures side, three main areas need special attention: (a) increasing transparency; operational efficiency and progressivity of public expenditures; (b) improving public sector performance through better budget and financial management; and (c) adopting a systemic coverage of pending risks (e.g., natural disasters, commodity prices variation, and subnational fiscal distress).[11]

23. **Three challenges related to tax collection**, **federal transfers**, **and risk vulnerability deserve special attention**. First, tax collection is insufficient. If federal and local taxes and social security are included, Mexico has the lowest fiscal pressure among OECD member states and is among the lowest compared to similar Latin American countries. Second, dependence on federal transfers amounts to about 90 percent of subnational public revenue. This imbalance has lessened the states' incentives to raise their own revenue and has led some to financial distress because of excessive, sometimes unregistered debt. Third, budgetary disruptions due to growing global risks are likely. Public finances are vulnerable to a variety of shocks related to national and international macroeconomic fluctuations, demographic contingencies, and natural disasters. Around 41 percent of Mexico's territory and 31 percent of its population are exposed to hurricanes, storms, floods, earthquakes, and volcanic eruptions. In economic terms, 70 percent of GDP is considered to be at risk from two hazards or more. The 2011 World Bank study, *Social Dimensions of Climate Change in Mexico*, shows that 70 percent of the poorest 125 municipalities are highly prone to hydro-meteorological hazards such as floods and hurricanes.

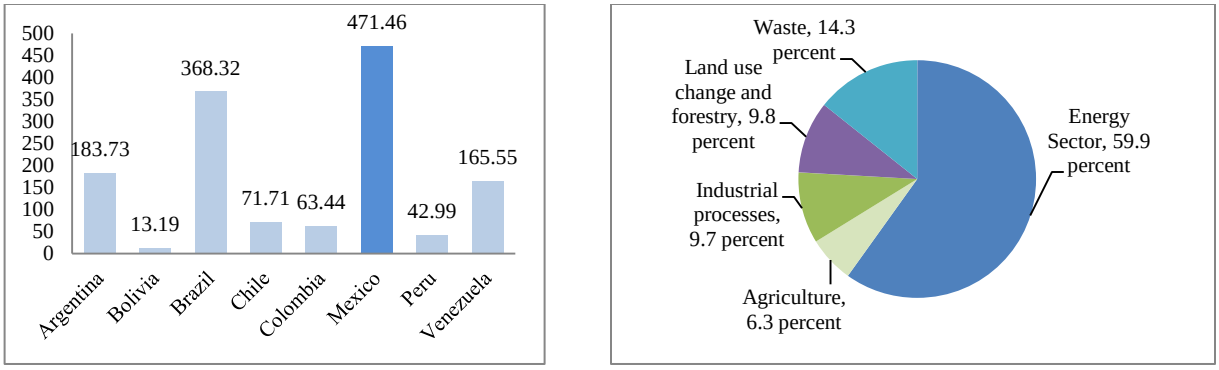
24. **Environmental policy must also be an integral part of Mexico's development agenda as a means to support the well-being of current and future generations**. Natural resource capital — forests, protected areas, agricultural lands, energy, and minerals — is an important contributor to Mexico's wealth. Natural resources support economic activities representing at least 11 percent of Mexico's GDP. They are an important source of jobs and support the livelihoods of millions of people, including rural populations. Environmental degradation and depletion of natural resources in Mexico have an economic cost equivalent to roughly 6.3 percent of GDP. Environmental degradation includes air and water pollution, soil degradation, and solid wastes. In most cases, these costs are primarily borne by vulnerable groups, including young children, the elderly, and the rural poor. As Mexico grows and industrializes, demands on common property natural resources such as water and forests will also continue to rise. Moreover, in terms of the environmental footprint of the urban economy, a number of policy challenges still remain in the areas of land use planning, waste collection, urban pollution, and energy efficiency.[12]

25. Mexico is highly vulnerable to climate change, which is anticipated to exacerbate the country's development challenges. World Bank studies estimated that climate change could slow down the pace of poverty reduction by 2.4 percentage points by 2030, meaning an extra 2.9 million people would remain in poverty. The consequences of climate change will vary across social groups and throughout the country's territory, depending on factors such as exposure to hazards and climatic variability, sensitivity, and adaptive capacity. Poor and indigenous groups who depend on climate-sensitive sources of income could suffer the most significant impacts.

26. As one of the largest contributors of carbon dioxide (CO_2) emissions in Latin America, Mexico has adopted an ambitious plan to drive down greenhouse gas (GHG) emissions (Figure 9). Mexico ranks 12th in the world in CO_2 emissions (471.46 million tons). The climate change agenda includes a partnership with the states as well as the recently approved General Climate Change Bill (*Ley General de Cambio Climático*), which calls for a 30 percent CO_2 reduction by 2020 and a 50 percent reduction by 2050 (compared with 2000 level). Mexican cities, which account for more than 84 percent of the country's GDP, generate 75 percent of the country's GHG emissions. Therefore, Mexico has made significant investments to improve air quality in cities. Sulfur content in fuels has been significantly reduced over the last decade while an increasing number of cities and metropolitan areas have adopted an air quality program (PROAIRE) with targeted measures to arrest air pollution. In addition, improved vehicle

technologies have helped reduce emissions. However, these trends have been offset by the staggering increase of private vehicle ownership which rose by more than 50 percent, from 13.4 million in 2004 to 21.6 million in 2010.[13]

Figure 9. Mexico is a large contributor to global CO_2 emissions, mostly driven by the energy sector (including transport, energy generation and industry)



Source: World Bank calculations based on 2006 data from *Instituto Nacional de Ecología. Cuarta Comunicación Nacional. Secretaría de Medio Ambiente y Recursos Naturales*. Mexico. 2009 and UNEP Environmental Indicators 2007.

27. **Energy subsidies arguably constitute the most important market impediment for a transition to a green-growth development pathway**. Between 2005 and 2009, subsidies of electricity, diesel, gasoline, and liquefied petroleum gas averaged Mex$200 billion per year (around US$18 billion per year). Fuel subsidies result in inefficient use of electricity and fuel and are regressive: the richest 20 percent of Mexicans — who own most of the cars and electrical equipment — receive 55 percent of the subsidy while the poorest 20 percent receive only 3.4 percent. Removing energy subsidies alone could increase GDP by 1.5 percent by 2030.[14]

28. **A comprehensive system for tracking and monitoring progress on environmental issues needs to be developed**. Mexico's leadership and early efforts at developing green-focused GDP accounts are steps in the right direction, but the remaining challenges are to: (a) strengthen available measures for each sector (physical and economic indicators of environmental progress); (b) build on green-focused GDP accounts and valuation of natural assets methodologies, particularly the Wealth Accounting and Valuation of Ecosystem Services (WAVES), to guide macroeconomic and sector policies; and (c) ensure public availability of information on indicators and trends so that constituencies can play a role in demanding improvements in environmental management and demanding accountability for governmental efforts to address clearly defined environmental priorities.

29. **Development Challenges and Framework for WBG Engagement**. Overcoming these complex development challenges demands implementing a series of parallel policies. Achieving the goals of reducing extreme poverty and promoting shared prosperity calls for policies that simultaneously foster productivity growth, social inclusiveness and fiscal/environmental sustainability. Some of these policies, such as structural reforms in education, energy, telecommunications and public finance, are already being put forward by the Government of Mexico (see also Section II). This CPS defines, after a careful selectivity process explained in section III, a series of tailored engagements which allow for the WBG to play an effective role in reducing extreme poverty and promoting shared prosperity. These areas of engagement, described in more detail in section IV, range from activities to strengthen social protection and financial inclusion to activities enhancing public sector modernization, competitive and innovative business environment, environmental protection, and upgrading infrastructure.

II. GOVERNMENT OF MEXICO VISION

30. President Enrique Peña Nieto assumed office in December 2012 for a six-year period. His administration has launched an ambitious reform program buttressed by a principles agreement, the Pact for Mexico. Signed in December 2012 by the Mexican Government and the three largest national parties, the Pact is a political agreement comprising a list of policy proposals ranging from democratic governance to economic growth, security, transparency, and rights.

31. **In its initial months**, **the new administration has presented to Congress a series of reforms in telecommunications, education**, **financial services**, **public finance and energy**. All these reforms aim at addressing several of the development challenges described in the previous section. A telecommunications reform, approved in March 2013, introduced a series of measures to increase competition and access to information in the telecommunication markets. An education reform, approved in August 2013, aims at increasing the quality of public education by improving the selection, training and evaluation of teachers. A financial sector reform, approved in September 2013, includes a package of several laws aiming at consumer protection, access to financial services, development banking, and protection to creditors and strengthening the institutional framework of the stock exchange. The Government announced a fiscal reform package including reforms in the tax and social security systems. The reform contains a series of measures to increase revenues through more efficient and progressive taxation, as well as the introduction of unemployment insurance and a means-tested pension. The forthcoming reform in the energy sector, aims at increasing investment in the oil sector. Finally, to prompt economic growth, the fiscal reform also includes a provision for fiscal deficits in years 2013 and 2014. These counter-cyclical deficits, scheduled to taper off in subsequent years, together with a large infrastructure program are expected to increase productive investment and accelerate growth.

32. **All these reforms are done within the framework of the comprehensive six-year National Development Plan (NDP) 2013-18, launched in May 2013**. The NDP's goals, objectives, strategies, and action plans were defined through a broad consultation process conducted in early 2013. The public and open consultation process made use of various media and fora and included events at the national and state levels with focus on special groups such as youth, women, people with disabilities, indigenous peoples, local legislators, local mayors, and federal entities. For each goal, the plan makes a self-diagnosis of the main challenges that impinge on achievement and the strategies that the Government intends to adopt. Specific targets and indicators provide some elements for benchmarking the advances of the NDP.

33. **The overarching vision of the NDP is helping Mexico achieve its greatest potential by focusing on five national pillars**: (a) achieve peace; (b) make Mexico more inclusive; (c) improve the quality of the education system; (d) promote prosperity; and (e) consolidate Mexico as a responsible international player. The NDP also adopts three cross-cutting strategies: *democratize productivity* to integrate Mexicans into the formal economy; *close and modern government* by simplifying procedures and regulations; and a *gender perspective* to ensure the rights of women and prevent gender differences from becoming a source of inequality.

34. **Mexico in Peace**. Mexico in peace aims at improving areas ranging from public security and governance to the judicial system, national defense, and human rights. The NDP identifies criminal activity linked to drug trafficking as a serious challenge to development, albeit this problem is not generalized at the country level but focused in a few regions. A more widespread problem is violence in the family, particularly against women, as well as a generalized public perception of slow and sometimes corrupt judicial and police institutions. The NDP identifies

several key interventions for the peace objective. These interventions include creation of better education and employment opportunities for the youth; policies to prevent violence against women, boys and girls; and policies boosting confidence in the judicial and police institutions through promotion of the new justice system that would deliver more humane, agile, efficient, and accessible justice to all people.

35. **Inclusive Mexico**. There are growing public health problems, such as obesity and hypertension, and there is a growing number of youth who neither study nor work. The Mexican social security system will face mounting financial pressures to tackle these problems. Inclusive Mexico focuses on Government actions to guarantee social rights and close inequality gaps that divide the country. It includes initiatives to: (a) guarantee social rights to its population; (b) strengthen social participation in community development, and protect the rights and inclusion of people with disabilities; (c) secure the right to national social services particularly to vulnerable populations; (d) increase access to social security by promoting a sustainable system of universal coverage; and (e) promote a sustainable urban development model and promote regional development and housing markets.

36. **Mexico with Quality Education**. The NDP recognizes universal coverage in basic education, but a lag in quality hinders advances in secondary education. Moreover, there is need for a closer connection between the skills that the education system provides and the demands from society. This is even more acute in the case of science and technology and its relation to innovation and business creation. The NDP indicates that these challenges require decisive public investments in infrastructure for schools, universities, cultural centers, and sports facilities. Quality teachers and instructors are an essential complement to these investments. The NDP seeks to build human potential for innovation with quality education based on initiatives to: (a) strengthen teacher professionalization, modernize infrastructure, and promote ICT in the teaching process; (b) guarantee an inclusive education system; (c) increase access to culture and sports as a means of integral citizen development; and (d) promote ICT and innovation.

37. **Prosperous Mexico**. While highlighting the effective macroeconomic management that has distinguished Mexico in recent years, the NDP also highlights the need for improving the performance of sectors such as finance, mining, agriculture, telecommunications, and energy. The expansion and modernization of these sectors are a necessary condition for promoting employment creation and regional development. Prosperous Mexico seeks to increase prosperity and growth prospects by improving productivity. Its specific actions seek to: (a) maintain macroeconomic stability, including managing external risks; (b) promote access to finance; (c) promote quality employment; (d) promote inclusive green growth that generates income, competition, and employment; (e) promote affordable access to energy and telecommunication services; (f) provide incentives for the development of a competitive internal market; (g) promote and strengthen entrepreneurship and small and medium-size businesses; and (h) promote investments and competitiveness of the mining, infrastructure, transport, agriculture and tourism sectors.

38. **Mexico as an International Responsible Actor**. Mexico can increase its development potential and competitiveness by promoting an active and effective foreign policy. The NDP highlights three main areas of interest: (a) fostering global governance; (b) promoting foreign trade and investment; and (c) protecting international migrations. The NDP indicates the use of international agreements and institutional development as the main instrument for addressing these areas. Mexico played a strong global role chairing the G20 and is pledging resources to the UN system and IDA replenishment.

III. WBG PARTNERSHIP: SELECTIVITY FILTERING PROCESS AND COUNTRY ENGAGEMENT MODEL

39. The proposed WBG development solutions engagement with Mexico is based on a systematic filtering process to define priority action areas and consolidates past efforts toward a more strategic and integrated client engagement. The engagement model seeks to maximize the impact of a tailored package of WBG financial, knowledge, and convening services for promoting shared prosperity and reducing extreme poverty in a sustainable manner. The CPS builds on lessons learned in organizing development solutions around themes and flexible packages of services. It draws on the scope of collaboration among WBG organizations for each of these areas, based on each organization's comparative advantage and client demand. Finally, the country engagement integrates the effort to share globally Mexico's best practice experiences in several of these areas, such as conditional cash transfers and energy efficiency programs.

A. Lessons Learned from Previous CPS

40. The Mexico FY08-13 CPS Completion Report (Annex 2) highlights six lessons that are relevant for the design of the new strategy.

41. **Operational flexibility in packaging services**. The FY08-13 CPS was designed to be flexible and innovative in responding to Mexico's financial and development needs. This flexibility allowed the Bank to respond expeditiously to the Government's requests when the global economic downturn hit the country. The implementation of Mexico's past country strategies reflect the initial transition to a more strategic and integrated client engagement that seeks to maximize the package of services offered by the WBG in multi-sector approaches. By retaining flexibility in its implementation, the CPS was able to improve alignment, operational efficiency, and impact through the use of more focused interventions and programmatic knowledge approaches, greater wholesaling resource and budget mobilization, real-time learning and adaptation, and exit of program areas where value added, comparative advantage, and impact was no longer aligned with the evolving program nor achievable.

42. **Working with subnational clients**. A memorandum of understanding (MoU) with the State of Oaxaca proved to be a successful strategy to support the poorest states of Mexico. The MoU is serving to deepen dialogue, monitor implementation, and assess impact within the framework of a multi-year programmatic engagement. Hence, the Bank should continue to support poor states in Mexico following the experience with the State of Oaxaca (Annex 7).

43. **Continue to support Mexico's role as a global knowledge leader**. As an innovative middle-income country, Mexico engaged in 33 knowledge exchanges during the past CPS and has become widely recognized as a key global actor in climate change policy. The WBG should continue supporting the Government in exchanging knowledge with other countries. There is a strong potential for global knowledge brokering with the Bank as the global connector.

44. **World Bank, IFC, and MIGA cooperation**. Bank–IFC cooperation on specific areas around their core competencies should improve effectiveness to achieving common goals in areas such as improving competitiveness and business climate, access to financial markets, and infrastructure development activities. MIGA engagement with Mexico is emerging, and Bank and IFC would work closely to support MIGA's successful in-country transition.

45. **Lending instruments**. During crisis periods, the use of the Additional Financing instrument led to simpler, faster, and more cost-effective results for the borrower, compared to other lending instruments. Development Policy Loans (DPL) were effective in sustaining

progress and protecting long-term reforms in the face of negative external shocks. Multi-sectorwide approach (SWAP-type) operations (such as in infrastructure) may not be practical in the Mexico context since they require significant effort to design and supervise and may dilute the Bank's ability to provide just-in-time policy advice and technical assistance. Governance and anti-corruption measures may limit the flexibility of quickly preparing and disbursing emergency operations (such as in the support to influenza) in countries with strong legal frameworks and adequate control environments.

46. **Knowledge services**. Trust fund resources were indispensable in providing demand-driven technical know-how and in strengthening coordination among key stakeholders and financed studies of often overlooked aspects, especially in environmental and social areas. Reimbursable Advisory Services (RAS) are powerful instruments when processed quickly by the Bank and client. Having a framework agreement signed by the Government and the Bank would certainly facilitate their processing by avoiding the time-consuming task of negotiating sensitive clauses with each client within the government separately. Programmatic approaches showed to be remarkable instruments in focusing and prioritizing Bank interventions. Dissemination is required to share the findings of Bank studies at the local level.

B. Consultations on FY14-19 CPS

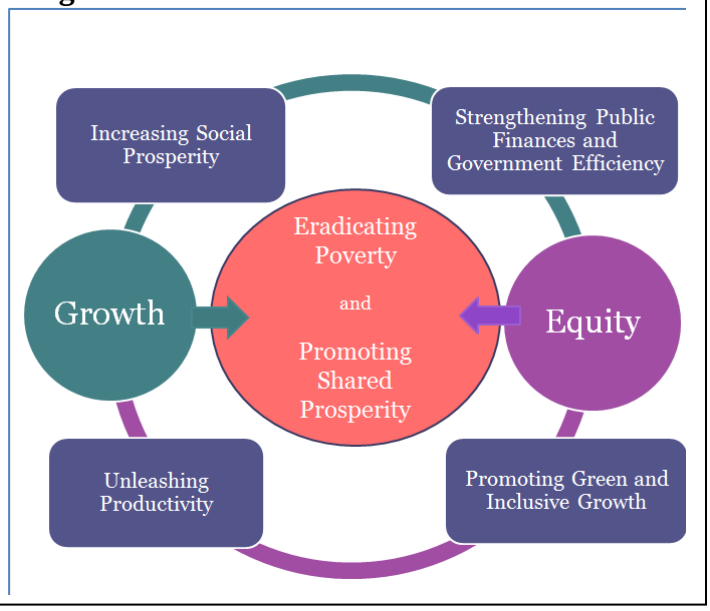
47. The CPS FY14-19 was developed in close consultation with the Government, private sector, academia, and civil society, comprising over 80 interlocutors. The meetings took place in September 2013 in Mexico City with participants representing stakeholders from several government ministries and agencies at various levels, trade unions, political parties, entrepreneurs, non-governmental organizations, and chambers of commerce at both the national and state levels. Consultations for the CPS were carried out while the new authorities were developing specific sector implementation plans and strategies that complement the NDP 2013-18. This allowed the WBG to align its interventions with those of the authorities, ensuring that the development solutions proposed would have the greatest impact. Moreover, the CPS consultation process was driven by the need to work as One World Bank Group bringing together the IFC, IBRD and MIGA teams to harness expertise across the institution, and leverage public and private efforts when communicating with a wide range of groups. The consultations suggest that most stakeholders value the WBG support. The Federal Government acknowledged the Bank's partnership and flexibility in focusing at the subnational level (e.g., Oaxaca MoU) and confirmed its request to expand the subnational engagement to the States of Guerrero and Chiapas. The Government also highlighted the value of the CPS systematic effort at selectivity for highest impact of WBG activities on ending poverty and promoting shared prosperity in Mexico. Government officials described the WBG involvement as central in supporting the National Development Plan. Ministries and agencies also noted that the CPS is in close accord to and complements their own multi-annual programs.

C. Approach to Dynamic Selectivity

48. **A systematic filtering process provides selectivity and improves alignment, efficiency, and impact.** Three filters were used in selecting areas of engagement: (a) WBG comparative advantage; (b) level of client demand; and (c) alignment with WBG twin goals benchmarked by Mexico's new Multi-dimensional Poverty Index. Starting from the Government's 37 pillar-based activities of the National Development Plan, a systematic filtering process led to identifying four thematic areas for WBG intervention (Figure 10). Within these 4 themes, the WBG team focused on 11 specific areas of engagement (Table 3) and further identified 23 specific problem areas (Annex 1) on which the WBG is expected to have the

greatest development impact. Following this logical chain, the CPS then describes the specific development solutions proposed (Annex 1). These consist of a tailored package of WBG financial, knowledge, and convening services for each of these problem areas, leading to 12 specific CPS expected outcomes.

Figure 10. World Bank Thematic Focus Areas



49. **Targeted interventions on poorest States and frontier markets**. Central to this engagement is working with both public and private sector clients in longer-term and multi-sector approaches at the federal level and with the poorest states (Oaxaca, Chiapas, and Guerrero) along the lines of the multi-sector WBG experience with the on-going State of Oaxaca program (Annex 7). Specific requests from other states will be assessed based on their impact on the key development challenges identified for the country, and significant parts of the knowledge activities provided to these states are likely to be financed though Reimbursable Advisory Services. IFC has a priority focus on frontier markers where there is significant poverty and perceived riskiness deters the private sector from investing to support inclusive growth.

50. **The selectivity approach helped in refocusing the country strategy and in identifying areas of engagement where the WB will be exiting as compared to the previous CPS:**

- *Areas where the Bank is exiting*, compared to the previous CPS, related to weak client demand and unsuccessful engagements in trade competitiveness, customs, judicial, and influenza support programs, leading to a reduced number of themes, outcomes and activities. The number of themes compressed from 5 to 4 and the number of outcomes declined from 28 to 12 compared to the previous CPS.
- *Increased selectivity of ongoing activities*. More than half of the financial and knowledge services currently under implementation will close within two years (17 of the 25 ongoing projects and 12 of the ongoing 29 knowledge services will close in FY14 or FY15.). This CPS shifts the full knowledge and convening program to multi-year/multi-sector Programmatic Approaches with one common development objective aligned to CPS themes (e.g., in innovation strategies for poor states; in integrating social protection systems; in managing fiscal challenges; and in disaster risk management and urbanization). This approach would increase development effectiveness and reduce transaction cost.
- *New engagement is selective.* A limited number of new financial services (loans, GEF, CTF) are currently foreseen for this CPS, concentrated in the green and inclusive growth, and the social prosperity themes (e.g., Oaxaca water, community education, and second generation *Oportunidades*). Only seven selective, high-impact Programmatic Approaches in support of CPS themes are currently in the pipeline. This is further supported by an increasing demand in Reimbursable Advisory Services, further strengthening the cost-benefit ratio of the knowledge portfolio.

Table 3. Mexico CPS Selectivity Assessment

	Mexico National Development Plan 2013-2018 (May 2013) (Pass / No Pass)	First Filter: WBG Comparative Advantage in Mexico			Second Filter: Client Demand			Third Filter: Alignment to WBG Goals (Initial impact on Multidimensional Index)
		MIGA*	IFC	IBRD	MIGA*	IFC	IBRD	
Mexico in Peace	1. Democratic Governance**	No	No	No				
	2. Articulating Federalism**	No	No	No				
	3. National Security	No	No	No				
	4. Defense	No	No	No				
	5. Citizen Security**	No	No	Some			SEGOB(Weak)	
	6. Judicial System**	No	No	Some			No Demand	
	7. Human Rights	No	No	No				
	8. Safeguard Against Disaster	No	No	Strong			SHCP	Extreme Poor
	9. Accountability & Anticorruption**	No	No	Strong			SFP	Both.
Inclusive Mexico	10. Inequality & Social Protection**	No	No	Strong			SEDESOL	Extreme Poor
	11. Access to Health Services**	Some	Strong	Strong	Priv.Hosp	Priv.Hospitals	SecSalud(Weak)	Extreme Poor
	12. Insurance and Social Security**	No	Strong	Strong		Insurance Co.	SHCP	Extreme Poor
	13. Access to Housing**	Some	Strong	Strong	Developer	Housing(Weak)	SHCP	Extreme Poor
	14. Basic Social Rural Infrastructure	No	No	Strong			State Gov't	Extreme Poor
	15. Territorial Development	No	No	No				
Education Quality	16. Quality Education**	Some	Strong	Strong	Priv.Univ.	Priv.Univers.	SEP	Extreme Poor
	17. Inclusion & Equity in Education	Some	Strong	Strong	Priv.Univ.	Priv.Univers	SEP	Extreme Poor
	18. Science, Tech. and Innovation**	No	Strong	Some		ICT Sector	SE	Shared Prosperity
	19. Access to Culture & Sports	No	No	No				
Prosperous Mexico	20. Macroeconomic Stabilization**	No	No	Strong			SHCP	Shared Prosperity
	21. Access to Finance**	Strong	Strong	Strong	Fin/Micr	Fin/MicroFin	Banxico	Shared Prosperity
	22. Employment**	Strong	Strong	Strong	Priv. Sec.	Private Sector	STPS	Shared Prosperity
	23. Sustainable Development**	Strong	Strong	Strong	Manuf	Manuf.Ag.Serv	SCT+SENER	Extreme Poor
	24. Access to Telecom Service**	Strong	Strong	Strong	Telecom	Tier 2 Telecom	SCT	Extreme Poor
	25. Energy and Renewables**	Strong	Strong	Strong	Energy dev	Energy devlps	SENER	Extreme Poor
	26. Competition and Deregulation**	Some	Strong	Strong	Priv. Sec.	Private Sector	SE	Shared Prosperity
	27. Economic Promotion/SMEs**	Strong	Strong	Strong	Priv. Sec.	Private Sector	SE	Shared Prosperity
	28. Transport Infrast. & Logistics**	Strong	Strong	Strong	Transp.	Transp. devlps	SCT	Extreme Poor
	29. Mining	Some	Strong	Some	Mining Co.	Weak Demand	No Demand	
	30. Agriculture & AgFood Sector**	Strong	Strong	Strong	Agribus.	Agribus.Forest	SAG (Weak)	Shared Prosperity
	31. Tourism	Some	Some	Some	Tour Oper	No Demand	State Gov't	Shared Prosperity
	32. Regional Development**	Some	Some	Some	Priv. Sec.	Private Sector	State Gov't	Extreme Poor
Int'l Actor	33. Free trade Agreements**	No	No	No				
	34. Trade Promotion**	Strong	No	No	Priv. Sec.			
	35. Regional Integration	Some	Strong	No	Priv. Sec.	Private Sector		Shared Prosperity
	36. Migration**	No	No	Some			SEGOB (Weak)	
	37. Diplomatic Services	No	No	No				

WBG Areas of Engagement

- Increasing Social Prosperity
  - Promoting an integral social protection system
  - Promoting labor markets for inclusive growth
- Strengthening Gov't Finances
  - Implementing an integrated sovereign risk management framework
  - Enhancing service delivery
  - Managing medium-term fiscal challenges at national and sub-national levels
- Unleashing Productivity
  - Upgrading infrastructure
  - Fostering sound financial and private sector development
  - Toward a more competitive business environment
  - Fostering innovation for productivity and competitiveness
- Promoting Green Growth
  - Reducing the footprint of growth
  - Using natural resources in an optimal way

***Cross-Cutting Themes**: (i) support to poorer States (Oaxaca, Chiapas, Guerrero), (ii) gender; and (iii) Mexico as global knowledge provider.*

* MIGA's comparative advantage and client demand is based on its global experience as it is an emerging player in Mexico.

** Corresponding areas in strategies proposed by the Private Sector.

51. **Progress in achieving the goals of the strategy will be assessed with two progress reports and one completion report at the end of the CPS period**. The results framework presented in Annex 1A sets out specific outcome indicators with baselines and targets covering the period of the CPS for each of the identified outcomes. A logical chain has been established from country-level goals, diagnostic of development challenges, WBG comparative advantage, and selective engagement relative to the WBG goals; and with clearly defined outcomes, indicators, and targets. Constant client dialogue, two Progress Reports and an annual Country Portfolio Performance Reviews (CPPR) covering the full package of services will allow for flexible adjustments of the strategy and results framework. Mexico has one of the best national monitoring, evaluation, and statistical systems among WBG client countries and is a knowledge leader in this area. Data availability and collection does not pose a risk to strategy monitoring.

IV. WBG PARTNERSHIP STRATEGY: AREAS OF ENGAGEMENT

52. This CPS FY14-19 shifts to a country engagement model based on a development solutions approach by delivering a customized package of WBG financial, knowledge and convening activities. This engagement model also packages all knowledge and convening activities into multi-year programmatic engagements. This aggregation of tasks with diverse sources of funding, including trust funds and RAS, emphasizes the synergies and linkages between the various WBG activities related to the solution of a specific development problem.

Theme 1. Unleashing Productivity

53. To increase productivity and ensure that such gains are widespread, focus should be placed on policies and programs that primarily benefit SMEs, foster new enterprise creation and innovation, and upgrade infrastructure. To these ends it is essential to: (a) foster sound financial sector development to facilitate access to finance to businesses and financial inclusion for individuals; (b) generate a competitive business environment to propitiate new enterprise creation in all sectors of the economy, specially network sectors shielded from competition; (c) foster innovation for productivity and competitiveness; and (d) upgrade infrastructure.

Fostering sound financial sector development

54. **Mexico needs to broaden and deepen its financial system without compromising the financial stability gains of the last decade**. Using the financial payments system to promote financial inclusion, improvements in financial infrastructure and capital market development are sound ways to broaden access and deepen the financial system. However, experience in several countries has shown that accelerated (or forced) expansion of credit can harm rather than benefit customers. If financial institutions do not follow sound practices, they can fail, harming borrowers and depositors alike and creating social unrest, with substantial fiscal cost. An oversight system (both micro- and macro-prudential) that encourages prudent risk-taking and facilitates prompt resolution of failed institutions ensures that strategies for financial deepening do not compromise financial stability.

55. **The WBG will continue supporting reforms to foster sound financial sector development**, **including the recently draft financial reform initiative**. The World Bank will provide support for the implementation of the financial reform initiative through a programmatic knowledge engagement. The package envisions the reform of 34 laws and numerous secondary regulations in the areas of capital markets, public banks, financial infrastructure, and financial oversight. The Bank will also work with telecommunications industry to evaluate a pilot to bring

the use of mobile phone operated electronic wallets to isolated rural communities, which currently lack wireless phone access. Scale-up of the pilot is contingent on the evaluation results. IFC plans to increase its investment portfolio for financial institutions focused on MSME lending, niche banks and further penetrating non-bank financial markets (pension funds, insurance, capital markets). IFC is also seeking to support financial infrastructure through alternative channels such as mobile banking, and will continue to assist in the development of the capital markets enabling companies to access the local debt market. MIGA can provide guarantees to increase cross-border lending to local clients, including MSMEs.

Toward a more competitive business environment

56. **Strengthening competition and streamlining key regulations for firms are key to increasing Mexico's competitiveness and unleashing productivity**. Firm-level productivity and business entry for formal enterprises in Mexico are low, relative to international peers. Low productivity is associated to firm size, with larger firms having much higher productivity levels than small ones. The large proportion of micro, small, and medium-size enterprises (about 98 percent of all firms), together with the fact that they are not growing in size, is a drag on Mexico's productivity. Factors that hinder productivity include burdensome business regulations, concentrated markets with dominant firms in strategic sectors, and lack of effective pro-competition regulations. Such restrictions limit both firm entry and the growth of existing firms, increase the price of inputs, and reduce the overall economy's competitiveness. Lack of competition reinforces existing inequities by affecting low-income households disproportionally.

57. **To contribute to unleashing productivity**, **the WBG will increasingly focus on supporting policies that favor SME growth through regulatory simplification and removal of regulatory competition barriers**. In the next years, efforts will focus on the provision of a comprehensive package of services to improve regulatory frameworks at the national and subnational level with a special emphasis on eliminating anti-competitive regulations.

Fostering innovation for productivity and competitiveness

58. **Several factors explain Mexico's innovation shortfall**. Mexico's less than adequate competition, labor market rigidities, serious gaps in human resources, very limited financing for startups, lack of long-term financing to large companies, and weak links between the productive sector and knowledge institutions have all contributed to the innovation shortfall. Federal initiatives to promote innovation at the subnational level have not yielded all the desired results due to lack of capacity.

59. **WBG contribution to this topic concentrates in improving the coordination of policies aiming at taking innovations to firms in the productive sector and supporting private investments that boost innovation and productivity**. IBRD has been supporting the *Consejo Nacional de Ciencia y Tecnología* (CONACYT) for a doctoral fellowship program and programs to encourage public–private collaborative research. Going forward, the Bank's focus will shift to: (a) supporting the newly created SME agency (INADEM) to improve the effectiveness of programs to foster SME productivity and growth, with a focus on high-growth potential firms; and (b) supporting states with lower GDP per capita to develop a regional innovation strategy and regional capacities to access existing innovation funds and programs. From a sectoral perspective, the focus would be on improving innovation and technology extension in the manufacturing and agricultural sector. IFC will continue to support companies that innovate through technology, products, or processes, giving priority to investments related to

the production of value-added products in underdeveloped sectors in which Mexico has a competitive advantage and in companies with strong impact in the development of SMEs through the supply chain. Agribusiness is also a priority for IFC given its linkages and strong impact on SMEs in rural areas and because of its potential effect on the global food security problem. IFC also expects to increase its financing for Mexican companies investing overseas to achieve knowledge transfer, regional development, and growth. Finally, IFC, together with INADEM, is evaluating a pilot to set up a management company to invest and provide technical support to innovative early stage SMEs. MIGA can provide guarantees to foreign investors in local enterprises, which can act as a catalyst for local entrepreneurship.

Upgrading infrastructure

60. **Raising the country's productivity would require a comprehensive strategy to improve efficiency of key infrastructure services**. This includes the rail and port sectors, public management arrangements and the role of Public-Private Partnerships (PPPs), and rules and procedures governing the entire breadth of the supply chain. Sector and institutional reforms, and substantial infrastructure investment should also be included in this program. To contribute to the competitiveness of the country, the IFC aims to continue supporting sectors that are opening further to the private sector, such as telecommunications where IFC can bring its global experience. In the case of the energy initiative currently under discussion, if the conditions are established, IFC could be a financing option to support long-term investments and local companies in the sector.

61. **If current IBRD capital limitations are eased during this CPS implementation period**, **the WBG could develop a substantial pipeline of financial services and innovative instruments with particular focus on infrastructure financing**. This would be critical in the context of the financing alternatives for President Peña Nieto's announced spending of US$316 billion for a 6-year infrastructure program. IBRD, IFC, and MIGA will work jointly to maximize impact. MIGA can also support the infrastructure sector by attracting foreign participants in PPP processes and by facilitating financing of public projects through its Non-Honoring of Sovereign Financial Obligations (NHSFO) product.

Theme 2. **Increasing Social Prosperity**

62. To improve social prosperity and alleviate poverty, Mexico needs to promote labor markets and an integrated social protection system. The objective should be to increase wages through productivity growth and move toward a more efficient, effective, and integrated social protection system that will protect people from unexpected welfare losses, including those related to violence.

Promoting labor markets for inclusive growth

63. **A crucial ingredient to alleviating poverty and promoting shared prosperity is higher wages through greater labor force productivity**. Although wages grew slowly over the past 20 years, the economic crisis of 2009 reversed the gains; since then, Mexico has had difficulty regaining the wage growth. The related slow growth in labor income, the largest source of income for families, has not translated into poverty reduction and has limited shared prosperity. There is also a gender aspect to this, as fewer women than men are economically active (44 and 81 percent, respectively), and there is persistent occupational segregation and gender wage gaps. Women, however, work longer hours than men.

64. **Measures to increase labor productivity may work through three channels**: **regulations**, **skills**, **and employment services**. The first channel reduces labor market rigidities and increases the benefits of formality and incentives to employees who can invest in their own human capital and skills development that allows them to move into more productive jobs with low risk. The second channel raises the labor-market relevance and level of skills through a national skills strategy. This strategy maps labor-market skills acquisition throughout the life-cycle; continued reorientation of upper-secondary school toward the labor market; and portability of skills across the education, training, and labor-market systems. In spite of continuous gains in education attainment rates, 43 percent of Mexican employers cited difficulties filling job vacancies, as compared to a global average of 31 percent. The third channel improves allocative efficiency of the labor force by facilitating job search and matching through integrated employment services and strengthening competency-based certification.

65. **A multi-year program of lending, knowledge**, **and convening services has supported the labor productivity agenda**. Lending activities included the Compensatory Education Project, which supports the *Consejo Nacional de Fomento Educativo* (CONAFE) to expand quality early childhood development (ECD) services to the most marginalized municipalities in Mexico and the second phase of an Adaptable Program Loan (APL)[15] for the Quality Schools Project (PEC). These were accompanied by a richly laden program, including activities such as evaluating the impact of Mexico's teacher training program on student outcomes; an impact evaluation of an ECD program targeted at poor children living in marginalized areas; an evaluation of the school-based management models; and an analysis of the gap between the supply and demand for skills, both nationally and in the State of Oaxaca.

66. **The Bank will build on this program through new activities**, including: (a) reforming the labor courts according to the recently approved labor law to lower labor costs; (b) improving the job relevance of education by strengthening and expanding the school-based management model, improving the reach of ECD services, further reforming the secondary education system, and implementing strategies to reduce upper secondary dropout and youth inactivity; (c) supporting labor market policies that improve the skills level, formality, and allocative efficiency of the labor force, including the National Employment System (*Sistema Nacional de Empleo*); and (d) promoting appropriate options for skills acquisition and school-to-work transition for the poorest youth under the *Oportunidades* program.

67. **In parallel**, **IFC expects to continue supporting skills development and employability** by: (a) investing in private education providers that have a focus on viable and scalable models for low- and middle-income students; (b) supporting innovation by investing in new service delivery models to increase affordability and quality; and (c) leveraging WBG convening power to share best practice and foster partnerships. IFC's education strategy in Mexico aims to expand equitable access to quality education and affordable costs leading to employment opportunities. MIGA can contribute to the effort by supporting projects related to education focusing on skills development for employment opportunities reaching underserved sectors, and projects in other sectors that will result in job creation and transfer of knowledge and skills.

Promoting an integrated social protection system

68. **Although Mexico has been at the forefront in social protection policy**, new reforms are needed to build on the gains achieved and reduce inequities and inefficiencies to begin

building a more inclusive, effective, and integrated social protection system that provides protection from income shocks and helps smooth consumption over the life-cycle. **A potential hindrance to greater social progress is the difficult citizen security situation, which affects certain states**. The development of a national and citizen security policy under the National Program to Prevent Crime is a first step in providing a framework for joint federal and subnational action. This policy should also include skills building and support to civil servants, public and private partners, and stakeholders in evidence-based crime and violence prevention methods; information systems to track criminal activity to identify hot-spots and to measure the impact of interventions; and investment in infrastructure and social services to establish a state presence in hot-spot communities.

69. **The WB is supporting efforts at designing and implementing second generation reforms in Mexico's conditional cash transfer programs**. **Mexico's two flagship social assistance programs are a good base toward a more inclusive**, **effective**, **efficient**, **and integrated social protection system**. While *Oportunidades* and *Seguro Popular* (*Régimen Estatal de Protección Social en Salud* – REPSS) are recognized globally for their poverty alleviation and human capital development impacts, they represent programs and policies and not in themselves a system. To begin moving toward such a system, the WBG will provide support to:

(a) Develop a unified registry of beneficiaries, as a basis for a social protection system that provides information on how families are accessing any social security or assistance programs. This allows for proactive management to reduce duplication, improve efficiency of program administration (such as unifying cash payments from various programs into a single monthly payment), and link families to other eligible programs.
(b) Improve functioning of the health system (particularly primary health care) by strengthening the incentive and accountability framework between the Federal Government; the state through its fund holders, particularly *Seguro Popular*; and providers.
(c) Enhance inter-institutional links between the *Oportunidades* program and education, labor market, and ECD programs.
(d) Support a transition of the health system from one that only responds to acute illness to one that also ensures prevention and control of chronic conditions (i.e., non-communicable diseases, particularly those related to obesity such as diabetes and heart disease).

70. **Migration is a potential new area of engagement**. Net migration from Mexico to the United States, which formerly absorbed some excess labor, has declined rapidly between 2005 and 2010, in part as a result of the impact of the crisis on the U.S. economy. The presence and transit of Central American migrants in southern Mexico is a long-standing concern for Mexican authorities. The implications of these migratory flows, both in terms of labor market performance and individual wellbeing, have prompted initial contacts with Mexican authorities that may lead to technical support in this area in future years.

71. **To promote an inclusive**, **effective**, **and integrated social protection system**, **IFC investments and advisory services will focus on supporting the private sector players engaged with the public sector in the delivery of social services**. This will be done by supporting players who are currently or are planning to work with the public sector through PPPs for delivery of services; and by providing advisory work to local, state, or Federal Governments in the design and execution of PPPs to ensure a balance between the risks and benefits assigned to the private sector, in order for these partnerships to be financially feasible and bankable. Also

in this sector, MIGA can help support by attracting foreign participants in PPP processes and by facilitating financing of public projects through its Non-Honoring of Sovereign Financial Obligation (NHSFO) coverage to potential foreign investors.

Theme 3. **Strengthening Public Finances and Government Efficiency**

72. To achieve faster growth, reduce extreme poverty and promote shared prosperity, Mexico needs to improve public service delivery. Mexico's public service delivery is hindered by low tax collection and expenditure inefficiencies at all levels of government: federal, state, and municipal. Strengthening public finances in Mexico requires dealing with several challenges. On the income side, Mexico needs a comprehensive fiscal reform to alleviate the looming medium-term pressures on its budget. This fiscal reform refers to both national and subnational public finance. On the expenditure side, Mexico needs to improve public sector performance, and expenditure quality and equity. The World Bank thematic engagement aims at: (a) managing medium-term fiscal challenges at national and subnational levels; (b) enhancing public service delivery; and (c) implementing an integrated sovereign risk management framework.

Managing medium-term fiscal challenges at national and subnational levels

73. **The Bank has been supporting Mexico's efforts to address its fiscal challenges and will continue to provide technical support for enhancing the federal tax revenue system**. A team of international and Bank experts in tax systems is currently working with the Ministry of Finance (SHCP) through a three-year Programmatic Knowledge Service to study different policy options available to address fiscal pressures in an efficient, equitable, and sustainable way. Moreover, the Bank will provide support to the Mexican Tax Administration Office (SAT) through a program for evaluating tax administration and improving tax compliance through better controls of tax obligations and empirical studies regarding lawsuits. The Bank is also providing support through various trust funds to strengthen the institutional capacity of the Ministry of Public Administration (*Secretaría de la Función Pública*) to implement new internal control models and modern IT systems.

74. **Despite better targeting of social spending, some programs in Mexico disproportionally benefit the higher-income population deciles**. Some programs are very progressive as the per capita public transfer falls with higher-income levels; others are less so as the per capita public transfer rises with higher-income levels. Examples of the former are conditional cash transfer programs (*Oportunidades*), temporary employment program (PET), and non-contributory pensions for the elderly. Examples of the latter are energy subsidies, VAT exemptions and zero rating, which are, in effect, non-targeted consumption subsidies. In the end, Mexico's tax-benefit system does not improve income equality as much as in other OECD countries. Building on past diagnosis, the Bank will continue to provide technical support on monitoring and evaluating the design, impact, and distributive incidence of fiscal policies and social programs as well as providing recommendations for enhancing its progressivity. The Bank will also support the development of a methodology and quantitative estimates for a social discount rate, which will help the SHCP to better select investments and evaluate the return of social programs.

75. **The challenge of subnational public finance**. Recent experience with the rapid increase in subnational borrowing and the lack of fiscal sustainability in some states has created a political momentum to move from a market discipline to a fiscal rules-based approach. Legislative proposals, currently under discussion in Congress, include a balanced budget

requirement at the subnational level, the oversight and possibility of intervention by the Federal Government in subnational public finances, as well as the ability of the Federal Government to extend a guarantee for specific subnational borrowings.

76. **In addition to the ongoing engagement with the Federal Government around the challenges of subnational public finance**, **the World Bank also provides technical support to subnational entities directly**. As part of the growing engagement around this topic, the Bank also plans to develop a programmatic knowledge program to support SHCP in setting up a unit that will be responsible for the implementation and supervision required under the new subnational fiscal discipline and borrowing framework. The Bank is also providing support to strengthen the institutional capacity of public sector management in the States of Puebla and Oaxaca. Technical analysis of tax administration in Distrito Federal and management capacities in the State of Oaxaca initially done in 2011 is an ongoing reimbursable advisory service to these entities.

Enhancing service delivery through better public sector management

77. **There has been good progress on three main fronts of the public sector modernization agenda in Mexico**: (a) harmonizing accounting at the federal and subnational levels; (b) introducing performance-informed budgeting, a comprehensive Government Accounting System (SCG) and implementation of a single treasury account; and (c) building on the success of procurement reform in centralized government and sector delivery units to strengthen core public sector management functions. However, further actions are needed to strengthen those core functions, particularly at the subnational level. As experience from other countries shows, setting up a performance-informed system requires a culture change, with a new management style based on performance incentives; management delegation; and a focus on inputs, outputs, and outcomes. Currently World Bank support related to public sector efficiency includes financial services results-based management and budgeting.

78. **Knowledge products are enhancing public sector efficiency and effectiveness**. Grants supporting an IT system at the supreme audit institution will function as a risk management tool and enhance professional competencies of its staff as well as strengthen the audit function with new tools and techniques. Technical support for strengthening management capacities is currently provided to the Federal Government, the National Congress, and the States of Oaxaca and Puebla. The World Bank is also providing technical support with the implementation of integrated financial management information systems (SIDAFF) to include financial accounting at different levels. Reimbursable services are planned to fund the next generation of procurement reforms, particularly in modernizing the government's *Compranet* system and in raising standards of administrative procedures. Finally, as a means to respond to growing societal concerns about the efficiency and transparency of public expenditures, the Bank will support a public expenditure review in coordination with federal and subnational agencies.

Implementing an integrated risk management strategy

79. **Exposure to risk at the sovereign level, which depends on both the external environment and internal conditions**, **is more efficiently managed within an integrated framework**. The impact of external shocks can be amplified or reduced depending on the sovereign's internal degree of exposure to the shocks. This in turn depends on the authorities' proactive drive to identify and quantify the various types of risk, and to analyze them in an integrated and centralized manner so as to more efficiently manage this risk.

80. **The Government of Mexico has increasingly addressed a number of direct and contingent risks**. An important goal has been to meet the balanced budget target and avoid highly disruptive and costly adjustments during the annual budget implementation. Consequently, the Government has sought to diminish the vulnerability of public finances to a number of direct shocks and risks related to fluctuations in GDP growth; oil price volatility, as well as interest, exchange rate; and refinancing volatility and its impact on the debt and other financial portfolios. The Government has also addressed a number of potential or contingent sources of risk such as natural disasters, food price volatility and agricultural risk, climate change, and subnational governments in fiscal distress. In spite of continued strong progress in all its policy areas, a Fiscal Risk Management DPL of US$300.8 million in support of Mexico's fiscal risk management policies was withdrawn on September 20, 2013 in the absence of its signature within eighteen months from the Board approval. A completion note is under preparation.

81. **The World Bank has been supporting the Government in dealing with environmental and economic risks through the delivery of an on-going comprehensive package of services for disaster risk management and by using IBRD financial risk management tools**. Through the World Bank MultiCat (multiple catastrophe) Program and jointly with private sector partners, the Government has successively issued two parametric catastrophe bonds for US$290 million and US$315 million in 2009 and 2012, respectively. Forthcoming activities to address contingent fiscal risks more generally will include continued use of IBRD risk management tools on loan portfolio and non-IBRD liabilities (e.g., interest rate conversions and stand-alone interest rate swaps).

82. **The World Bank is also providing several knowledge services on risk management**. A multi-year programmatic engagement in disaster risk management supports the Government of Mexico to build an effective disaster risk management strategy that balances risk identification; investments in risk reduction measures; efficient ex post reconstruction activities; and use of risk-financing tools, including risk transfer mechanisms. In addition, knowledge services are contributing to the design of a comprehensive agricultural risk management strategy by both evaluating Mexico's current system and providing sound policy and program alternatives aimed at ameliorating processes such as risk identification; institutional risk management analysis; risk quantification and pricing; and utilization of innovative market-based risk financing tools, including risk transfer mechanisms.

Theme 4. Promoting Green and Inclusive Growth

83. Mexico's significant natural resource capital, the high cost of environmental degradation, and the increasing risks posed by climate change highlight the importance of a green-growth agenda addressing critical policy concerns: the footprint of growth (externalities), including urban planning, solid waste management, energy efficiency; and managing natural assets under pressure–focusing on forest, biodiversity and water management, and renewable energy.

Reducing the footprint of growth

84. **Fast urban development has been inefficient and needs to be greener**. The fast urbanization rate (estimated at 77 percent) is car-oriented, inefficient, and not conducive to generating economies of scale in production, movements of labor and capital, and resource consumption. To address these issues, Mexico needs to focus on making urban development greener, more efficient and resilient, and socially inclusive. This can be initiated by: (a)

reviewing housing policies to develop compact spaces that are both efficient and livable; (b) providing urban layouts needed to promote public and non-motorized transport; (c) supporting the development of mass transit in appropriate corridors and creating a mobility strategy; (d) using land-based financing instruments to provide infrastructure in new low-income housing developments; and (e) integrating risk reduction policies in urban development instruments.

85. **Costs of land and water degradation due to solid and liquid wastes have been increasing each year**, **impacting human health**, **the environment**, **and the economy**. The following areas require particular attention: (a) developing an integrated urban solid waste management strategy; (b) strengthening management capacity at municipal, state, and federal levels; (c) reviewing sector policies (including tariff system) that would allow cost recovery; (d) developing waste reduction and recycling awareness campaigns; (e) developing sound social inclusion plans for waste pickers; (f) addressing problems posed by hundreds of contaminated sites and planning for their closure and redevelopment; and (g) exploring the potential of waste to energy schemes.

86. **Enhancing energy efficiency is also a key element in promoting low carbon development for the country**. Necessary actions include: (a) promoting the adoption of energy efficiency labels and standards in housing, transport, and small businesses; (b) encouraging a greater private sector participation in the development of industry-wide efforts to increase energy efficiency, as well as in the creation of commercial options to finance energy-efficiency initiatives; (c) strengthening regulation in the energy sector for a commercially oriented and more efficient operation in PEMEX and Federal Electricity Commission (CFE); and (d) phasing out energy subsidies.

87. **The World Bank has a very robust program to support the reduction of the footprint of growth**. In financing services, an ongoing project is supporting bus rapid transit solutions in cities and states, complemented by the Government's *Programa de Transporte Masivo* (PROTRAM), which provides technical support to the same target clients in the design of comprehensive urban transport plans. Funding from the Clean Technology Fund (CTF) is supporting the acquisition of clean technology buses, enhancing the scope of the project not only to improve mobility but also to reduce GHG emissions. A GEF grant is supporting several Mexican cities in their efforts for clean air, and a carbon finance operation is supporting improvements to the *Corredor Insurgentes* Bus Rapid Transit (BRT) system in Mexico City. Another GEF grant is providing state-of-the-art knowledge to Mexico City on initiatives to open data in transport and supply-side schemes to reduce trips in heavily congested areas of the city. Reimbursable Advisory Service to support Mexico's national urban transport strategy was completed recently, and further advisory work is possible.

88. **The Bank is also building on a long partnership with the Government in the housing sector to support its current efforts to increase densities in urban areas**. In particular, the Bank will be launching in FY14 a programmatic approach that will include an urbanization review, a diagnostic of the main urban challenges in the country, and recommendations to inform a national urban policy. The programmatic approach will also include a Reimbursable Advisory Service in housing policy to improve the efficiency of subsidy programs, to strengthen rental markets and construction finance, and to increase the dynamism of the secondary market.

89. **The Bank has launched a diagnostic of key issues and players in solid waste management with the longer-term objective of supporting a national program.** This

program could help cities in the formulation of coherent and comprehensive strategies as well as specific projects and financing mechanisms to manage solid waste and contaminated sites. The goal is to cover the entire cycle from reduction, recycling, generation, collection, disposal, and possible transformation, using regional resources optimally.

90. **The World Bank foresees a rich program to support GHG emissions reduction**. The ongoing Efficient Lighting and Appliances Project successfully supports government programs to reduce emissions by increasing the use of energy-efficient technologies at the residential level. The Bank also supports some states in the preparation of action plans to improve efficiency in city buildings. Four knowledge services are planned: (a) the preparation of National Appropriate Mitigation Actions on integrated urban mobility systems, refrigerators, and urban services; (b) the development of in-country capacity to design and implement projects capturing carbon dioxide from power generation and industrial installations and subsequent carbon capture and sequestration; (c) the implementation of strategies to reduce gas venting and flaring; and (d) a political economy assessment of the impact of reducing or phasing out energy subsidies.

91. **IFC's contribution to reduce the footprint of growth involves both advisory services and direct financing**. IFC covers mainly the following areas: (a) solid waste management activities and waste to energy projects; (b) a programmatic green buildings initiative and support to development of sustainable construction projects that follow international codes for energy and water efficiency; (c) energy efficiency-related projects and companies; and (d) urban mobility. IFC is engaged in the state of Puebla providing transaction advisory support to develop bus rapid transport routes in the form of PPPs.

Using natural resources in an optimal way

92. **Despite their strategic environmental and social role**, **forests are subject to high degradation in Mexico**. Policy options to reverse this negative trend include: (a) shifting funds from reforestation to community forestry and paying for environmental services; (b) strengthening advisory and monitoring systems; (c) fostering sustainable and competitive community enterprises; (d) developing approaches for forests with high biodiversity values but relatively low commercial value; (e) promoting cross-sector coordination and public participation in policymaking; and (f) developing a landscape approach to analyze forestry in the larger context of integrated rural development.

93. **Per capita water availability has decreased by an alarming factor of four in the last 50 years**. This situation is compounded by an inefficient use of water resources in agriculture as well as in urban services and exacerbated by the impact of climate change. Service quality is below OECD standards and cost recovery is extremely low. Critical actions include: (a) implementing an effective water financing system with incentives for an optimal use of water resources; (b) consolidating the information base for climate resilience, water management, and water sanitation and drainage services; (c) strengthening the enforcement of water rights; (d) improving the efficiency of water usage in the agriculture sector; (e) bringing efficiency and quality of urban services up to regional OECD standards; and (f) supporting local governments in the provision of works and sanitation services. The priorities of the government in the water sector will be identified in its National Water Plan (*Plan Hídrico Nacional*) being drafted. In preliminary discussions with the current administration, the National Water Agency, CONAGUA, has indicated several priority areas in which is interested in partnering with the Bank, namely: (i) integrated urban water management; (ii) urban flood management; (iii) water

supply and sanitation utility reform beyond efficiency improvements; and (iv) resilience of infrastructure to extreme events and climate variability.

94. **The possibility of Mexico turning into a net oil importer poses the challenges of radically transforming the country's energy matrix composition**. Key options lie in further using renewable energy sources; involving the private sector in financing investments in renewable energy; and exploring the potential to expand geothermal, solar, and wind power. The WBG will continue supporting Mexico in these areas through a suite of financial, knowledge, and convening services. The Bank is preparing a knowledge programmatic approach that will include the topics of environmental legislation, environment-related public finance, and adaptation to climate change at state level. The Bank has also discussed the possibility of an Ecosystems-DPL to continue supporting government policies in climate change mitigation and adaptation. Ongoing GEF grants are promoting adaptation to the consequences of climate impacts in coastal watersheds and wetlands and promoting the conservation of priority biological corridors. A meteorological modernization project is supporting equipment, modeling, and forecasting capacity; and the upgrading of several regional centers. A forests and climate change project (REDD+) is supporting rural communities to sustainably manage their forests while reducing emissions from deforestation and degradation. The Bank is also promoting the adoption of emission-reduction technologies in small and medium-scale agri-business.

95. **The World Bank is supporting the improvement of efficiency in water utilities through financial and knowledge services**. In addition to an ongoing project in water-efficiency improvement, the Bank is preparing a water and sanitation project in the State of Oaxaca covering regulatory issues as well as improvement of the quality, and sustainability of water services in rural and urban areas. Technical support at the state level is an emerging area of interest. The Bank has prepared a comprehensive analysis of the water financing system, an important input to ensure the sustainability of water provision in years to come. The Bank may provide a RAS, requested by the national water agency to prepare water basin diagnostic studies in order to develop a comprehensive water management system in the Mexico Valley.

96. **WBG projects on wind and solar energy**, **and combined solar-thermal cycles have helped the Government of Mexico break ground on renewables and energy diversification**. A new GEF grant will help promote innovation in the development and implementation of clean energy technologies through Mexico's Sustainable Energy Fund.

97. **The World Bank is planning to launch a new multi-year knowledge and convening programmatic engagement in FY14** to address the need to institutionalize environmental and social safeguards with the objective of moving toward the use of country systems in the future.

98. **IFC is also contributing to the optimal management of natural resources**. IFC financed the first utility-scale photovoltaic solar project in Latin America and expects that its risk taking in renewable energy will further unlock the potential of Mexico's renewable power potential. Through its advisory and investment activities, IFC expects to strengthen its collaboration with the Mexican Infrastructure Fund to support municipal water operators in improving their operations and efficiency via PPP schemes. In forestry, the priorities are: (a) contributing to take pressure off natural forest for wood supply by supporting investment in commercial tree plantations; (b) increasing the sustainable use of already degraded land; and (c) supporting the expansion of certified forests. As an emerging player, MIGA can contribute to the effort by supporting foreign investments in carbon mitigating projects, waste management, water

treatment and delivery, renewable energy, and other efficiency-related sectors, as well as attracting private participants in PPP processes and financing of government-sponsored projects through NHSFO coverage.

V. PORTFOLIO AND LENDING PROGRAM

99. This CPS describes the Bank's indicative engagement with Mexico as a partnership to achieve development results through a tailored package of financial, knowledge, and convening services. IBRD lending has remained an important part of this engagement throughout the years. However, Mexico is now approaching the single borrower limit (SBL) of US$16.5 billion. Mexico is the largest IBRD borrower with outstanding debt of US$14.78 billion as of September 30, 2013, representing some 10 percent of IBRD's total portfolio. After pre-paying some US$5 billion during FY07 to bring down its exposure to US$4.1 billion, Mexico's exposure increased rapidly from FY08 with the unleashing of the global financial crisis and surge in IBRD lending: US$12.5 billion commitments in FY09-11 and decline in the size of repayments of loans following a large prepayment of loans in FY07.

100. **IBRD lending capacity will need to be increased.** As Mexico approaches the SBL limit, the Bank's ability to further support Mexico's efforts to reduce poverty and enhance the incomes of the less well-off will be limited despite the increased demand for development finance. The WBG is engaging with the Mexican authorities on possible alternatives to position the Group within the Government's new US$316 billion infrastructure program and in supporting subnational programs. In parallel, country management is ensuring the most effective use of the combined WBG balance sheets. The Bank is also pro-actively pursuing leveraging of IBRD funding with other development partners. Nevertheless, these efforts will be insufficient to support Mexico's financing needs without a significant increase in IBRD lending capacity for Mexico.

101. **As of September 30, 2013**, **the active WBG portfolio consisted of 12 IBRD projects and 5 full GEF operations for a net commitment of US$4.26 billion**. The average age of IBRD projects dropped from 4 years in FY08 to 3 years in FY12, but increased back to 4.1 years in FY13 due to the extension of several energy and GEF projects. Disbursement ratio has been steadily high (Table 4). The Bank is implementing some 40 trust funds, including a large Clean Technology Fund and GEF program for US$455 million.

Table 4. World Bank Portfolio FY08-FY13

Variable	FY08	FY09	FY10	FY11	FY12	FY13	FY14*
Number of Projects	19	20	23	22	23	18	17
Net Commitments (US$ M)	2,165.8	3,949.0	6,908.4	7,637.6	7,775.5	4,557.8	4,257.0
Number of Problem Projects	3	5	3	3	2	7	7
% Problem Projects	16%	25%	13%	14%	9%	39%	41%
% Net Commit at Risk	7.1%	9.5%	8.2%	3.8%	0.6%	8.0%	8.5%
% Proactivity	50%	67%	100%	67%	33%	100%	100%
% Realism Index	79%	100%	83%	55%	28%	100%	100%
Total Undisbursed Balance (US$ M)	1,152.3	2,102.6	3,802.6	3,641.0	3,201.1	1,579.0	1,264.7
Disbursement Ratio (Investment Only)	43%	214%	80%	49%	31%	46%	1%

*Data includes GEF operations. *Data as of September 30, 2013*

Table 5. IFC Portfolio FY08-FY13

Variable	FY08	FY09	FY10	FY11	FY12	FY13
Number of projects committed	9	12	11	14	14	14
Commitments (US$ M)	149	84	338	188	369	1,346
Mobilization (US$ M)			207	144		440
Own account + Mob (US$ M)	149	84	545	331	369	1,786
Portfolio (net commitments)	1,001	783	1,076	1,005	1,189	1,495
Number of clients in portfolio	39	38	38	38	46	54

102. Since 2008, IEG has evaluated 22 projects of which 64 percent has been rated "satisfactory" or "moderately satisfactory". Representing 8.5 percent of commitments, currently there are 7 projects in problem status (or 41 percent of projects), concentrated in renewable energy and transport projects with complex and innovative procurement. Restructurings/cancellations have taken place within the last year in five of the problem projects and are in process in the remaining two projects. These portfolio actions have untangled implementation and contracting bottlenecks and should yield disbursements shortly, improving the health of the portfolio. Sector-specific portfolio reviews will also help address systemic implementation issues.

103. The level of IBRD lending within the development solutions thematic engagements discussed in Section IV will depend upon: (a) IBRD exposure management developments and leveraging options; (b) subnational demand for financing; and (c) the conditions of global financial markets. Overall, IBRD capacity to respond to a large increase in financing demand is currently constrained by the SBL. In this context, the indicative firm IBRD lending program for FY14 and FY15 is expected to be US$350 million and US$700 million, respectively (Table 6). Mexican authorities have indicated that if IBRD were to increase its lending capacity, they would be interested in developing a more substantial pipeline, with a particular focus on infrastructure.

Table 6. Indicative FY14-15 IBRD Lending Program for Mexico

Project Name (in US$ million)	FY14	FY15
Oaxaca Water	50	
Upper Secondary Education DPL III	300	
School-Based Management III		300
Community Schools Program (CONAFE)		100
Oportunidades AF (second generation reforms)		300
Total	**350**	**700**

VI. RISKS AND MITIGATION

104. Four potential risks may impact the results achievement of the CPS: weakened political support, international economic environment, program performance, and crime and violence.

105. **Political support for reforms may weaken**. The political economy of addressing key structural rigidities for improved labor productivity and greater market competition and innovation, particularly in the energy sector, is still undetermined and bound to be difficult. However, the strategic areas identified in the Mexico NDP received broad acceptance by the population, and the new administration has already enacted key reforms in the education and

telecommunications sector. Failure of reform implementation could impact results negatively and will require adjusting the strategy and expected outcomes to the emerging realities while capturing lessons learned. Flexibility embedded in the CPS would allow this adjustment.

106. **Little room exists for countercyclical lending in the context of limited SBL space**. The risk of a less favorable international context, and in particular changes in global monetary policies and a sluggish US economy, may impact foreign exchange markets, domestic financial markets, and global financial flows. Renewed fiscal pressure for quick disbursing IBRD financing is bound to be limited given the size of the exposure envelope. In addressing this risk, the WBG is undertaking a comprehensive assessment of its financial instruments to provide viable alternatives to the authorities.

107. **CPS program performance could be at risk at the national and subnational levels**. A sizable undisbursed amount of some US$1.8 billion remains to be implemented over the next 3-4 years. In addressing portfolio performance, close supervision and portfolio restructurings would help improve the performance of problem projects. To tackle implementation issues, proactive portfolio management, including strong follow up on recent restructurings and sector-specific portfolio performance review (together with related knowledge programs) should yield disbursements and improve the health of the portfolio. The filtering process presented in this CPS will also serve to maintain program focus to the WBG goals while maintaining flexibility to respond to emerging client needs, including at the subnational level. The close management of the thematic business plans, programmatic approaches, and the wholesaling of country budgets around results will help maintain attention to strategic outcomes while maintaining the flexibility to adjust the programs to evolving country circumstances and build in continuous learning. The WBG will systematically assess Governance and Anti-Corruption (GAC) issues in all subnational activities.

108. **Risks from crime and violence to the program**. Mexico's national homicide rate has more than doubled between 2007 and 2010, increasing 114 percent between 2005 and 2011. An increase in drug- and firearm-related homicides, principally among young men, concentrated in particular cities, explain this upward trend in crime and violence. However, the WBG engagement is not concentrated in areas of crime and violence (mostly border-states with the US) reducing the chances of negative impact to the program. The WB will continue to monitor trends in crime and violence, providing support through the dissemination of its recent youth violence report, inputs to the proposed urbanization review, areas of engagement in access to social protection, and as part of other regional products on citizen security. The WB is also preparing a multi-year citizens' security knowledge and convening programmatic engagement in FY14 to support the Government's crime and violence prevention efforts.

ENDNOTES

1. Annex 5 provides a detailed description of both Mexican and World Bank's methodologies for measuring poverty, as well as detailed data tables with poverty rates by state and by method.
2. One limitation of analyzing the official Multi-dimensional Poverty Index is that there are only three years with available data: 2008, 2010, and 2012. Thus, in order to study long-term poverty trends it is necessary to use a monetary poverty indicator, which was the previous official poverty measure in Mexico and which is still produced by CONEVAL
3. Analysis about mobility and middle class in Mexico and the region can be found in "Economic Mobility and the Rise of the Latin American Middle Class" at http://www.worldbank.org/en/news/feature/2012/11/13/crecimiento-clase-media-america-latina.
4. Annex 4 includes the overview chapter of the policy notes prepared in 2011-12 by World Bank staff. The complete set is accessible at http://www.worldbank.org/en/country/mexico/research/all.
5. Annex 3 contains a section on recent economic events and the macroeconomic outlook.
6. Refer to "Fostering sound financial sector development", Policy Note No.1; "Toward a more competitive business environment", Policy Note No. 2; "Fostering innovation for productivity and competitiveness", Policy Note, No.3.
7. Refer to "Labor Markets for Inclusive Growth", Mexico Policy Note No.4.
8. The OECD launched the Programme for International Student Assessment (1997) to evaluate education systems
9. The largest insurance programs in Mexico are the Instituto Mexicano de los Seguros Sociales (IMSS), the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSTE) and Régimen Estatal de Protección Social en Salud (Seguro Popular). Refer to "Social Protection", Mexico Policy Note No.5.
10. Gender differences in poverty, as well as additional information about gender as entry points to the CPS can be found in Annex 5 and 6.
11. Refer to "Managing medium term fiscal challenges", Mexico Policy Note No. 8; "Strengthening public revenue and expenditure management to enhance service delivery", Mexico Policy Note No. 9; and "Strengthening sub-national public finance", Mexico Policy Note No.10
12. Refer to "Reducing the footprint of growth", Mexico Policy Note No. 6; and "Using natural resources in an optimal way", Mexico Policy Note No. 7.
13. *Banco de información Económica* (INEGI, 2012).
14. World Bank estimate, forthcoming, *Análisis de Equilibrio Económico General de la Reducción de los Subsidios a los combustibles en México*.
15. OP/BP 10.00 retired the use of Adaptable Program Loans in April 2013.

ANNEX 1. SUMMARY MEXICO CPS SELECTIVITY, WBG DEVELOPMENT SOLUTIONS AND IMPACT ON WBG GOALS

Expected Outcomes	Specific Problem Areas or Challenges Addressed	Development Solution: WBG Tailored Package of Services	Impact WBG Goals	
			Poverty[16]	Sh.Prosp[17]
Theme 1: Unleashing Productivity				
1. Increased access to finance and improved financial inclusion.	Credit to SMEs and poor households constrained but expansion needs to preserve financial stability.	Programmatic knowledge and convening services supporting implementation of financial reform initiative and financial literacy. IBRD potential funding to increase access to financial services in isolated rural communities through mobile banking and IFC investment & MIGA supported FDI to deepen MSME financial services, financial infrastructure and access to local debt market.	High	High
	Half the population without access to financial services.		High	High
	Capital market constrained by few private bond issuers and corporate equity markets.		Low	High
2. Improved business environment to support private sector investment.	Burdensome regulations limit firm entrance and growth. Sharp disparities in regulatory burden between states.	Programmatic knowledge and convening services to improve regulatory framework and improve competition at subnational level. IFC investments, as well as MIGA supported FDI, in sectors opening to private sector.	Low	High
	Concentrated markets and lack of effective pro-competition regulations, particularly at State Level, inhibit firm entrance and growth.		Low	High
3. Enhanced innovation capabilities for companies and in target states and industries.	Less than adequate competition, limited financing for startups, lack of long-term financing to even large companies and fragmentation of support programs for SMEs. Lack of impact evaluation hinder effectiveness of SMEs policies to support innovation and growth.	Programmatic knowledge and convening services to improve policy design at INADEM, foster firm innovation and improve coordination on innovation related policy making. IFC investment, as well as MIGA supported FDI, in manufacturing services and agribusiness innovative and value-added companies and companies with potential for int'l knowledge transfer.	Low	High
	Better coordination in policy making is needed to support innovation. Limited capabilities in some states and the private sector to develop innovation strategies.		Low	High
Outcomes will be defined during the next two years depending on specific involvement	Productivity potential limited by: (i) lack of competition in telecommunications resulted in few low quality and high cost services; and (ii) low investment in ports and logistics resulted in diminished capacity to support the shipment of goods.	Potential IBRD financing of higher risk public sector infrastructure projects depending on capital availability and potential MIGA involvement. IFC potential financing in ports logistics and telecommunication projects to unleash the lack of competitiveness.	-	-
Theme 2: Increasing Social Prosperity				
4. Increased skilled labor market participation.	Persistent institutional constraints to labor contracts make it difficult to expand formal employment.	Bank and IFC financing to support improvements in quality of the education system complemented by IBRD programmatic knowledge and convening activities supporting various dimensions of labor productivity agenda.	High	High
	Low level of relevant skills in labor market.		High	High
	Inefficiency in allocation of labor force due to incomplete labor market policies for facilitating job search and matching, and employment shock protection.		High	High
5. Increased use of integrated social programs among the poor with larger private sector participation in social services provision.	Integrated social protection system needed. System is fragmented, poorly targeted, inefficient, has serious coverage gaps, and design elements need to be changed to function as a system.	IBRD, IFC financing for social protection systems; knowledge and convening activities to integrate the different pieces of the social protection system. IFC investments and advisory services to support private sector participation at the state and federal levels. Convening services to support Mexico's sharing of global best practices.	High	High
Theme 3: Strengthening Public Finances and Government Efficiency				
6. Increased non-oil public revenues and improved expenditure	Low public revenue collection, particularly taxes, to address looming medium-term budget pressures, both at federal and at subnational levels of government.	Combination of financial and programmatic and knowledge services, including RAS to enhance Federal and subnational tax systems.	Low	High

Expected Outcomes	Specific Problem Areas or Challenges Addressed	Development Solution: WBG Tailored Package of Services	Impact WBG Goals	
			Poverty[16]	Sh.Prosp[17]
equity at the federal level and in selected states.	Public sector expenditures in general, and social services in particular, are of low quality and, in some cases, do not benefit the poorest sections of the population.	Multi-year package of IBRD programmatic knowledge activities to support SHCP to better monitor and evaluate design, impact and return of social programs and to improve effectiveness and progressivity of fiscal system.	High	Low
7. Increased adoption of modern public sector management and information systems at the federal level and selected states.	Incomplete adoption of accounting, budgeting, procurement and general management modernization systems and standards in federal and subnational public administration.	Ongoing IBRD financing on "results based management and budgeting" combined with several grants funding knowledge products for enhancing public sector efficiency and effectiveness at federal and subnational levels.	High	Low
8. Integrated and comprehensive risk management framework in place covering key fiscal, agricultural, and natural disaster risks.	Around 41 percent of Mexico's territory, 30 percent of its GDP, and 31 percent of its population exposed to three or more natural hazards. These events affect agricultural production, physical assets, and human lives, particularly in poorest states.	IBRD risk management: DRM knowledge activities, with emphasis on strengthening prevention, developing risk models, supporting states and agricultural risk management activities, to improve the agricultural insurance market and commodity price risk financing.	High	Average
	Non-systemic management of other contingent fiscal risks such as commodity price, interest, exchange rate, debt and financial assets volatility. Need to implement an integrated risk management for potential shocks.	Continued use of financial innovations such as IBRD risk management tools on loan portfolio and non-IBRD liabilities, combined with new programmatic knowledge activities supporting a more integrated contingent fiscal risk management system.	High	Average
Theme 4: Promoting Green and Inclusive Growth				
9. Strengthened institutional framework to manage urban development and reduced GHG emissions.	Urban development in Mexico has been steadfast (77 percent urbanization rate), car-oriented, and inefficient, with low-density patterns that are not conducive to generate economies of scale in: production; movements of labor and capital; and resource consumption.	Mixed sources of financial services (IBRD, CTF, GEF) for urban transport transformation and reduced GHG emissions combined with knowledge services to inform national housing and urban policies, and IFC program providing advisory support to mass transit schemes using PPPs. Potential MIGA involvement through NHSFO or NHFO SOE structures supporting foreign investors in PPP transactions.	High	High
	Costs of land and water degradation due to solid and liquid wastes have been increasing each year, harming human health, the environment and the economy.	IBRD knowledge activities and IFC investment and advisory services to support development of a integrated national solid waste management strategy.	High	High
	Energy production and consumption represent 60 percent of GHG emissions and a large cost for the economy.	IBRD, IFC, MIGA financial services and IBRD, IFC advisory services leveraging private sector to reduce emissions by increasing energy-efficient technologies at residential level, in city, and industrial buildings.	Low	High
10. Reduced deforestation together with increase in certified forest areas.	Forest degradation is reason for concern, as forests represent an essential source of employment, income, and livelihood for about 12 million people, and play an important role in mitigating and adapting to climate change.	IBRD leveraging AFD funds for forest management, emissions reduction from deforestation/degradation (REDD+), IFC financing of tree plantations and forest certification. IBRD/ GEF financing for emission-reduction technologies for agricultural SMEs combined with knowledge services for climate change legislation and economic instruments to mainstream green and inclusive growth.	High	Average
11. Improved water management systems and expanded access to water services.	Water availability decreased dramatically over the past 50 years. Situation worsened by inefficient use of water in agriculture and urban services. Service quality is below OECD standards.	Sub-national level financing (efficiency of water utilities, regional meteorological services, water sector modernization) combined with knowledge activities on water availability and financing systems; IFC advisory and investment for municipal water operators and potential MIGA involvement in the municipal water sector.	High	High
12. Increased production of combined renewable energy.	Declining oil production poses challenge of transforming energy matrix composition.	IBRD, GEF, IFC, MIGA financial services for energy diversification (wind, solar, cogeneration and combined solar-thermal cycles) with IBRD knowledge services to address environmental and social safeguards. GEF funding to improve innovation in the development and implementation of clean energy technologies.	Average	High

ANNEX 1A. RESULTS FRAMEWORK - MEXICO COUNTRY PARTNERSHIP STRATEGY FY14-19

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
		Theme I: Unleashing Productivity			
		Thematic Engagement 1. Fostering Sound Financial Sector Development			
Expand access to credit and other financial services to priority areas for national development, infrastructure, small business and the populations currently excluded (4.2.2. and 4.2.4.). Democratize access to telecommunication services (4.5). Support entrepreneurs and strengthen SMEs (4.8.4).	Credit to SMEs and poor households constrained but expansion needs to preserve financial stability. Half the population without access to financial services. Capital market constrained by few private bond issuers and corporate equity markets.	**Outcome 1:** Increased access to finance and improved financial inclusion.	(a) Number of new clients mainstreamed into the formal financial sector using financial services. Target: 1,600,000 (July 2015) IFC (b) Volume of new loans to SMEs in the portfolio of financial intermediaries. Baseline: 2.9 million Target: 3.4 million Interim: 3.1 million (c) Number of new issuances in the capital markets. Baseline: 1 Target: 4 Interim: 1	TA reports prepared to implement key aspects of the forthcoming financial reform. New products and financial literacy campaigns supported by WBG advisory and convening services have been launched.	**Financial Services**: ***Ongoing*** IBRD Loan: Rural Savings and Credit Sector Consolidation Loan (BANSEFI) (P123367) *IFC Investments:* Agrofinanzas – Loans to the agrisector Banorte-Commercial banking (28213) Compartamos-Micro credits to women (29634) Mifel - SME Banking (29030) Alta Growth Fund - Private Equity Fund Alta Ventures-Private Equity Fund-FY11 Water Capital- Lease of water treatment and efficient water equipment (29509) Credit Suisse- Capital Markets financing IFC supplier finance: Nemak IFC supplier finance: commercial Mexicana ***Pipeline*** *IFC Investments:* Progresemos – Microfinance **Knowledge Services:** ***Ongoing*** IBRD PA: Sound Financial Sector Development packaging (P133788) IBRD AAA: Mexico JIT Financial Literacy Impact Evaluation Mucho Corazon (P145817) IBRD AAA: Financial Capabilities

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
					Assessment (P122665) IBRD AAA :Mexico Contingency Plan for Cooperative Financial Institutions (P144364) ***Pipeline*** IBRD RAS: Financial Crisis Exercise – Instituto para la Protección del Ahorro Bancario (IPAB) **Convening Services**: ***Ongoing*** IBRD Treasury Banking Services
		Thematic Engagement 2. Toward a More Competitive Business Environment			
Guarantee clear rules that provide incentives for a competitive internal market (4.7).	Burdensome regulations limit firm entrance and growth. Sharp disparities in regulatory burden between states. Concentrated markets and lack of effective pro-competition regulations, particularly at the State Level, inhibit firm entrance and growth.	**Outcome 2:** Improved business environment to support private sector investment.	Number of recommended laws/regulations/ amendments/ codes enacted or government policies adopted to improve competition at subnational level. Baseline 0 Target 30	IBRD: Roadmaps to improve competition at state level delivered in 3 States. IFC: Regulations for oil, gas and telecommunications sector issued. Increasing number of projects in oil, gas, petrochemicals and telecommunications.	**Financial Services**: **Knowledge Services**: ***Ongoing*** IFC Advisory: Sub-National Doing Business (585307) ***Pipeline*** IBRD AAA: Workplan to improve business indicators in Oaxaca IBRD AAA: Roadmap to eliminate state regulations that hamper competition in products markets of Oaxaca IBRD (2) Reimbursable Activities to eliminate regulations that hamper competition in products markets in Tabasco and Estado de Mexico. IBRD RAS to implement Doing Business Reform.
Science, Technology and Innovation		**Thematic Engagement 3. Fostering Innovation for Productivity and Competitiveness**			
Make scientific development,	Less than adequate competition, limited	**Outcome 3:** Enhanced innovation	Components of the innovation strategy have	Changes in SME support programs have been	**Financial Services:**

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
technology and innovation key Thematic Engagements of Mexico's sustainable social and economic development (3.5).	financing for startups, lack of long-term financing to even large companies and fragmentation of support programs for SMEs. Lack of impact evaluation hinder effectiveness of SMEs policies to support innovation and growth. Better coordination in policymaking is needed to support innovation. Limited capabilities in some states to develop innovation strategies.	capabilities for companies and in target states and industries.	been implemented in target states and sectors. Baseline: 0 States/sectors Target: 2 States IFC: Number of farmers reached: Baseline: 5,500 Target: 7,000 Interim: 6,100	implemented. Delivery of sectorial or regional innovation strategy.	***Ongoing*** IBRD Loan: MX Information Technology (P106589) *IFC Investments:* Calidra - Construction Materials (31587) Norson - Livestock (32826) Bioparques - Agribusiness (26328) IFC Equity: Metronet - IT (n/a) **Knowledge Services**: ***Pipeline*** IBRD PA: Productivity Democratization (P146293) IBRD RAS: Support to the newly created Instituto Nacional del Emprendedor (INADEM) IBRD AAA: Formulation of methodologies to assist poor states with Innovation Strategies **Convening Services:** ***Ongoing*** IBRD Forum: Innovative Entrepreneurship Forum with INADEM and CNN Expansion (P147313)
		Thematic Engagement 4. Upgrading Infrastructure			
Support infrastructure development with long-term vision based on three guiding principles: (i) balanced regional development; (ii) urban development; and (iii) logistical connectivity (4.2.5). Promote a transport infrastructure that lowers overall costs	Productivity potential limited by: (i) lack of competition in telecommunications resulted in few low quality and high cost services; (ii) low investment in ports and logistics resulted in diminished capacity to support the shipment of goods.	Outcomes related to specific infrastructure sectors are presented in corresponding thematic areas—in transport, energy, telecommunications. This specific infrastructure outcome will be defined during CPS implementation over the first two years of the CPS where the WBG (IBRD, IFC, MIGA) will work together in positioning the Bank within the Government's new US$316 billion infrastructure program. IFC could participate in new private sector investment in oil, gas, petrochemicals and telecommunications sectors. Baseline: US$600 million Target: US$1.5 billion Interim: US$800 million			

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
		Theme II: Increasing Social Prosperity			
		Thematic Engagement 5. Promoting Labor Markets for Inclusive Growth			
Guarantee social rights, provide social cohesion and close inequality gaps (3.1-3.2).	Persistent institutional constraints to labor contracts which make it difficult to expand formal employment. Low level of relevant skills in labor market. Inefficiency in allocation of labor force due to incomplete labor market policies for facilitating job search and matching, employment shocks protection.	**<u>Outcome 4:</u>** Increased skilled labor market participation.	(a) Improvements in ENLACE scores (math and Spanish in primary and secondary schools, including students living in marginalized areas). 2-year moving average of ENLACE test scores across school years (SY) Baseline (SY11 & SY12) Spanish primary: 546 Math Primary: 557 Spanish secondary: 490 Math secondary: 522 Target (SY17 & SY18) Spanish primary: 610 Math primary: 620 Spanish secondary: 550 Math secondary: 570 *Source* Plan Nacional de Desarrollo (b) % of *Oportunidades* youth registered with Sistema Nacional de Empleo. Baseline: Does not exist yet Target: 2% in 2018 Disaggregate by sex Source: SNE database	Teacher training programs initiated. Analysis of nutrition programs on learning outcomes prepared. Analysis of gaps in skills prepared. % of students with scholarship/ financial aid, divided by gender. (in private institutions financed by IFC). Number of new projects in health and education supported by IFC.	**Financial Services:** ***Ongoing*** IBRD Loan: School Based Management II (P115347) IBRD Loan: Compensatory Education Project (P101369) IFC Investment: Edilar-Educational material content (31095) IFC Investment: FINEM SME (28680) IFC Investment: UAG -Private university in Guadalajara (30445) IFC Investment: Harmon Hall - English language school (29753) ***Pipeline*** IBRD Loan: School Based Management III IBRD Loan: CONAFE-Community Schools Program IBRD Loan: Upper Secondary Education DPL III **Knowledge Services**: ***Ongoing*** IBRD PA: Improving Skills for Enhanced Labor Market Productivity (P128775) ***Pipeline*** IBRD AAA: A knowledge product on gender and youth violence in Mexico (multisector) IBRD AAA: Results-based financing project to improve the (i) National Employment System (ii) productive opportunities at the subnational level and (iii) the monitoring and evaluation system

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
			IFC: (c) Number of students enrolled in institutions financed by IFC (female) Baseline: 52,000 (26,000 female) Target: 70,000 (37,000 female) Interim: 59,000 (31,000 female)		
		Thematic Engagement 6. Promoting an Integrated Social Protection System			
Ensure the effective exercise of social rights by the entire population (2.1). Move toward and equitable and inclusive society (2.2). Ensure access to health services (2.3). Expand access to social security (2.4).	Integrated social protection system needed. System is fragmented, poorly targeted, inefficient, has serious coverage gaps, and design elements to be changed to function as a system.	**<u>Outcome 5:</u>** Increased use of integrated social programs among the poor together with increased private sector participation in social services provision.	(a) % of eligible *Oportunidades* families registered in the *Oportunidades* program Baseline: does not exist yet Target: 30% Source: CONEVAL (b) Average unsatisfied basic needs of the extreme poor population Baseline (2009): 3.7 Target (2018): 3.0 Source: indicator in the National Development Plan (c) % of poor registered in the Unified Registry of Beneficiaries Baseline: Does not exist yet Target: 40% Possible to disaggregate by sex Source: CONEVAL and the URB system IFC: (d) Number of public	Initial review of integrated social protection programs prepared together with initial M&E framework.	**Financial Services**: ***Ongoing*** IBRD Loan: Support to Oportunidades Project (P115067) IBRD Loan: Social Protection in Health (P116226) IFC Investment: Hospitaria- Health services (30281) IFC Investment: Centro Medico Puertas de Hierro - Health services (26323) ***Pipeline*** **Knowledge Services**: ***Ongoing*** IBRD PA: Mexico Poverty (P133559) IBRD AAA: MX Multi-sector & State Level Work (IO 2046548) IBRD AAA: The Distributional Effects of Drug Related Crime and Violence across Municipalities in Mexico (TF012498) IBRD AAA: Reforming the National Targeting System (P129698) IBRD PA: MX PKS - Social Protection and Health (P129698) ***Pipeline***

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
			patients treated by private players financed by IFC. Baseline: 226,000 Target: 260,000 Interim: 240,000		IBRD AAA: Market accessibility to the poor in Mexico. An overlap of road network maps and poverty maps to identify market access by the poor. IBRD PA: Mexico Social Protection and Health
		Theme III: Strengthening Public Finances and Government Efficiencies			
		Thematic Engagement 7. Managing Medium-Term Fiscal Challenges at National and Subnational Levels			
Maintain macroeconomic stability by: (i) protecting public finances from macroeconomic shocks; (ii) strengthening revenues; and (iii) improving budget management, in order to generate savings for priority programs (4.1).	Low public revenue collection, particularly taxes, to address looming medium-term budget pressures, both at federal and at subnational levels of government. Public sector expenditures in general, and social services in particular, are of low quality and, in some cases, do not benefit the poorest sections of the population.	**<u>Outcome 6:</u>** Increased non-oil public revenues and improved expenditure equity at the federal level and in target states.	(a) Taxes as a percentage of GDP Baseline (2012): Non-oil Federal revenues as a percentage of GDP: 15.0% Subnational revenues as a percentage of GDP : 0.93% Target (2019): Non-oil Federal revenues as a percentage of GDP: 18% Subnational revenues as a percentage of GDP : 2.0 % (b) Inequality after taxes and transfers. Baseline (2010): Difference between Final Income Gini and Market Income Gini: 0.08 Target (2019): Difference between Final Income Gini and Market Income Gini: 0.11 *Note: using method by Lustig, Pessino and Scott (2012)*	Submission to the Congress of a Federal tax reform that increases tax collection as a percentage of GDP. Submission to the Congress, by SHCP, of a Law strengthening subnational government finances. Adoption of official methodology for the computation of the Social Discount Rate for the evaluation of investments in the public sector and revision of the Social Discount Rate currently used. Delivery to SHCP of a CGE model and simulation tools to assess revenue potential of alternative tax reforms.	**Financial Services**: **Knowledge Services**: ***Ongoing*** IBRD PA: Fiscal Challenges PA (P143967) IBRD PA: Mexico Poverty (P133559) ***Pipeline*** IBRD AAA: Evaluation of tax evasion and tax administration for the Tax Administration Office. IBRD AAA: Public Expenditure Review (PEFA) IBRD AAA part of Fiscal Management PA: Development of a Methodology and a quantitative estimate for the social discount rate. IBRD AAA (part of Fiscal Challenges PA): Development of a medium-term fiscal framework (MTFF) at the subnational level and support to SHCP in setting up a unit that will be responsible for the implementation and supervision required under the new subnational fiscal discipline and borrowing framework.
		Thematic Engagement 8. Promoting Public Sector Modernization			
Modern state focusing on results, transparency,	Incomplete adoption of accounting, budgeting,	**<u>Outcome 7:</u>** Increased adoption of	Increase in transparency and Access to Fiscal	Production of a World Bank reports with	**Financial Services**:

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
self-evaluation and effective use of public resources (Cross-Sector Strategy-Close and Modern Government).	procurement and general management modernization systems and standards in federal and subnational public administration.	modern public sector management and information systems at the federal level and in selected states.	Information Index. Baseline (2012) average 70.8, Target (2018) 10% increase. Source: AR Consultores Increase in the Open Budget Index: Baseline (2012): 61 Target (2018): 70 Source: International Budget Partnership	diagnosis and recommendations for public sector modernization in: Oaxaca State Puebla State Federal District. Federal tax collection agency (SAT) Ministry of Social Development (SEDESOL) National Congress.	***Ongoing*** IBRD Lending: MX Results Based Mgmt. and Budgeting TA (P106528) **Knowledge Services**: ***Ongoing*** IBRD PA: Public Sector and Governance (P132906) IBRD AAA: Institutional Strengthening of Congress II (P125982) IBRD AAA: Oaxaca: Strengthening the States Management capacities (P129968) IBRD AAA: Strengthening & Consolidation of Internal Control Framework of Federal Government (P120116) IBRD AAA: Internal Control IT system for the SFP (P125764) IBRD AAA: Development of Professional Competencies of ASF (P125717) IBRD AAA: Fostering transparency, accountability and efficiency in public service delivery in the State of Puebla IDF (P144701) IBRD AAA: Oaxaca RAS - Advisory Services for Strengthening Public Sector Management (P129050) ***Pipeline*** IBRD AAA: Development of a rapid diagnostic tool for budgeting and performance management IBRD AAA: Development of an "App" on macro data for Mexico IBRD AAA: SEDESOL RAS for strengthening managerial capacities of SEDESOL **Convening Services**:

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
					Ongoing IBRD MoU: Función Pública (IO2059300)
		Thematic Engagement 9. Implementing an Integrated Sovereign Risk Management Framework			
Safeguard the population and its assets from the impact of natural or man-made disasters (1.6).	Around 41% of Mexico's territory, 30% of its GDP, and 31% of its population are exposed to three or more natural hazards. These events affect agricultural production, physical assets, and human lives, particularly in the poorest states. Non-systemic management of other contingent fiscal risks such as commodity price, interest, exchange rate, debt and financial assets volatility. Need to implement an integrated risk management for potential shocks.	**<u>Outcome 8:</u>** Integrated and comprehensive risk management framework in place covering key fiscal, agricultural and natural disaster risks.	Integrated system for risk management adopted by Federal Government. Comprehensive disaster risk management strategy adopted that balances efforts in risk identification, risk prevention and management, and post-disaster reconstruction. Comprehensive agriculture risk management strategy adopted that improves the efficiency of agricultural insurance markets and sets effective mechanisms to manage risks arising from price volatility in agricultural commodities.	Recommendations for the creation of an integrated system of risk management delivered.	**Financial Services**: ***Ongoing*** IBRD: Mexico CAT Bond II (US$290 Million) (final stages of execution) IBRD: Use of risk management tools for outstanding loans (e.g. interest rate conversions, stand-alone interest rate swaps) ***Pipeline*** **Knowledge Services**: ***Ongoing*** IBRD PA: Strengthening Mexico's Disaster Risk Management (P146241) MX Programmatic Engagement in DRM (P130848) TA to SHCP in risk modeling Contribution to Urbanization Review Agriculture Risk Management in Mexico (P132987) Agriculture Insurance Market Review (P130161) ***Pipeline*** Cross-sectoral study on the impact of rising commodity prices in Mexico
		Theme IV: Promoting Green and Inclusive Growth			
		Thematic Engagement 10. Reducing the Footprint of Growth			

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
(i) Invest in basic, complementary, and productive social infrastructure projects; and (ii) provide basic services, housing quality, and community social infrastructure in Priority Areas with high and very high marginalization (2.2.1). Modernize, expand and maintain urban transport infrastructure, and improve connectivity using strategic and efficiency criteria (4.9.). Achieve an integrated waste management system that: (i) includes hazardous and special handling of waste; (ii) promotes the recycling of materials; and (iii) minimizes risks to the population and the environment (4.4.3). Strengthen national climate change policy to foster a competitive, sustainable, resilient and low-carbon economy. Promote the use of advanced, energy	Urban development in Mexico has been steadfast (77% urbanization rate), car-oriented, and inefficient, with low-density patterns that are not conducive to generate economies of scale in: production; movements of labor and capital; and resource consumption. Costs of land and water degradation due to solid and liquid wastes have been increasing each year, harming human health, the environment and the economy. Energy production and consumption represent 60 percent of GHG emissions in Mexico and a large cost for the economy.	**<u>Outcome 9:</u>** Strengthened institutional framework to manage urban development and reduced GHG emissions.	(a) Increased capacity of the new Secretaría de Desarrollo Urbano (SEDATU) to address urban challenges. Baseline: no capacity. Target: in 3 areas: (i) strengthened land use planning; (ii) use innovative land-based financing mechanisms to provide infrastructure in new low-income settlements; and (iii) support urban mobility strategies geared towards public and non-motorized transport. (b) Expanded use of TRACE to several large and intermediate cities Baseline: 2 pilot cities Target: 10 additional cities (c) Reduction in GHG emissions attributable to (i) the energy efficiency project from 0 in 2012 to 9 MtCO2e in 2019; and (ii) other initiatives: PMR, CCS, and GV & FR (each program to set specific baselines and targets). IFC: (d) Number of projects with EDGE certification. Baseline: 3 Target: >5	Completion of Urbanization Review. Increase in the number of cities participating in Transport project to finance BRT infrastructure and clean technology buses. Improvements to existing solid waste management program (PRORESOL). Inputs in new national strategy for solid waste management and buy in from key actors. TRACE pilot completed and new set of cities determined and ready to roll out on public buildings and assets. Completion of Efficient Lighting and Appliances project and its additional finance. Completion of activities PMR, CCS, GV & FR. Specific tools to CNH in terms of data management and economic analysis of public policies	**Financial Services:** ***Ongoing*** IBRD Loan: Urban Transport Transformation Program (UTTP) (P107159) IBRD Carbon Finance: Mexico City Insurgentes Bus Rapid Transit System Carbon Finance Project (P082656) IBRD GEF: Sustainable Transport and Air Quality Program (STAQ) (P114012) IBRD Loan: Efficient lighting and appliances (P106424) IBRD GEF: Mexico Efficient Lightning and Appliances (P120654) IFC Investment: Optima Energia- Energy service company ESCO (28383) *IFC Investments:* Water Capital- Lease of water treatment and efficient water equipment (29509) Vinte- Low income housing (26292) Artha Capital- Sustainable urban projects (30836) ***Pipeline*** **Knowledge Services**: ***Ongoing*** IBRD AAA: Mexico Urbanization Review (P133243) IFC Advisory: Green building investment across sectors (City Express, Vinte, Hospitaria) through the Leadership in Energy & Environmental Design certification program IBRD AAA: Market Instruments for Climate Change Mitigation - Participation of Mexico in the Partnership for Market

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
efficient technologies and systems that contribute to the reduction of GHG emissions (4.4.3).			Interim: 4		Readiness (PMR) - energy, housing and transport (P129553) IBRD AAA: Carbon Capture, Utilization and Storage Development in Mexico (P131200) IBRD AAA: Greening Mexico's Electricity Generation by Internalizing Externalities (P132533) IBRD AAA: Tool for Rapid Assessment of City Energy (TRACE) Model in Pilot Cities in Latin America (P133060) ***Pipeline*** IBRD AAA: Mainstreaming Safeguards at Institutional Level in Mexico IBRD RAS: Housing policy IBRD-AAA: TA in solid waste management **Convening services:** ***Pipeline*** IBRD tailored support to CNH
		Thematic Engagement 11. Using Natural Resources in an Optimal Way			
(i) Promote and encourage the incorporation of timber and non-timber surfaces with forestry potential; (ii) strengthen social capital and management capabilities of *ejidos* located in forests and areas with high value for biodiversity conservation (4.4.4).	Forest degradation is reason for concern, as forests represent an essential source of employment, income, and livelihood for about 12 million people, and play an important role in mitigating and adapting to climate change.	**Outcome 10:** Reduced deforestation together with increased certified forest areas.	Increase in Forest under improved management and reduced carbon emissions. Baseline: 163 million hectares in 2012 Target:10% improvement in 5 years Source: CONEVAL	Increased number of sustainable community enterprises in forests targeted by the Forests and Climate Change project. Action plan prepared to increase certified wood production.	**Financial Services**: ***Ongoing*** IBRD GEF: Adaptation to Climate Change on the Coastland Wetlands (P100438) IBRD Loan: Forests and Climate Change SIL (P123760) / FIP (P124988) IBRD GEF: Sustainable Production Systems and Biodiversity (P121116) IBRD Loan: Sustainable Rural Development (P106261) + Additional Financing FY13 (P130623) + GEF FY09 (P108766) IBRD GEF: Sustainable Rural Development (P108766) IBRD Loan: Modernization of the National

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
					Meteorological Service (MOMET) (P126487) IFC Investment: Proteak- Certified teak plantations (31195) ***Pipeline*** IBRD GEF: Conservation of Coastal Watersheds (P131709) **Knowledge Services**: ***Ongoing*** IBRD AAA: Mexico FCPF Readiness Preparation Grant (P120417) ***Pipeline*** IBRD PA: Environmental Policy: technical support to enhance CC legislation, analysis of fiscal instruments for Green and inclusive growth, CC public expenditure review. IBRD AAA with Treasury: Assessment of potential forest bond (with Bank Treasury).
Implement a sustainable water management that ensures access to all Mexicans (4.4.2).	Water availability has decreased dramatically over the past 50 years, situation that is worsened by an inefficient use of water in agriculture and urban services. Service quality is below OECD standards.	**Outcome 11:** Improved water management systems and expanded access to water services.	(a) Improved standard performance utility indicators in target municipalities and states. Baselines and targets to be developed with the Oaxaca water project now under preparation.	PROME develops effective approach to increase efficiency in management systems at subnational level. Oaxaca water sector modernization project under implementation.	**Financial Services**: ***Ongoing*** IBRD Loan: Water Sector Efficiency Improvement Program (PROME) (P121195) ***Pipeline*** IBRD Loan: Oaxaca Water and Sanitation (P145578) **Knowledge Services**: ***Ongoing*** IBRD AAA: Mexico GPOBA: Mexico PROME OBD Component Pilot Support (P125716)

Mexico National Development Plan (2013-18) and Private Sector Vision	Constraints and opportunities to accelerate progress toward the WBG goals	World Bank Group Strategy FY14-19			
		Outcome	**Outcome Indicator**	**Milestone or Intermediate Indicator (2-3 years)**	**WBG Interventions as part of Development Solutions (highlighted IBRD engagement areas closing within 2 years)**
					IBRD AAA: Water Finance System - (TF099439) ***Pipeline*** IBRD AAA: TA Sanitation for Acapulco Bay IBRD RAS: Improving management of Cutzamala watershed **Convening Services**: ***Ongoing*** IBRD Convening: Water Sector Adaptation Technical Cooperation (P122166)
Supply energy by having competitive prices, quality and efficiency along the supply chain (4.6). Ensure the supply of crude oil, natural gas and oil products that the country needs (4.6.1.). Ensure a rational electricity supply throughout the country (4.6.2.).	Declining oil production poses the challenge of transforming the energy matrix composition.	**<u>Outcome 12:</u>** Increased production of combined renewable energy.	(a) Increased eolic energy production and avoided emission of MtCO2e (La Venta III). Baseline: 0 Target:2,200 GWh Baseline: 0 Target: 1.15 MtCO2e (b) Increased solar energy: Total Renewable Energy Technology consumption per beneficiary household in MWh/year. Base line: 0 Target: 2.077 IFC: (c) Number of renewable energy projects. Baseline: 3 Target: 7 Interim: 2	Completion of La Venta project with analysis of lessons learned and recommendations to expand technologies in a sustainable way. Completion of Integrated Energy Services Project. Report on geothermal energy prospects delivered	**Financial Services**: ***Ongoing*** IBRD GEF: Large Scale Renewable Energy Development (La Venta III) (P077717) IBRD Carbon Finance: Wind Umbrella (La Venta II) (P080104) IBRD GEF: GEF Hybrid Solar Thermal Power Plant (Agua Prieta II) (P066426) IBRD Loan + GEF: Integrated Energy Services (P088996) *IFC Investments:* EURUS- Wind power (28434) EDF La Ventosa- Wind power (28070) Aura Solar- Solar Power (32871) Comemsa- Solar energy equipment (30229) ***Pipeline*** **Knowledge Services**: ***Ongoing*** IFC Advisory: Sustainable Energy Finance Mexico (583007)

ANNEX 2. MEXICO CPS FY08-13 COMPLETION REPORT

Contents

ACRONYMS FOR THE CPS COMPLETION REPORT

AAA	Analytical Advisory Assistance
AF	Additional Financing
AFD	Agence Française de Développement
AML	Anti-money laundering
APL	Adaptable Program Loan
BANSEFI	Bank of Financial Services *(Banco de Servicios Financieros)*
CATT	Customs Assessment Tool for Trade
CCT	Conditional Cash Transfer
CFE	Federal Electricity Commission (*Comisión Federal de Electricidad)*
CGAP	Consultative Group to Assist the Poor
CMU	Country Management Unit
CONAFE	National Council for Educational Development *(Consejo Nacional de Fomento Educativo)*
CONAGUA	National Water Commission (*Comisión Nacional del Agua)*
CONEVAL	National Evaluation Committee (*Consejo Nacional de Evaluación*)
CPPR	Country Portfolio Performance Review
CPS	Country Partnership Strategy
CPSPR	Country Partnership Strategy Progress Report
CY	Calendar Year
DPL	Development Policy Loan
ECD	Early Childhood Development
ESMAP	Energy Sector Management Assistance Program
ESW	Economic Sector Work
FBS	Fee Based Services
FSAP	Financial Sector Assessment
FY	Fiscal Year
GEF	Global Environment Facility
GHG	Greenhouse Gas
GoM	Government of Mexico
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDF	Institutional Development Fund
IFAI	Federal Access to Information Institute *(Instituto Federal de Acceso a la Información)*
IFC	International Finance Corporation
IT	Information Technology
IMF	International Monetary Fund
MoU	Memorandum of Understanding
NAFIN	*Nacional Financiera* – Development Bank
MFN	Most Favored Nation
MWh	Megawatt hour
PATME	Modernization of the Water and Sanitation Sector TA Project (*Programa de Asistencia Técnica para el Mejoramiento de Eficiencia*)
PDO	Program Development Objective
PEC	*Programa de Escuelas de Calidad*
PET	Temporary Employment Program *(Programa de Empleo Temporal*)
PHRD	Policy and Human Resources Development Fund
PPP	Public-Private Partnership
PROTRAM	Programa Federal de Apoyo al Transporte Urbano Masivo
R&D	Research and Development
RAS	Reimbursable Advisory Services
SAGARPA	Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food
SAT	Revenue Administration System *(Sistema de Administración Tributaria)*
SBA	Sustainable Business Advisory
SCT	Ministry of Communications and Transport (*Secretaria de Comunicaciones y Transportes)*
SEDESOL	Ministry of Social Development (*Secretaría de Desarrollo Social)*
SFLAC	Spanish Fund for Latin America and the Caribbean
SHCP	Ministry of Finance *(Secretaría de Hacienda y Crédito Público)*
SHF	Federal Mortgage Society (*Sociedad Hipotecaria Federal)*
SME	Small-Medium Enterprises
TA	Technical Assistance
WBG	World Bank Group
WSS	Water and Sanitation Sector

MEXICO
COUNTRY PARTNERSHIP STRATEGY FY08-13
COMPLETION REPORT

I. INTRODUCTION

1. This Country Partnership Strategy Completion Report (CPSCR) is a self-evaluation by the World Bank Group (WBG) team of its performance in implementing the Country Partnership Strategy FY08-13 (Report # 42846-MX). The CPS FY08-13 was jointly prepared by the World Bank and IFC in collaboration with the Government of Mexico. It was well aligned both with Mexico's six-year political cycle and the country priorities of President Calderon's administration as stated in the 2007-12 National Development Plan (NDP). Early in its implementation, the CPS provided a framework for a strong and flexible knowledge-focused partnership with a more limited financing relationship and focused knowledge and financial engagement in five key thematic areas: (a) accelerating growth; (b) improving competitiveness; (c) promoting social inclusion and reducing poverty; (d) developing infrastructure and assuring energy security and environmental sustainability; and (e) strengthening institutions.

2. **The CPS Progress Report (CPSPR) FY08-10 (Report #52776-MX) reaffirmed its support to the five original themes but adapted the World Bank Group (WBG) strategy with a new integrated engagement model to address client needs in the context of evolving country developments and global challenges.** This new engagement model sought to maximize the impact of a tailored package of WBG financial, knowledge, and convening services. The CPS was flexible enough to provide fast response to emerging financing needs to the public and private sector following the 2008-09 global financial crisis, while delivering a broad knowledge agenda using integrated and tailored packages of services in delivering development solutions. The Government requested financing in order to have access to disbursements of a record US$7 billion over the two-year period (CY09-10) to meet the global challenge. The initial CPS program was strategically adapted to accelerate disbursements through policy-based loans addressing key structural reforms and several quick-disbursing investment loans targeted to the poor. Knowledge services, organized around integrative programmatic approaches, leveraged World Bank resources and grants around priority CPS themes. The knowledge program experienced a gradual shift from traditional economic sector work (ESW) reports to just-in-time pieces, programmatic approaches, and demand-driven reimbursable services, showing flexibility and responsiveness to evolving client demand.

3. **While lending volumes declined after the crisis for IBRD, IFC financing increased significantly in a countercyclical path**. IBRD lending declined from US$6.4 billion approved in FY09 to US$50 million in FY12. Key areas of IBRD support in response to the global crisis included poverty alleviation and increased social safety nets, as well as structural reforms in housing, environmental, and climate change sustainability. IFC commitments, however, expanded from US$84 million in FY09 to a robust US$1,768 million at the end of FY13, following strong demand for its financing and integrated solutions to private sector development challenges. IFC demand increased mostly in the financial markets, manufacturing, retail, and property sectors. The IFC Mexico program focused on strategic priorities of operating in frontier regions, supporting micro, small, and medium-size enterprises and reducing the private sector's impact on climate change.

4. **The WBG knowledge program remains its comparative advantage**. Demand for WBG knowledge and convening services have become an essential component of the WBG

engagement with Mexico. WBG knowledge and advisory products have matured through innovative client-driven approaches aligned to critical strategic and global areas such as addressing the climate change challenge.

5. **The CPSCR describes and evaluates the support provided through the delivery of a new approach in packaging financial, knowledge, and convening services aimed to provide tailored development solutions**. The CPSCR takes into account the crucial role that knowledge and convening services played alongside financial services to achieve CPS outcomes in the five key thematic areas.

6. **The CPSCR seeks two main purposes**: First, evaluate the performance of the CPS program in achieving the outcomes the WBG expected to influence within the CPS period as stated in the updated CPSPR results matrix; and second, assess the performance of the WBG in delivering the joint World Bank-IFC CPS program.

7. **In summary, program performance was "satisfactory" and the WBG performance in implementing the strategy was "satisfactory"**, based on an extensive analysis of the CPS program achieving the objectives throughout the six-year implementation period. Lessons from the evaluation of the closing CPS will help formulate the new CPS program for the next six years.

II. COUNTRY DEVELOPMENTS

8. The strategic focus of the Government of Mexico was to confront longstanding challenges. By December 2006, the Mexican economy had transformed its export base from a dependence on petroleum products to manufacturing goods. Fiscal discipline and strong fiscal policy and debt management frameworks enabled the authorities to conduct an adequate countercyclical policy response to the 2008-09 financial crisis; the financial system, having been battered by the 1995 crisis, had been rebuilt and a sound regulatory framework was well established. The authorities took appropriate actions to maintain order in foreign exchange and domestic financial markets.

9. **Mexico faced a deteriorating global economic environment along with the parallel negative impacts of the food crisis and the influenza pandemic, as well as other internal issues related to organized crime**. In mid-2008, investment in dynamic export sectors suffered as a result of the downturn, and job losses had an impact on poverty rates.[18]

10. Moreover, remittance flows also declined as the Mexican immigrant population in the United States suffered significant job losses.[19]

11. Credit to the private sector was also constrained, as local branches of international commercial banks became hesitant to lend and even hoarded liquidity. Economic activity declined by 4.7 percent in 2009. The difficult economic and social situation was exacerbated in April by the AH1N1 influenza epidemic in Mexico, which was estimated to have reduced GDP by 0.3 to 0.5 percent in 2009. Moreover, organized crime (drug trafficking, kidnappings, killings, etc.) had direct and indirect costs to the country's economy, including expenditures made by individuals, firms, and governments to prevent or respond to crime, as well as the multiplicative effects or externalities created by criminal actions, such as reductions in economic growth or limited governance.[20]

12. **After the global financial crisis of 2008, Mexico experienced a deep but brief recession in 2009**. Growth resurged despite turbulence in Europe, in part because of the slow but steady recovery in the United States. Real GDP growth expanded 5.1 percent in 2010,

moderating to 4.0 and 3.8 percent in 2011 and 2012, with an expected deceleration to 1.5 percent in 2013.

III. PROGRAM PERFORMANCE

13. The program performance evaluation reports on expected CPS program results as revised by the CPSPR. During the CPS period, the Bank centered its support in five thematic areas that contained 28 CPS outcomes (Table 1). Overall, the WBG program performance is rated "satisfactory".

Annex 2 Table 1. Summary Assessment of Mexico CPS Outcome Areas

Thematic Areas and Outcome Areas	CPS Rating
I: Accelerating Growth	
1. Countercyclical Fiscal Policies During 2009 While Adopting…	Partially Achieved
2. Implementation of Regulatory Reforms to Foster Financial Sector...	Achieved
3. Enhancement of Short Term Employment Support Programs…	Achieved
4. Improved Competitiveness by Lowering International Trade Costs..	Achieved
II: Improving Competitiveness	
5. Strengthening and Expanding the Government's Quality Schools…	Achieved
6. Greater Support for Improved Coverage and Quality of Education...	Achieved
7. Improved Relevance of Upper Secondary Education	Achieved
8. Equitable Expansion of Tertiary Education Through Student…	Achieved
9. Improved Human Skills, Infrastructure, Links Between Local…	Partially Achieved
III: Promoting Social Inclusion	
10. Increase Capacities in Health, Nutrition and Education of Poor…	Achieved
11. Preserve and Expand the Popular Health Insurance's Coverage…	Achieved
12. Improve Access to ECD Services and Learning Outcomes…	Achieved
13. Strengthen the Capacity of the Mexican Health System…	Partially Achieved
IV: Developing Infrastructure, Assuring Energy Security and Env. Sustainability	
14. Development of Massive Urban Transport Evaluating Alternative..	Achieved
15. Catalytic Use of Clean Development Mechanism to Foster…	Achieved
16. Improve Federal Housing System to Facilitate Access…	Partially Achieved
17. Tools and Instruments to Induce Local Authorities to Improve…	Achieved
18. Provision of Environmental Services of National and Global…	Achieved
19. Increase Access to Efficient and Sustainable Integrated Energy…	Partially Achieved
20. Regulatory Monitoring and Financial Framework for Low…	Partially Achieved
21. Reduce GHG (CO_2) Emission Through the Adoption…	Achieved
22. Promoting Adaptation to Climate Change	Achieved
V. Strengthening Institutions	
23. Selected Federal Departments and Agencies Providing…	Partially Achieved
24. Improved Administration in Selected Municipal Governments	Achieved
25. Improved Efficiency of Customs Processes	Not Achieved
26. Strengthened Fiscal Transparency, Governance & Accountability	Partially Achieved
27. Support the Improvement of Institutional Performance of...	Partially Achieved
28. Improved Capacity Building and Communication Practices	Achieved

14. The analysis of results in each thematic area is organized as follows: (a) sector context and challenges facing the thematic area; (b) introduction to CPS outcomes for each theme; and (c) package of financial, knowledge, and convening services for each CPS outcome. Each outcome presents the results of the IBRD-IFC joint program and provides a comprehensive assessment of all elements of the WBG program (not just lending activities). Details of the program performance are presented in Annex 1A, Summary of CPS Program Self-evaluation, providing a clear assessment of each CPS outcome, a brief reference to supporting evidence, and specific lessons or suggestions derived from the evaluation to be taken into account by the new CPS program.

A. Thematic Area I: Accelerating Growth

15. To achieve a sustainable level of growth of 5 percent, this theme focused on Mexico's agenda of long-term reforms to strengthen public finances, improve the business climate, promote regulatory reform, enhance innovation, as well as investment in infrastructure and human capital. Yet, with the advent of the global crisis in 2008, support shifted to focus on the immediate challenges of stabilizing the fiscal accounts and reactivating the economy, while still advancing longer-term reforms. The program focused on the following outcomes: (a) promoting measures to enhance medium-term fiscal sustainability and countercyclical fiscal policies; (b) promoting regulatory reforms to foster financial sector access and consumer protection; (c) enhancing short-term employment programs, while stimulating labor market efficiency and productivity; and (d) improving trade competitiveness by reducing and simplifying tariffs and customs processing.

Countercyclical Fiscal Policies During 2009 While Adopting Measures to Enhance Medium Term Fiscal Sustainability for 2010 and Beyond, Including an Increase in Non-oil Tax Revenue and Improvements to Public Expenditure Management

16. At the time of the crisis, market concerns about Mexico focused on falling oil production and the ability to maintain the 2009 fiscal stimulus. At the core of the Bank's response to support the authorities was an Economic Response DPL of US$1.5 billion. The operation built on previous knowledge services, including Bank studies on capital markets development and financial sector competitiveness. In addition, it built on just-in-time technical assistance to support economic policies that helped mitigate the negative effect of the crisis, assess its distributional impacts, and strengthen the framework for economic recovery. Programmatic Knowledge Services on public expenditure management successfully informed policymakers in these areas in preparation of the long-awaited fiscal reform. Despite the crisis, non-oil tax income increased from 9.9 percent of GDP in 2008 to 10.0 percent in 2010, although less than the 10.3 percent expected partly due to higher than expected growth. Yet, as a result of a recently approved fiscal reform on October 31, 2013, the Mexican Ministry of Finance expects to raise non-oil tax income from 9.9 percent in 2013 to 10.3 percent in 2014. **[The expected outcome was "partially achieved".]**

Implementation of Regulatory Reforms to Foster Financial Sector Access, Consumer Protection and Stability

17. The financial sector, which withstood the global financial crisis, was seen as an important player in Mexico's economic recovery. In response to the impact of the global financial crisis on the real economy, the WBG built on its longstanding policy dialogue and investment track record with Mexico on financial sector development, including a series of initiatives: (a) to increase competition and provide better financial services to the private sector and consumers; and (b) to deepen financial markets, as measured by increased financing, including bank credit, publicly traded debt, and equity investment. **[The expected outcome was "achieved" and exceeded.]**

18. In FY12, a Financial Sector Assessment (FSAP) provided a roadmap over the medium term for reforms aimed at strengthening financial sector stability and foster sound financial sector development. The Bank supported these efforts with technical assistance to the Ministry of Finance and a report recommending reforms in the regulation of the insurance and annuities market. In addition, the Bank prepared several grants for assessing the poverty and

distributional impacts of the financial crisis and providing evidence-based and gender-sensitive policy advice.

19. A package of ongoing financial and technical operations with the development bank BANSEFI also contributed to give access to financial services to more than 600,000 low-income families and to more than 10 million clients in 2012 (above the 9 million target). For Mexico as a whole, the number of outlets providing financial services increased to 20,297 in 2012 from 10,354 in 2010, more than the 35 percent expected for 2010 by the CPS. Mexico was also successful in focusing global attention to the topic of financial inclusion as the World Bank shared its experience in this topic during Mexico's G20 Presidency during 2012.

20. IFC supported financial sector deepening by investing in *BANORTE*, the only locally controlled large bank in Mexico, which received a common equity investment of up to US$150 million to strengthen its balance sheet and help resume the lending activity in the country. IFC's Advisory and Investment Services included: (a) housing finance aimed at lower-income households; (b) microfinance to service microloans in frontier regions; and (c) SME finance/ agribusiness investments in *Finterra*, *Agrofinanzas*, and in *Mifel*. At the end of the CPS period, *Agrofinanzas* reached over 5,000 farmers and *Compartamos*, *Finterra*, *Mifel*, and *Agrofinanzas* together supported a total of 2.8 million loans for micro, small, and medium-size enterprises for a volume of US$1.6 billion.

Enhancement of Short-Term Employment Support Programs While Developing Medium-Term Reforms for Labor Market Efficiency and Labor Productivity

21. During the 2008-09 recession, the Mexican labor market experienced a severe crisis. The expansion of the Temporary Employment Program (PET) supported by the Economic Response DPL provided a financial buffer for lower-income segments of the population, substantially increasing the number of hired beneficiaries through PET from 365,000 in 2008 to 897,000 in 2010 (above the 650 thousand target for 2010). The DPL built on Bank's knowledge services with the Ministry of Social Development (SEDESOL) on productivity and employment. A series of policy papers, notes, and micro-simulation exercises complemented targeted just-in-time assistance. [**The expected outcome was "achieved".]**

Improved Competitiveness by Lowering International Trade Costs via Reduction of MFN Tariffs and Simplification of the Trade Tariff Regime and Customs Processes

22. In December 2008, Mexico adopted an ambitious reduction of its Most Favored Nation (MFN) tariff rates for nonagricultural products. The World Bank supported this effort through the Economic Response DPL and a package of knowledge and convening services. The average general MFN tariff rate fell from 10.4 percent in 2008 to 5.3 percent in 2010, (i.e. the CPS 2010 target), and may reach 4.3 percent by the end of 2013. Several indicators were also used to measure progress towards simplification of tariff regime. The reduction in rates and increase in the number of duty free tariff lines resulted in a simpler tariff structure. The number of duty free tariff lines was increased from 20 percent in 2008 to 58.7 percent in 2010 and to 61 percent in 2011. The reforms supported by the Bank rationalized the borrower's tariff structure, reduced distortions, and simplified Mexico's trade regime.

23. The Bank's financial support also built on a Customs Assessment Tool for Trade (CATT) that improved trade quality by promoting excellence in customs performance management; technical assistance on agricultural trade for sensitive agricultural commodities; and South-South knowledge exchanges with Africa, Asia, and other Latin American countries. These activities achieved their goals of assisting the Government of Mexico in designing

policies to respond to changes in market conditions for strategically important crops, linking extension services with agricultural financing, and promoting Mexico's competitiveness in an environment of commodity price volatility. At the same time, IFC committed US$54 million in guarantees through the Global Trade Finance Program (GTFP) to ensure the flow of trade credit in the Mexican market. Despite this volume of commitments in the CPS period, Mexico's demand for GTFP is low, relative to other countries in the program, mostly due to strong and established trade links with the United States. [**The expected outcome was "achieved"**.]

B. Thematic Area II: Improving Competitiveness

24. CPS outcomes supported by the Bank to improve Mexico's competitiveness included: (a) strengthening and expanding the Government's quality schools program; (b) greater support for improved coverage and quality of education in poor municipalities; (c) improving upper secondary education; (d) equitably expanding tertiary education through student assistance; and (e) improving human skills, infrastructure, links between local and global companies, and the financial, legal and regulatory framework for information technology (IT).

Strengthening and Expanding the Government's Quality School Program

25. The Bank provided support to improve the quality of education as measured by coverage and social participation, through a series of APLs[21] for school-based management. These projects aimed to improve the learning outcomes of children by increasing the number of basic education schools participating in the quality improvement program, known as *Programa de Escuelas de Calidad* (PEC), from 39,000 to over 50,000 schools. As of June 2013, over 26 percent of all basic education schools are participating in the PEC program, up from 20 percent in 2010 and well above the 23 percent CPS target set for 2014. [**The expected outcome was "achieved"**.]

Greater Support for Improved Coverage and Quality of Education in Poor Municipalities

26. The School Based Management project phases I and II helped to improve the quality of education as measured by increased coverage, social participation and educational outcomes. The School Based Management I project contributed to increase the number of schools participating in the Quality Schools Program (PEC) from 10.3 percent during 2006 to 20.35 percent in 2009. With the support of the School Based Management II, by January 2013, the percentage of basic and special education schools participating in PEC increased from 20.3 percent to 26.7 percent. The percentage of poor schools located in highly marginalized and marginalized areas participating in the PEC program also increased from 38.4 percent in 2010 to 44.5 percent in 2013 (the project is on track to meet the 55% outcome for 2014). [**The expected outcome was "achieved"].**

Improved Relevance of Upper Secondary Education

27. The Bank supported the Government through DPLs improving the quality and relevance of upper secondary education.[22] These DPLs resulted in increased flexibility of the upper secondary system since all federal schools now accept student transfers and validate curriculum equivalencies, and in better student learning as evidenced by improved ENLACE mathematics scores. By 2011, 100 percent of federal schools implemented the competence-based curriculum, well above the 50 percent CPS target for 2011. Supporting knowledge services helped understand better the causes of upper secondary school dropout and recommended policy options for education services to the poorest. [**The expected outcome was "achieved"**.]

Equitable Expansion of Tertiary Education Through Student Assistance

28. Through a series of APLs[23] on Tertiary Education Student Assistance, the Bank successfully supported the Government's strategy to foster the sustainable, equitable, and efficient expansion of tertiary education through the development of a coherent student assistance system consisting of grant programs and compensatory interventions for disadvantaged students. The share of 18- to 24-year-old students in tertiary education from households classified at the two lowest quintiles of the income distribution increased from (an adjusted baseline) 10 percent in 2004-05 to 20.6 percent in 2011, surpassing the project target of 20 percent for 2011. IFC also successfully supported: (a) *Universidad Autónoma de Guadalajara* (UAG) for the construction and renovation of its facilities; (b) work with Finem, the leading student loan institution; and (c) support to Edilar, a company that gives access to public school teachers to education-related products and content, as well as to lending of resources for continuing education. IFC's education projects have supported 29,000 students, of which 40 percent were female. These projects also supported the creation of over 4,000 jobs. [**The expected outcome was "achieved"**.]

Improved Human Skills, Infrastructure, Links Between Local and Global Companies, Financing and Legal and Regulatory Framework for IT

29. As part of its engagement to improve competitiveness, the WBG supported improvements in the business environment, particularly among SMEs, and fostered the innovative capacity of the private sector, including research and development, to enhance productivity and economic growth. The World Bank's Doing Business reports provided critical reform benchmarks within Mexico, generating internal discussion and policy reforms. Efforts to strengthen the innovative capacity of the private sector and increasing the integration of Mexico's innovation system were supported by a DPL. Although the number of agreements to streamline public procurements procedures fell short of the DPL target, the project was successful in mobilizing annual private investment in infrastructure. Eventually, the impact of the 2007 World Bank Country Procurement Assessment Report (CPAR) helped Mexico modernize its procurement systems by eliminating obsolete regulations and building in methods for transparency. The Bank has successfully provided support to improve human skills, infrastructure, links between local and global companies, and the financial, legal, and regulatory framework for IT with support of an APL[24] on Innovation for Competitiveness and an ongoing project on IT development (PROSOFT). As a result of these projects, the number of companies with technical capacity, quality standard certifications, and access to new markets increased to 413 in 2012 (well above the 390 target for 2014). Total private R&D also increased from 0.15 in 2004 to 0.17 percent in 2009 but below the 0.23 percent target (2009). [**The outcome was** "**partially achieved"**.]

C. Thematic Area III: Promoting Social Inclusion

30. At the time of the CPS FY08-13 discussion, poverty levels in Mexico had been declining since the crisis of the mid-1990s; this thematic area focused on long-term issues. Yet, the impact of the crisis in 2008 and the AH1N1 influenza epidemic changed the Bank's approach in responding to expeditious demands from the Government to protect the poor's investment in human capital and their consumption. Outcomes supported by the Bank to promote social inclusion included: (a) increased capacities in health, nutrition and education of poor families through human capital investment; (b) preservation and expansion of the Popular Health Insurance coverage of poor and informal worker families; (c) improved access to ECD

services and learning outcomes of children in the most marginalized municipalities; and (d) strengthening the capacity of the health system to control epidemic waves.

Increase Capacities in Health, Nutrition, and Education of Poor Families Through Human Capital Investment by Promoting Regular Health Check-ups, Improving Health Status, and Raising School Enrollment and Attendance

31. Bank assistance to increase health, nutrition, and education outcomes of poor families helped sustain the number of families and children participating in the *Oportunidades* program. A loan and additional financing (AF) associated with this conditional cash transfer (CCT) program contributed to achieving significant development results, with 5.8 million families participating in the program as of December 2012 and another 3 million more children participating in the program. The Bank also provided extensive technical and convening services to address a series of second-generation issues for the *Oportunidades* program to be supported in the next CPS, and contributed to increasing Mexico's engagement in South-South knowledge exchanges with other developing countries. As a result, *Oportunidades* received numerous delegations from other countries, most of which have been organized by the Bank, where participants learned of the design and implementation of social programs in Mexico and exchanged different perspectives on poverty alleviation programs. [**The expected outcome was "achieved"**.]

Preserve and Expand the Popular Health Insurance's Coverage of Poor and Informal Worker Families, and to Strengthen its Financing and Affiliation Systems

32. With support of the Social Protection System in Health Project, the Bank promoted access to healthcare for the poor by increasing popular health insurance (PHI) coverage to virtually all intended beneficiaries. Knowledge activities provided policy options. Compared with 27 million PHI affiliates at the beginning of the CPS period, now there are more than 52 million affiliates; virtually all intended beneficiaries of the PHI are covered. The Basic Health Care Project contributed to increase the number of health facilities to guarantee the provision of services to affiliates who qualify for the subsidized regime of the PHI. The Bank also supported a Global Knowledge Exchange Activity on Health Financing, as well as several South-South exchanges that allowed the Government to share its experience and learn from other health insurance coverage programs. [**The expected outcome was "achieved"**.]

Improve Access to ECD Services and Learning Outcomes of Children in the Most Marginalized Municipalities of Mexico

33. With the support of the Compensatory Education Project, the Bank aimed to improve the access to ECD services through several innovative interventions. The number of children attending at least 80 percent of ECD sessions grew by 30 percent between 2010 and 2013, and the number of parents attending these sessions increased from 38,620 in 2009 to 49,447 in 2012, exceeding the end of year target. Several knowledge products — with the support of grant funding — contributed to improve access to ECD services.[25] [**The expected outcome was "achieved".]**

Strengthen the Capacity of the Mexican Health System to Control Epidemic Waves

34. The Influenza and Prevention Control Loan was cancelled due to problems using planned retroactive financing[26] and a milder than expected AH1N1 epidemic. Nonetheless, the World Bank supported a number of Government decisions and actions that contributed to containing the epidemic. Despite the absence of Bank disbursements, the Ministry of Health

made significant progress toward the original loan-identified program development objectives: strengthening the capacity of the health system to monitor the spread of influenza viruses; and controlling epidemic waves. By December 2010, 24 percent of the population had been vaccinated against AH1N1, and the Government had purchased more than 2.1 million units of antiviral medicines to replenish and expand the country's strategic reserves.[27] As part of its ongoing collaboration with the health sector, the World Bank also provided technical assistance that contributed to strengthening the National System for Epidemiological Surveillance (SINAVE). The Bank also supported the Government through an Avian and Human Influenza (AHIF) grant in the development of comprehensive risk communication strategies at the local level in 9 states.[28] The Bank helped in transferring knowledge from the Mexican experience with the AH1N1 epidemic, including pandemic preparedness management, and in showcasing Mexico's best practice to Asian countries.

35. IFC strengthened its private health sector strategy through the financing of three projects: *Centro Medico Puertas de Hierro* in the construction of new hospitals in Guadalajara, Nayarit (frontier state), and Colima, offering general primary, secondary, and tertiary health services. These hospitals have already reached 492,000 patients, showing strong demand for their services. Additionally, in FY13 IFC supported the creation of a new greenfield hospital within the integrated medical complex in northern Monterrey characterized by its growing low- and middle-income population where demand for medical infrastructure is growing quickly. This hospital is planning to reach 27,000 patients. Lastly, IFC successfully structured and implemented a PPP solution for the design, construction, financing, and operation of two new regional secondary hospitals in Toluca and Tlalnepantla (both in Estado de Mexico). This was the first PPP hospital in Mexico to include a payment mechanism incorporating deductions attached to contractually agreed-upon key performance indicators. This has resulted in these hospitals being considered among the most efficient healthcare facilities in the country. [**The expected outcome was "partially achieved"**.]

D. Thematic Area IV: Developing Infrastructure and Assuring Energy Security and Environmental Sustainability

36. Despite an appropriate level of service coverage in a wide variety of sectors — urban development, transport, energy, water, environmental management — relative to the rest of Latin America, the quality and reliability of these services in Mexico are generally below what could be expected in an upper middle-income country.[29] Outcomes supported by the Bank to promote this area included: (a) enhancing massive urban public transport; (b) use of clean development mechanisms to foster technology, regulatory, and institutional changes; (c) improving the federal housing system; (d) improving water supply and sanitation service provision; (e) providing environmental services; (f) integrating energy services in rural areas; (g) contributing to low emissions in the energy sector; (h) piloting renewable energy production; and (i) promoting adaptation to climate change.

Development of Urban Transport Evaluating Alternative Solutions and Proposing Frameworks for Private Sector Participation

37. The Government, together with the World Bank, has been working to address public transport and air pollution issues and their linkage to climate change. Through a reimbursable advisory service (RAS), the Bank advised on designing a federal program to support the development of urban public transport systems (i.e., PROTRAM). The Urban Transport Transformation Project (UTTP) supports PROTRAM to transform urban transport in Mexican cities onto a lower-carbon growth path. The Sustainable Transport and Air Quality Program

GEF grant, linked to the UTTP, assisted municipalities in reducing CO_2 emissions and supports policy changes to favor larger investments in sustainable transport projects. The ongoing Insurgentes Bus Rapid Transit System Carbon Finance Project has contributed to reducing airborne pollutants and GHG emissions generated by the transport sector in Mexico City. This corridor improved bus system energy efficiency by replacing 368 old, small, and mid-size gasoline and gas — mainly liquid petroleum gas — units with 105 articulated passenger diesel buses. Emissions reductions in the period Nov. 1, 2009, to Oct. 31, 2010 were 50,180 tons CO_2 per year, of which modal change were 38,790 tons.[30] [**The expected outcome was "achieved"**.]

Catalytic Use of Clean Development Mechanism to Foster Technology, Regulatory and Institutional Changes in the Public Transport Sector

38. Among the actions seeking to improve the use of clean development mechanisms and foster technological and institutional changes in the energy and public transport sectors, the Bank supported the Government with the Green Growth DPL in developing the regulatory, monitoring, and financial framework for lower GHG emissions.[31] In parallel to this DPL, other operations aimed to develop the regulatory and business framework of the transport sector. The introduction of Climate Friendly Measures in Transport supported the design of the BRT corridors in Mexico City (Metrobus) and the creation of the institutional, regulatory, and business framework for operating BRT systems in other Mexican cities. Metrobus has now become a more robust agency in technical terms and is mobilizing 800,000 passengers per day. The 'Insurgentes Bus Rapid Transit System Carbon Finance' project has also contributed to improve bus productivity by serving more passengers with lesser number of units and increase modal share of large buses. [**The expected outcome was "achieved".]**

Improve Federal Housing System to Facilitate Access to Housing by Low-and Moderate-Income Families

39. At the initial stages of the global financial crisis, the Government recognized the need to strengthen the *Sociedad Hipotecaria Federal* (SHF), a public sector institution with the mandate to develop housing finance markets and facilitate access to housing by low- and moderate-income families. The Bank supported the Government toward the achievement of this outcome through the Affordable Housing and Urban Poverty Reduction DPL III (HUSAL) and the Private Housing Finance Markets Strengthening Project. However, the expected gradual expansion of SHF products toward lower-income segments did not materialize because the agency's focus shifted to mitigating the mounting crisis of the housing sector in general. On the positive side, the Private Housing Finance Project successfully contributed to stabilizing the housing market during the crisis by supporting government's achievement of 1 million housing solutions per year in 2008-12 and strong SHF support to the private sector. Complementing the HUSAL, a three-year Technical Assistance Loan (HUTAL) supported technical aspects of the reforms supported by the HUSAL. The HUSAL supported the preparation and implementation of Mexico's 2007-12 National Housing Program, but was not fully effective in improving the complex institutional housing framework in Mexico.

40. IFC incorporated in its strategy the support to the housing sector based on the Government's longstanding agenda in promoting affordable housing. Before the 2008-09 crisis, IFC supported the demand side through equity investments and debt financing in non-bank financial institutions (Su Casita, Vertice, GMAC), which made loans to the low-income mortgage sector. From the supply side, IFC supported large publicly listed homebuilders that have the scale and capacity to provide the largest volumes of affordable housing in the industry.

At the end of FY13, IFC had a portfolio totaling US$175 million exposure (net of equity write downs) in the sector with Urbi, Homex, and Alpha Geo. However, due to changes in government policy in 2012,[32] the three largest homebuilders are currently experiencing a liquidity crisis and are in the process of restructuring. Nevertheless, the IFC portfolio includes projects with clients that, to date, have not been affected to the degree experienced by large homebuilders. [**The expected outcome was "partially achieved"**.]

Tools and Instruments to Induce Local Authorities to Improve Financial Sustainability and Efficiency of Water Supply and Sanitation Service Provision in their Jurisdiction

41. The Government is promoting significant investments in water to address an acute water crisis due to accelerated population growth and suboptimal management of water resources. The Modernization of the Water and Sanitation Sector TA (PATME) supported the documentation and dissemination of successful water models in 10 water utilities participating in this program. Manuals developed by CONAGUA were distributed to water utilities and water and sanitation sector institutions beyond the realm of PATME. A satisfactory degree of improvement was observed in operational and financial performance of water utilities that were part of the PATME. Through the successful rehabilitation and modernization of irrigation infrastructure and the adoption of improved farm irrigation and application systems, the Integrated Irrigation and Modernization Project, together with several knowledge activities and convening services on reducing overexploitation of aquifers, significantly improved water use efficiency and generated replicable models. In an effort to support selected Mexican states to improve their provision of water supply and sanitation, the Bank in addition worked with the State of Guanajuato in the implementation of the Decentralized Infrastructure Development Loan, which expanded access to water and sanitation services. A Water Sector DPL had a significant institutional impact, including the approval of a new Climate Change Law, greater focus on climate change in the framework of water planning instruments and programs at the federal level, and strengthening CONAGUA institutional framework and monitoring capacity.

42. IFC provided capacity advisory support to the municipal water company (OPDM) during the design and implementation of a wastewater recycling plant in the municipality of Tlalnepantla. Additionally, in 2010 IFC invested in Water Capital, a leasing company that provides energy efficiency, renewable energy, and supply- and demand-side water management solutions tailored to the specific needs of its customers. [**The expected outcome was "achieved"**.]

Provision of Environmental Services of National and Global Significance and Secure Long-Term Sustainability

43. During this CPS period, the Bank supported the Government in its efforts to promote sustainable production and consumption, prevent environment degradation, and ensure long-term development opportunities. With the support of the Environmental Services Project and a GEF grant, the Bank aimed to enhance the provision of significant environmental services and secure long-term sustainability. The project had an important impact in increasing hydrological, biodiversity conservation, and hectares under contract; and carbon sequestration services. A series of Environmental DPLs supported environmental sustainability measures in the energy, water, tourism, and forestry sectors. They helped support congressional approval of the Energy Sector Reform package that included two key pieces of legislation: a law to promote the efficient use of energy and a law to increase the use of renewable energy sources. During the ENVDPL III, the Bank also provided technical assistance to revise and update the Mexican Forest Fund. By the end of 2009, 15 million ha. of forest under sustainable forest management

operations were financed by this fund. IFC also made a US$10 million investment in Optima Energia, an energy services company, to undertake energy savings projects for six hotels in Mexico. This project will build the market for energy service companies and set a new standard for energy efficiency in the country's hotel sector. By project completion, Optima Energia could reduce GHG emissions by 7.3 tons of CO_2 equivalent per year.

44. The Bank also supported the conservation and sustainable use of biodiversity, with projects like the Mesoamerican Corridor GEF grant, aimed at mainstreaming biodiversity criteria in public expenditure and supporting private efforts to achieve reduced deforestation and improved management of natural resources and biodiversity conservation in six biological corridors in southeast Mexico. The National System of Protected Natural Areas (SINAP) was also supported by the GEF and the Bank through several grants. [**The expected outcome was "achieved"**.]

Increase Access to Efficient and Sustainable Integrated Energy Services in—Predominantly Indigenous—Rural Areas of Mexico

45. In order to increase access to efficient and sustainable integrated energy services in predominantly indigenous rural areas of Mexico, the Bank supported the Government's Rural Electrification Program through a combination of investment operations and grants from the GEF. Nevertheless, both the Integrated Energy Services Project and the Solar Thermal Project, (i.e., Agua Prieta II) showed limited progress (and are still ongoing) due to a combination of complex procurement processes and project implementation difficulties. [**The expected outcome was "partially achieved"**.]

Regulatory, Monitoring and Financial Framework for Low Emissions Evolution of the Transport and Energy Sectors Developed

46. The Efficient Lighting and Appliances Project promoted Mexico's efficient use of energy and the mitigation of climate change by increasing the use of energy-efficient technologies at the residential level. The project successfully promoted the development of a sustainable market for energy-efficiency equipment among the large and fast-growing energy end-use sectors for lighting, refrigeration, and air conditioning. Specifically, less consumption of electricity favored the environment, as an emission of about 865,000 tons of CO_2 was avoided with the 22.9 million light bulbs that were changed during 2012.

47. Also, as part of the Bank's support in the agriculture area, the ongoing Sustainable Rural Development Project seeks to contribute to the goals of the National Strategy on Climate Change by reducing GHG emissions through the adoption of emission-reduction technologies. By the end of 2012, 770 small and medium-size agri-businesses adopted environmental sustainable technologies resulting in 600,000 tons of CO_2 equivalent avoided (close to the CPS original target of 919 SMEs and 770,000 tons of CO_2 equivalent for 2013). A Policy and Human Resources Development (PHRD) grant helped improve the Ministry of Environment's capacity to promote the use of clean agro-environmentally friendly practices among producers.

48. IFC, through its Sustainable Business Advisory (SBA) has worked with companies to adopt environmental, social, and governance best practice, as well as cleaner technologies that create a competitive edge. Additionally several IFC investments have been focused on energy efficiency projects (e.g., Calindra, the country's main lime producer) improved environmental footprint with the use of forest biomass as an alternate fuel source. By project completion, Calindra is expected to reduce GHG emissions by 97,000 tons of CO_2 equivalent per year. [**The expected outcome was "partially achieved"**.]

Reduce GHG (CO_2) Emission Through the Adoption of Emission-Reduction Technologies

49. The Bank is supporting two wind projects in Mexico: Carbon Fund-financed La Venta II and the GEF-financed La Venta III. La Venta II entered into commercial operation in 2007. After facing many hurdles, La Venta III (i.e., the wind power large-scale renewable energy development project) started operations in October 2012 and has paved the way for the development of wind energy in Mexico since it was the first project of its kind to be launched under the Independent Power Producer Scheme. Today more than 1,300 megawatts capacity of wind power energy are in operation with decreased prices of wind energy. In 2010 and 2011, IFC financed the first two private wind power projects in the Isthmus of Tehuantepec (Oaxaca). IFC advisory services have helped the Mexican Wind Energy Association (AMDEE) and the Ministry of Energy formulate a strategy to promote the development of the wind energy sector.[33] [**The expected outcome was 'achieved"**.]

Promoting Adaptation to Climate Change

50. During the CPS period, Mexico demonstrated a strong commitment to address the challenges of climate change through concrete actions in the areas of institutionalizing the agenda, adopting related policy incentives, and designing national strategies and programs that placed climate change at the heart of the country's NDP. As a result, this CPSCR reports a separate outcome — not originally considered on the CPSPR Results Matrix — that captures the Bank's engagement with the Government on the promotion of adaptation to climate change.

51. The Climate Change DPL was the first operation processed under this new assistance modality for Mexico proposed under the FY08-13 CPS. The engagement and packaging model tailored knowledge and convening services around a series of annual DPLs that successfully supported the Government's effort under its National Climate Change Strategy to mainstream climate change consideration in public policy. Moreover, a Low Carbon DPL in FY10 and a Social Resilience to Climate Change DPL in FY12 supported Mexico's climate change agenda, including advisory support for adaptation in low-income and vulnerable populations, while committing to reduce GHG emissions.[34] Further analysis on the social impacts of climate change included a report that identified the key drivers of socio-spatial differences in resilience and vulnerability to climate change in Mexico. At the subnational level, the broad range of Bank products, including grants, knowledge, and convening services, was coordinated through an ongoing Subnational Climate Change MoU that provided technical assistance to five states in the preparation of their climate change plans. Moreover, the GEF on Adaptation of Climate Change Impacts on the Coastal Wetlands in the Gulf of Mexico also contributed to promote climate change adaptation.

52. As part of the CPS flexible design, in partnership with PREM, Treasury, and the Disaster Risk Financing and Insurance Program, the Bank also supported the integration of disaster risk within Mexico's broader fiscal risk management strategy. The Bank worked in partnership with Mexico on the first and second multi-peril catastrophe bond (MultiCat bond) and had an active engagement in mainstreaming prevention and risk reduction strategies, as well as promoting disaster and risk financing and insurance activities. [**The outcome was "achieved" and exceeded**.]

E. Thematic Area V: Strengthening Institutions

53. Institutional strengthening was a critical cross-cutting theme in Bank support in most sectors. CPS outcomes supported included: (a) providing the public with information on the efficiency and effectiveness of government organizations and program expenditures; (b)

improving the administration in selected municipal governments; (c) improving customs processes and efficiency; (d) strengthening of fiscal transparency, governance, and accountability; (e) supporting judiciaries institutional performance; (f) improving capacity building and communication practices, and (g) strengthening and modernizing treasury management.

Selected Federal Departments and Agencies Provide Decision Makers and the Public with Rigorous, Timely, User-Friendly Information on the Efficiency and Effectiveness of Government Organizations and Program Expenditures

54. Although the World Bank supported the development of performance information indicators through a combination of financial and knowledge instruments, government demand for the ongoing Results-Based Management and Budgeting Project changed, resulting in a partial cancellation and a reduction of the project's scope. Nonetheless, the project has helped strengthen the capacity of the Ministry of Finance (SHCP) to use standardized performance information of priority public programs during budget preparation. The Bank, however, continued to provide support to different selected federal entities and departments in the review and strengthening of their M&E system strategy, as well as capacity-building activities in other public accounting and oversight institutions. [**The outcome was partially "achieved"**.]

Improved Administration in Selected Municipal Governments

55. With support of an IDF grant for the Creation of a Municipal Management Public Observatory, the Bank contributed to institutional building, strengthening of social accountability, and administration improvement in selected municipal governments. This was achieved through the creation of an online platform, currently under operation, which provides a virtual space to exchange good practice and other valuable knowledge. With the use of this public website, areas where local governments could improve have been identified, which has resulted in the development of improved trainings for local public servants. [**The outcome was "achieved"**.]

Improved Efficiency of Customs Processes

56. The Bank supported the Government in improving the efficiency in customs processes through the Customs Institutional Strengthening Project. This operation aimed to reduce transaction costs, customs clearance time, and a total redesign of processes, among others. The project, approved in 2009, was cancelled 3 years later following the request of the Government due to the lack of optimal conditions to implement this project by the executing agency (SAT). [**The development outcome was "not achieved"**.]

Strengthened Fiscal Transparency, Governance, and Accountability

57. The Bank supported fiscal transparency, governance, and accountability by measuring the satisfaction of Congress and civil society with performance information available via a dedicated government website. Through the support of the Results Based Management project, an active network and portal is now available for citizens since December 2012. The Institutional Strengthening of Congress IDF grants I and II supported the development and implementation of an integrated information management system to be used by Congress staff and members. However, the creation of the monitoring and evaluation system for Congressional performance and technical staff was not accomplished for lack of internal buy-in given changes of management. [**The expected outcome was "partially achieved".]**

Support the Improvement of Institutional Performance of Judiciaries

58. Through the Judicial Modernization Project, the Bank helped implement a new ICT network that provided timely information on demand and supply of justice services in the courts of the Federal District Government which was the only subnational jurisdiction that signaled its interest to access the existing credit line, as other states were reluctant to participate given the lack of coordination between the state governments and judiciaries. The new network has increased the information available. As of 2010, annual statistics reports have been published and disseminated. There is also an online bulletin providing the status and location of cases in courts. However, only 5 applications were uploaded to the ICT institutional platform from the 10 targeted by the completion of the project. [**The expected outcome was "partially achieved"]**.

Improved Capacity Building and Communication Practices

59. By strengthening the institutional capacities of diverse federal and state agencies, the Bank helped improve the availability of information through the implementation of different grants and knowledge services. The IDF grant to support Federal Institute for Access to Information (IFAI) in the adoption of the electronic access to information system (INFOMEX) was successful in expanding and making operational this system to all 31 states and to several autonomous entities that were not initially considered. The National Agrarian Registry (RAN) was also supported by the Bank through the Cadastral Information system IDF. Within the scope of this grant, it was possible to strengthen RAN's capacity to link geographical and legal information and develop a sound technological platform to integrate and analyze data. [**The expected outcome was "achieved"]**.

IV. WORLD BANK GROUP PERFORMANCE

60. To fulfill the challenging needs and demands of a complex middle-income country like Mexico, the Bank successfully developed a thematic engagement model to improve selectivity, effectiveness, and efficiency in delivery in the context of limited IBRD capital. This model reflects the transition to a more strategic and integrated client engagement that seeks to maximize the impact of the package of services (financial, knowledge, and convening services) offered by the WBG. Following the flexible design of the CPS, the model also accounts for the WBG's ability to respond to client needs at federal and subnational levels. Based on the success of the thematic model in the design and implementation of a flexible country strategy, the performance of the World Bank at implementing the CPS FY08-13 has been rated as **"satisfactory"**. This rating focuses on two key dimensions: (a) the design of the strategy and (b) the implementation of the CPS program.

A. CPS Design and Relevance

61. The design of the original strategy was based on support on five engagement principles. The five country engagement principles are: (a) competitive IBRD pricing with a base-level borrowing of US$800 million per year; (b) flexibility in delivering emerging financial services and on-time knowledge products; (c) selectivity in areas of support by focusing on areas of comparative advantage and exiting programs with lack of demand or operational rigidities; (d) fast response in meeting the Government's changing demands with tailored development solutions; and (e) enhanced coordination within the WBG. These principles of engagement were the result of client feedback and the Mexican authorities' desire to maintain a strong relationship with the Bank. To implement these principles and enhance its delivery of knowledge services, the Bank proposed back in 2008 to base its support on a streamline approach. This approach anchored most lending in a large annual DPL supporting

Government's national development priorities, accompanied by an enhanced package of non-lending services.

62. **The implementation of these country engagement principles confirmed the relevance of the strategy and its alignment with Mexico's development priorities; yet, the flexibility of the design made possible a timely and effective response by WBG to the changing needs of the country given the deteriorating international economic environment**. The strategy took into account the need to adjust the program to Mexico's changing circumstances and priorities as a result of the global economic downturn as well as the food crisis and the influenza pandemic. The Bank was able to rapidly align its strategy to the Government's 10 Point Program, which highlighted the countries immediate priorities under the NDP at the time of the crisis. During this crisis period, the Bank also effectively responded by reducing its average time of preparation for DPLs to 5 months in comparison to the 18 months experienced during the past CPS. The CPS was able to identify all critical risks and mitigation measures following the global crisis. None of them affected the implementation of the country's portfolio. The CPS Results Matrix was updated during the CPSPR and then again with this CPSCR in order to include outcomes that were not originally considered. Most outcome indicators were relevant for ongoing CPS objective; and where new or better indicators were available (in four cases), they were used in the assessment. The CPSPR also mapped IFC's strategic realignment to support the gradual recuperation of the economy by strengthening the financial sector, supporting investment in infrastructure and climate change, and helping competitive industries with a special focus on sectors with importance for employment generation such as SMEs. It maintained IFC's pro-active portfolio management, while showing selectivity in its approach to new business to ensure high additionality and development impact.

63. **A rolling business plan where all WBG financial, knowledge, and convening products and packages were accounted for in real time (at entry and exit) helped in maintaining program monitoring and a degree of selectivity**. The constant monitoring of the business plan confirmed the effective selection of areas of engagement and instruments, and helped assess the realism of the expected outcomes and the quality of the results framework. Business plans were also used to communicate World Bank program engagement with central and sector ministries, development partners, and the media.

B. Implementing the Strategy

64. The Bank has been highly successful in mobilizing resources and leveraging co-financing of other organizations and donors to enhance the effectiveness of the overall support provided to the country. The Bank has focused its efforts in developing partnerships and financing packages in areas of common interest, particularly with other financial international institutions (e.g., IMF, IADB), civil society (e.g., Transparency International), bilaterals (e.g., *Agence Française de Développement*, AFD), the private sector/foundations, and the financial markets. One relevant example is co-financing of the *Oportunidades* program with the IADB. IFC also mobilized US$790 million from other private sector partners in the CPS period.

65. **The results-based thematic engagement approach implemented during the CPS period, particularly in regard to human capital mobilization, was highly effective in keeping strong client dialogue and business relations with the private and public sectors in critical areas where the WBG had comparative advantages and was also learning from Mexico's experience**. In particular, the business model of having sector leaders in large country offices was highly effective; these sector leaders are technically and operationally strong to provide inputs to sector management and capture knowledge as programs are implemented.

Decentralized sector leaders are able to develop coordination focal points and integrate sector agendas with sector ministries, country partners, and stakeholders, while representing sector business planning with country management units.

66. **Financial services took on an increasingly important role not only in crisis response but also in advancing Mexico's leading role in the use of innovative financial solutions**. At the federal level, Mexico took advantage of the embedded flexibility of IBRD loans to fix the interest rates on their loans. The Government also signed a master derivatives agreement with the Bank, enabling them to use IBRD hedging products to manage market risk of their overall debt portfolio. Moreover, the implementation of customized solutions provided competitive funding for subnational entities, allowing the Bank to continue its developmental work with these entities. IFC also committed US$580 million to Mexico's financial sector, with volumes increasing in the latter part of the period.

67. **Moving forward after the crisis, the Bank adopted a results-based thematic engagement approach seeking to maximize the impact of Bank's support in a complex middle-income country**. The Bank implemented results-based programmatic knowledge services together with reimbursable advisory services (RAS). This model results in an emphasis on the synergies and linkages between the various activities that help achieve strategic objectives related to the theme, and not just on a set of stand-alone deliverables unconnected to each other. The activities and the associated results framework cover a two- to three-year time horizon. Dissemination and client feedback are an inherent part of this instrument now known as "programmatic approach". At the same time, IFC advisory services had 24 active knowledge projects in Mexico across several business lines with 72 percent of them closing in the period rated successful or higher. Following client's needs, the Bank also provided RAS products more strategically and packaged these services within the overall CPS knowledge agenda. Since 2008, there has been a steady demand of the provision of RAS to the Government (three per year on average), which is indicative of the client's appreciation for the breadth and depth of international experience that the Bank brings to complex development solutions. Mexico is among the largest RAS users in the Bank.

68. **The implementation of the program entailed close supervision and periodic reviews of the portfolio both at the project and country level**. To tackle implementation issues, several CPPRs were held with the active participation of the Government and the Bank's team. At the CPPRs, projects at risk of not achieving their development objectives and projects with slow disbursements were at the center of CMU and sector quality reviews. As a result of these discussions, action plans were agreed with government counterparts, including restructurings and partial cancellations, and strong monitoring and follow-through have ensured a healthy loan portfolio in the context of complex operational engagements in the energy and transport sectors. In addition to CPPRs, the CMU provided to government counterparts — through the Business Plan — with regular updates of its list of activities that classified all WBG activities by theme and type of instrument. This helped government to coordinate joint portfolio improvement efforts. Mexico's fiduciary and safeguards framework is strong, and the Bank is adopting more frequently Mexico's country systems in the implementation of its own projects. Harmonization of fiduciary procedures among other multilaterals and the supreme audit institution, through a memorandum of understanding, contributed to streamlined financial reporting.

69. **A new communication strategy was successfully implemented to promote a new narrative around development impact of thematic multi-year engagements**. First, opportunities were identified and prioritized to showcase the tailored suite of WBG services:

(a) A new corporate narrative was used by senior management (e.g., in presentations, papers, OpEds) and in communication outreach (e.g., public presentations, brochures, websites).
(b) Reputational risk management systems were established through social media monitoring.
(c) Regional and corporate advocacy campaigns were implemented (e.g., World Development Report, LCR Flagship Middle Class, #whatwillittake campaign).

Second, internal and external knowledge sharing was promoted (e.g., participation in Mexico book fairs in 3 major cities – Monterrey, Guadalajara, and Mexico City – reaching more than 10,000 visitors). Finally, a web and online social media strategy was implemented and key partnerships were developed and consolidated. For example, between 2012 and 2013, there was an impressive increase in the number of web-based stories and public presentations displaying multi-year development solutions. During FY12, the number of web-based stores was almost zero (2 per year). By the third quarter of FY13, 114 stories and public presentations were produced. The procurement reform results story, for instance, was published in the Bank's results story compendium and won a Regional award.

70. **Mexico continues to be among the Bank's largest borrowers**. The country is currently the largest IBRD borrower with US$14.78 billion outstanding debt as of September 30, 2013, representing some 10 percent of the IBRD total portfolio. As of June 30, 2013, the active portfolio consisted of 13 IBRD projects and 5 full GEF operations for a net commitment of US$4,557.8 million of which 34 percent remained undisbursed (Table 2). The number of projects under implementation has remained in the range of 18-23 operations throughout the CPS period. The average age of IBRD projects dropped from 4 years in FY08 to 3 years in FY12, but increased to 4.1 years in FY13 with the extension of several energy and GEF projects. Since 2008, IEG has evaluated 22 projects of which 64 percent have been rated between "satisfactory" and "moderately satisfactory". Regarding quality at entry, 50 percent of these 22 projects were rated between "moderately satisfactory" and "highly satisfactory", while 77 percent were rated in this same range for quality at supervision. Average of projects at risk has remained in 4 projects per year and involved complex innovative energy projects with procurement issues that needed to be restructured. Efforts to further increase implementation have focused on the gradual adoption of country systems.

Annex 2 Table 2. IBRD Portfolio Performance, FY08-13

Variable	FY08	FY09	FY10	FY11	FY12	FY13
Number of Projects	19	20	23	22	23	18
Net Commitments (US$ M)	2,165.8	3,949.0	6,908.4	7,637.6	7,775.5	4,557.8
Number of Problem Projects	3	5	3	3	2	7
% Problem Projects	16%	25%	13%	14%	9%	39%
% Net Commit at Risk	7%	9%	8%	4%	1%	8%
% Proactivity	50%	67%	100%	67%	33%	100%
% Realism Index	79%	100%	83%	55%	28%	100%
Tot Undisbursed Balance (US$ M)	1,158.3	2,102.6	3,802.6	3,641.0	3,201.1	1,579.0
Disbursement Ratio (Investment Only)	43%	214%	80%	49%	31%	46%

Data includes GEF operations

71. In FY13, IFC committed portfolio in Mexico reached US$1,584 million, of which US$940 million is outstanding (disbursed) (Table 3). The portfolio consists of 54 different clients in more than 14 industries. Disbursement rates have increased in the past two fiscal years above the FY08-11 average, reaching US$902 million in FY13. Development outcome scores of Mexico's portfolio are also improving: although the percentage of projects rated successful in the CPS period is below the IFC average; FY13 results were rated 81 percent successful or higher. For IFC as a whole, Mexico ranks number 7 of the 138 countries representing 3 percent of IFC total portfolio as of end-June 2013.

Annex 2 Table 3. IFC Portfolio, FY08-13

IFC Variable	FY08	FY09	FY10	FY11	FY12	FY13
Number of Projects	9	12	11	14	14	14
Commitments	149	84	338	188	369	1,346
Mobilization			207	144		440
Own account + Mob	149	84	545	331	369	1,786
Portfolio (net commitments)	1,000	781	1,075	1,003	1,188	1,584
Outstanding Portfolio (exposure)	693	611	759	791	955	940
DOTS Development Outcome (% successful)*	60%	60%	57%	47%	67%	81%

**housing sector not included*

V. LESSONS LEARNED AND RECOMMENDATIONS

72. The FY08-13 CPS was designed to be flexible and innovative in responding to Mexico's development needs. This flexibility allowed the Bank to respond expeditiously to the Government's requests when the global economic downturn hit the country. The implementation of Mexico's past country strategies reflect a transition to a more strategic and integrated client engagement maximizing the package of services offered by the WBG. The CPS was able to improve alignment, operational efficiency, and impact through the use of more focused interventions and programmatic knowledge approaches, greater wholesaling resource and budget mobilization, real-time learning and adaptation, and exit of program areas where value added, comparative advantage, and impact was no longer aligned with the evolving program.

73. **Results framework and flexibility**. At the time of the progress report the results framework was adjusted to reflect the more selective approach that was adopted in the meantime and to identify improved quantitative indicators. Corporate requirements at the time asked for only one progress report, leaving little flexibility for additional adjustments. Therefore, when for example the climate change agenda emerged in the strategic agenda with the client, it could only be included as a separate outcome at the time of this completion report. The changed corporate guidelines for CAS products now allow more flexibility to adjust the program at several points during implementation, and the next CPS should take advantage of it.

74. **Working with subnational clients**. A MoU with the State of Oaxaca proved to be a successful strategy to support the poorest states or regions of Mexico. The MoU itself is not designed to be restrictive, with the nature of objectives, instruments included, and level of formality dependent upon the level of depth of engagement. The MoU has also served to deepen dialogue, monitor implementation, and assess impact within the framework of a programmatic engagement. Hence, the Bank shall continue to close the knowledge gap by working at the subnational level to support poor states in Mexico following the experience thus far in

supporting the State of Oaxaca Annex 3 contains a short summary of the Oaxaca MOU and result of the partnership.

75. **Continued support of Mexico's role as a global knowledge leader**. As an innovative middle-income country, Mexico has increased its engagement in learning with other developing countries across a wide variety of subject areas. During the previous CPS period, Mexico engaged in approximately 33 knowledge exchanges, and the country is widely recognized as a global player on environmental sustainability and a pioneer among developing countries in climate change policy and negotiations. The WBG should thus continue supporting the Government in exchanging knowledge with other countries. There is a strong potential for global knowledge brokering with the Bank as the global connector.

76. **Exposure limits**. With the Government being so close to the single borrower limit, it is advisable to agree with our counterparts on a very selective package of financial, knowledge and convening services with customized results-focused development solutions in areas where the Bank can provide value added. In this context, it would also be important for the WBG to continue with its efforts in leveraging resources from the WBG and other development partners in support of the Government's program.

77. **Bank-IFC-MIGA cooperation**. Bank-IFC cooperation on specific areas around their core competencies should improve effectiveness. Strategic coordination in the implementation of complementary interventions by the Bank and IFC is critical in achieving common goals in areas such as improving competitiveness and business climate, access to financial markets, and infrastructure development activities. MIGA engagement with Mexico is emerging, and IBRD and IFC would work closely to support MIGA's successful in-country transition.

78. **Lending instruments**. During crisis periods, the use of the additional financing instrument proved simpler, faster, and more cost-effective for the borrower, compared to other lending tools. Budget support loans (DPLs) can pave the way for many other Bank-financed operations; and in turn, those operations enrich the dialogue to develop further sequenced DPLs. Also, during the economic crisis, DPLs proved to be effective tools in sustaining progress and protecting long-term reform agendas in the face of negative external shocks. Multi-sector SWAP operations may not be practical in the Mexico context since they require significant effort to design and supervise and potentially dilute the Bank's ability to provide just-in-time policy advice and technical assistance.

79. **GAC**. Although anti-corruption measures aim to limit exposure to fraud and corruption risks in MIC countries with strong fiduciary frameworks, these same measures limit the flexibility to quickly prepare and disburse operations. Particularly in emergency situations, there is room for further work to find balance in the way the Bank engages on corruption issues.

80. **Knowledge services**. Trust fund resources were indispensable for providing technical assistance to advance the government reform program and to strengthen coordination among key stakeholders. In addition, grant resources were very important to finance aspects of studies that may be overlooked, especially in areas of environmental and social concerns. Reimbursable advisory services can be a powerful instrument, but the Bank could avoid over specifying procedures. The Bank is working to have one negotiated standard reimbursable contract, which should facilitate negotiations. Programmatic approaches proved to be remarkable instruments in the focalization and prioritization of Bank's interventions in Mexico. In general, further dissemination is required to spread the findings of several Bank studies to the local level. This is very important since many issues to be solved require changes at the subnational level.

CPSCR Annex 1. Summary of CPS Program Self-evaluation

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
Thematic Area I: Accelerating Growth			
1. Countercyclical fiscal policies during 2009 while adopting measures to enhance medium-term fiscal sustainability for 2010 and beyond, including an increase in non-oil tax revenue and improvements to public expenditure mgmt. **Indicator:** Non-oil tax revenue as a percent of GDP would increase to 10.3 percent in 2010 (Baseline 10.0 percent, 2008). Baseline (2008): 10% Target (2010): 10.3% **Actual (2013): 9.9% (expected)** **(2014):10.3% (expected)**	**Partially Achieved.** Despite the crisis, non-oil tax income increased from 9.9 percent of GDP in 2008 to 10.0 percent in 2010 (less than the 10.3 percent expected in the DPL). As part of the reform process supported by the Bank, an originally proposed 2 percent consumption tax was substituted by a 1 percent increase in the general VAT rate. Minor modifications were also introduced to the proposal for the enhancement of the income tax regime, while an excise tax on beer increase and the newly introduced excise tax on telecommunications were adjusted downward. These modifications contributed to moderating the increase in non-oil tax revenue as a percent of GDP from 9.5 percent in 2009 to 10.0 percent in 2010, instead of the 10.8 percent under the administration's initial proposal. Despite a more modest outcome, the non-oil tax revenue continued to increase from an average of 8.7 percent of GDP during the previous administration (2001-2006) to 9.5 percent during the first half of the 2007-2012 administration. Although non-oil tax revenue is expected to be 10.0 percent in 2013, and decline thereafter based on the Mexico 2012 IMF Article IV Consultation (released in November 2012), a fiscal reform is expected to be approved on October 31st, 2013. The positive changes of this reform are expected to be included in the Mexico 2013 IMF Article IV Consultation (to be released in November 2013). As a result of a fiscal reform that was approved on October 31, 2013, the Mexican Ministry of Finance expects to raise non-oil tax income from 9.9 percent in 2013 to 10.3 percent in 2014 (source *Criterios Generales*	**Financial:** **FY10:** Economic Policies in Response to the Global Crisis Development Policy Loan (P118070) CD: 31-Dec-2010 **Knowledge:** **FY12:** PSIA - Poverty & Social Impact Analysis MDTF (TF097880) **FY13:** Fiscal Federalism Study (TF099048) **FY13:** Fiscal Management -child PKS (P129942)	Budget support loans provide timely and successful financial assistance to the Government but impact can be limited by constrains. The interests and political strengths of stakeholders and groups in the reform process may help tailor successful reforms and provide realistic expectations of reform outcomes. Important pending issues remain in terms of the fiscal sustainability and distributional equity of the Mexican fiscal system. Research regarding the impact of further reforms is likely to be demanded in the future.

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
	de Política Económica 2014). As part of the reform process supported by the Bank, it is important to notice that programmable spending increased from 18.2 percent of GDP in 2008 to 19.9 percent in 2010 (more than the 18.7 percent anticipated in the DPL, but down from 20.5 percent observed in 2009, partly explained by the strong recovery in 2010); and the public sector borrowing requirements increased from 1.6 percent of GDP in 2008 to 3.4 percent in 2010 (slightly more than the 3.1 percent expected in the DPL). A program of knowledge services built on the reform agenda of the DPL. A PKS in Fiscal Mgmt. was successful in informing policymakers of the fiscal pressures Mexico could face, contributing to the dialogue between the Bank and the gov't on the fiscal reform.		
2. Implementation of regulatory reforms to foster financial sector access, consumer protection and stability. **Indicator:** Number of total outlets to increase by 35 percent (Baseline 2008: 10,354); measured down-market lending by development banks Baseline (2008): 10,354 Target (2010): 35% increase **Actual (2010): 20,287 (96% increase)**	**Achieved and Exceeded.** Bank interventions supported medium-term financial institutions building activities. A package of ongoing financial and technical operations with BANSEFI contributed to provide access to financial services to more than 600,000 low-income families in marginal areas. In rural areas the number of outlets offering financial services rose nearly threefold to 1.45 per 10,000 adults. For Mexico as a whole the number of outlets providing financial services increased to 20,287 from 10,354 in 2008. Crisis support included (i) a crisis simulation exercise that achieved all its objectives; (ii) several grants for assessing the poverty and distributional impacts of the financial crisis also were very successful. IFC supported the financial sector on enhancing competitiveness and promoting investments in new areas for private sector participation. IFC worked together with (i) SHF in developing HF products aimed at lower income households; (ii) worked together with *Progresemos* to develop local capacity in efficiently servicing microloans in frontier regions of Mexico, through a US$3.7 million loan and US$1.3 million	**Financial:** **FY03-FY11**: Savings and Credit Sector Strengthening and Rural Microfinance Capacity Building (P070108) + AF; CD: 28-Feb-2011+ Grant: Strategy for Access to Financial Services in Mx Rural Areas (TF098983) **FY04:** Mexico Savings & Rural Finance (BANSEFI) Project - Phase II (P087152) AD:29-June-2004; CD:31-Jul-2012 **FY08-FY12**: Alta Growth Fund - Private Equity Fund (IFC) **FY08-FY13:** Agrofinanzas - Farmers lending (IFC 26206) **FY09:** Mexico Global Cat Mutual Bond Risk Mod (P111257) **FY09-FY13:** Progresemos-Microfinance (IFC 26338) - **FY10:** Banorte-Commercial banking (IFC 28213) **FY10:** Finterra - SME Banking, Agribusiness Finance (IFC 575848) **FY10**: Microcred -Microfinance (IFC	The Bank can help assist with the construction of indicators and monitor policy impact to provide an informed basis to adjust policies to enhance development outcomes, particularly in fiscal areas. A technical assistance effort focused on sector entity improvement needs to be a medium-to-long term initiative, ranging between 4-6 years, for it to produce solid institutions. Government should allow for a longer lead time for the entities to get certified and encompassed under a regulatory framework. A technology platform is crucial to bring the sector entities together as an inter-connected network of rural financial intermediaries. In order to reach low-income households, where literacy rates are low and functional literacy is practically nonexistent, efforts need to be made in the area of social intermediation. Where the sector consists of a large number of initially poorly performing entities, which

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
	advisory services project plus a $0.6 million investment in *Compartamos* (after its exit as shareholder, IFC also extended a US$17 million loan in 2011 and provided assistance in implementing a development center for hurricane victims as a relief response to natural disasters in Chiapas); (iii) provided support to *Microcred*; and (iv) supported SME Finance/Agribusiness investments in *Finterra* with a complete package of advisory services to improve credit risk management practices and main-streaming their credit evaluation process, and in *Agrofinanzas* with additional capital to help transform it into a bank.	547865) **FY11**: Compartamos- Micro credits to women (IFC 29634) **FY11**: Alta Ventures - Private Equity Fund **FY11**: Strengthening the Business Environment for Enhanced Economic Growth DPL (P112264) **FY12:** Savings and Credit Sector Consolidation and Financial Inclusion Project (P123367) CD: 31-Jul-2015 **FY12**: Mifel - SME Banking (IFC 29030) **FY13:** CHG El Camino - Leasing Services (IFC 30731) **Knowledge:** **FY08:** Financial Sector Competitiveness (P106025) **FY08:** Anti-Money Laundering /CFT Assessment of Mexico (P110383) **FY09:** Global Cat Mutual Bond Risk Mod (P111257) **FY09**: IFC-Access to capital for mortgage sofoles (IFC 548185) **FY09:** HF Cajas Mexico - Housing Finance (IFC 567848) **FY10:** MX Capital Markets (P114097) **FY11:** Financial Literacy in Mexico (P121967+ TF096913) **FY11:** Mexico Insolvency and Creditor Rights (ROSC) (P119779) **FY11:** PPIAF Pooled Bond Issue Quintana Roo (TF094649) **FY12:** Financial Sector Assessment Program (FSAP) - Mexico (P127554) **FY12**: Mexico: Financial Crisis Preparedness TA (P120524 + TF095837 - FIRST 9051) **FY12:** Assessing Poverty and	most likely need to be merged or liquidated, the political ramifications emanating from liquidation could easily jeopardize the sector consolidation process. For projects that overlap over time and have similar objectives, they would benefit from a holistic evaluation, rather than individual ones. Several markets present the resistance of family owned companies to opening their capital base. The problem should be considered within an "ecosystem" where actions and regulations for each segment of the ecosystem should be recommended. Preparation for how to respond to a crisis – including the analysis necessary to guide these responses– should be done prior to the onset of a crisis.

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
		Distributional Impacts of the Financial Crisis (TF094729) **FY13:** Developing Markets for Risk Mgmt. (P130076) – *also in Thematic Area IV* **Convening:** Seminar on disaster Risk Financing Mechanisms for the Mexican States.	
3. Enhancement of short-term employment support programs while developing medium-term reforms for labor market efficiency and labor productivity. **Indicator:** Beneficiaries hired under the temporary employment program over the 2009-2010 period ranches 600 thousand people annually Baseline (2008): 365,000 Target (2010): 650,000 Actual **(2009): 682,800** **(2010): 897,000**	**Achieved and Exceeded.** The number of beneficiaries hired through PET increased from 365,000 in 2008 to 897,000 thousand in 2010, surpassing the CPS outcome indicator. According to the Independent Evaluation Group (IEG) Review (P118070 - April, 2012): "The number of beneficiaries and number of work shifts contracted through PET exceeded targets, and both more than doubled. Efficacy in labor sector policies is rated substantial." The Economic Response DPL supported the expansion of the Temporary Employment Program (PET). The DPL built on the Bank's close collaboration through knowledge services with the Ministry of Social Development (SEDESOL). An analytical study on the PET showed that the program was able, as a response to the 2009 crisis, to increase its allocation of resources towards regions with increased levels of unemployment. A series of FBS provided a diagnostic and an action plan to increase income and employment for the urban poor among other findings. Two MoUs coordinated the delivery of a series of poverty diagnostics, policy papers, and micro-simulation exercises on the targeting of social programs, poverty diagnostics, labor productivity for the poor, and female labor force participation and the production of new labor productivity data in the services sector (supported by the Spanish Trust Fund for Latin America and the Caribbean - SFLAC).	**Knowledge:** **FY08**: FBS SEDESOL Increasing the Productivity of the Poor (P109739) **FY10**: FBS Productivity of the Poor (P116539) **FY10**: Mexico Poverty Employment Social MOUs (P120569) **FY10**: Mexico Poverty and Employment Knowledge and Coordination Services MOU (P113759) **FY11:** Mexico Poverty Employment Social KAS (P123304) **FY11-FY13:** Labor Productivity in the Services Sector in Latin America SFLAC	It is important that more effort is exerted in improving the quality of surveys and provisions should be made for the linking of the survey data to administrative data. The publishing of aggregate tabular data on reported gross income and taxable income (by all sources and by type of tax payer) would allow evidence-based adjustments to the ENIGH data (either through the application of factors that vary across the income distribution and by individual characteristics, or through re-weighting the data). This would be a significant improvement on the status quo. There is also need for significant research on the behavioral response to taxation, both in terms of labor supply, and in terms of the classical incidence of indirect taxes. A labor reform bill was already put forth by the new administration. The WB produced a package of policy briefs for the new government; among them a note on labor issues that highlights the issue of productivity. The ongoing work via several trust funds will be an important contribution to efforts to collaborate with the new government on labor productivity.

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
4. Improved competitiveness by lowering international trade costs via reduction of MFN tariffs and simplification of the trade tariff regime and customs processes. **Indicator:** A reduction in the average tariff for manufactured imports to 5.3 percent Baseline (2008): 10.4% Target (2010): 5.3% **Actual (2010): 5.3%**	**Achieved.** The Economic Response DPL and a package of knowledge and convening services on agricultural trade supported Mexico's efforts in reducing trade costs. The GoM reduced tariff rates and increased the number of duty free tariff lines for imports from countries without trade agreements or tariff preferences negotiated by Mexico, resulting in a simpler tariff structure. The average general MFN tariff rate fell from 10.4 percent in 2008 to 5.3 percent in 2010, and will be further reduced to 4.3 percent by the end of 2013. Based on IEG Reviews of Bank operations (P112264 – ICR April 17, 2012): "Efficiency in trade sector policies is rated high". In addition, several indicators were used to measure progress towards simplification of tariff regime. The reduction in rates and increase in the number of duty free tariff lines resulted in a simpler tariff structure. The number of duty free tariff lines was increased from 20 percent in 2008 to 58.7 percent in 2010 and to 61 percent in 2011. The reforms supported by the Bank rationalized the borrower's tariff structure, reduced distortions, and simplified Mexico's trade regime. Regarding customs processes, the Government also implemented other reforms with the active support of the World Bank Group aimed at reducing trade costs, facilitating trade, and improving customs administration. Although the Mexico Customs Institutional Strengthening Project (47396-MX) was cancelled (see outcome 25), the Bank supported the creation of the Single Trade Window (STW) as part of the Strengthening the Business Environment for Enhanced Economic Growth DPL (Report 58431-MX, December 15, 2010). The STW became operational for the 21 trade processes linked to the General Customs Administration (part of SAT) in mid-January 2012. Moreover, the CATT improved trade quality by promoting excellence in customs performance management.	**Financial:** **FY10:** Economic Policies in Response to the Global Crisis Development Policy Loan (P118070) – *Also as part of CPS Outcome 1.1* **Knowledge:** **FY08**: Agricultural Trade (P101273) **FY09:** Agriculture PER (P101358) **FY11:** Customs Assessment Tool for Trade (CATT) (TF095406) **FY12:** Royalties reform for the Mining Sector (P125795) **Convening:** **FY13: SSKE:** AgriFin Study Tour (P133238)	To make well informed decisions, the government should weight the tradeoffs of policy options based on considerations such as cost, sequential importance, technical difficulty, risks, and impact. Policy options could promise greater benefits in the longer run, others could be targeted for quick action.

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
Thematic Area II: Improving Competitiveness			
5. Strengthening and expanding the Government's Quality School Program. **Indicator:** Increase of basic education schools participating in PEC from 10.3 percent to 15.8 percent. Original Baseline (2005/2006): 10.3% Updated Baseline (2010): 20.3% Original Target (2009): 15.8% Updated Target (2014): 23% **Actual**: The original baselines and targets correspond to the School Based Mgmt I. By 12/30/2009, the target was surpassed with 20.35% of basic schools participating in PEC. Baseline in 2010 for School Based Mgmt II increased to 20.3% and target was set at 23% for 2014. However, this target was achieved and surpassed in 2012 reaching 26.7%.	**Achieved.** The series of APLs for School Based Management helped increase the number of basic education schools participating in the quality improvement program from 39,000 to over 50,000. By end December 2012, the June 2014 targets on the percentage of PEC schools in marginalized areas, as well as the percentage of indigenous schools participating in PEC, had nearly been reached. As of June 2013, over 26 percent of all basic education schools are participating in the PEC program, up from 20 percent in 2010. Several technical studies have been carried out with Bank support to improve the performance of the School Quality Program (PEC).	**Financial:** **FY06:** School Based Management Project I (P088728); **FY10:** School Based Management Project II (P115347) Knowledge: **FY10**: Mexican Alliance for Education Quality (P112567)	Top-down solutions are often inefficient and do not work on the ground. This was a central observation made during the School Based Management project design, based on the international literature. Targeting is complicated, given the multiple objectives of the PEC and the political realities. Creating legal autonomy does not automatically lead to changes in school management.
6. Greater support for improved coverage and quality of education in poor municipalities. **Indicator:** Increase the percentage of poor schools participating in the School Based Management	**Achieved.** The School Based Management I project contributed to increase the number of schools participating in the Quality Schools Program (PEC) from 10.3 percent during 2006 to 20.35 percent in 2009. The percentage of poor schools located in highly marginalized and marginalized areas participating in the PEC program also increased from 38.4 percent in 2010 to 44.5 percent in 2013 (the project is on track to meet the 55% outcome	**Financial:** **FY06:** School Based Management Project I (P088728) **FY10:** School Based Management Project II (P115347)	Several factors worked well for sustaining the project's benefits over time, and Mexico's ability to continue to make progress in ensuring that the poorest segments of its population have access to high quality basic education, in an efficient manner: (i) the activities supported by the project continue to be fully consistent with the national education policy; (ii) CONAFE (implementing agency)

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
Program *(located in highly marginalized and marginalized areas)*; Baseline (2010): 38.4% Target: (2014):55% Actual: (2013): **44.5%.** *(No indicator was linked to this CPS outcome in the CPSPR Matrix; the indicator that is reported in the CPSCR was taken from CPSPR matrix but was originally linked to outcome number 12: "Improve access to ECD services and learning…")*	for 2014).		is a mature, strong institution, with well qualified staff, capable of coordinating the implementation of a complex program efficiently.
7. Improved relevance of upper secondary education. **Indicator:** Competence based curriculum is implemented in all federal upper secondary schools. Baseline (2010): 0 (No curriculum) Target (2011): 50% **Actual (2011): 100%**	**Achieved and Exceeded.** The Bank supported the Government through a series of Development Policy Loans (DPLs). These DPLs supported the implementation of the Upper Secondary Education Reform. By 2011, 100 percent of federal schools implemented the competence-based curriculum, well above the 50 percent target. Improvements in student learning can be seen by ENLACE scores in Mathematics surpassing their targets, with 30.8 percent scoring good or excellent in the test as compared to 15 percent at the start of the project, and improved transition from lower secondary and completion rates for students from the poorest quintile (from 57 percent to 62 percent and from 47 percent to 48 percent, respectively).	**Financial:** **FY10:** Upper Secondary Education (MUSE) DPL (P112262); CD: 30-Jun-2011 **FY12:** Second Programmatic Upper Secondary Education Development Policy Loan (P126297); CD: 29-Nov-2013 **Knowledge:** **FY09:** Programmatic AAA: Mexico Secondary Education 1st phase Programmatic (P106567). **FY09**: Programmatic AAA: Mexico Secondary Education 1st phase Programmatic (P106567). **FY13:** Support for Improving Equity in MX Upper Secondary Education Reform (TF011538) **Convening:** **SSKE:** Upper Secondary Reform with Ecuador	Implement a flexible research and policy analysis program. Mexico has a strong policy research capacity and the *Subsecretaría de Educación Media Superior* (SEMS) has been proactive in developing a robust program and evaluation. The Bank's role should focus on providing particular inputs into policy research as opposed to leading the research agenda. Further dissemination is needed to spread the findings of the Mexican Alliance for Education Quality Study to the local level. This is important since the upper secondary level requires reform at the local level.

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
8. Equitable expansion of Tertiary education through student assistance. **Indicator:** (a) Number of graduates from tertiary education in Mexico; Baseline (2003): 296,000 Target (2009): 432,000 Actual (2009): 475,00 (b) Share of 18-24 year-old students in tertiary education from households classified at the two lowest quintiles of the income distribution Baseline (2003): 5.5% Target (2009): 8% **Actual (2011): 20%** *(The CPSPR indicator for this outcome was: "increase of low income students from tertiary education from 3.4% to 7.5%". This indicator changed due to a project restructuring of the Tertiary Education Student Assistance (P085593) project. The two new indicators capture the original CPSPR indicator that aimed to measure an increase of low income students in tertiary education in Mexico).*	**Achieved.** Through a series of APLs on Tertiary Education Student Assistance, the number of graduates from tertiary education in Mexico increased from 296,000 in 2003 to over 475,000 in 2009, and the share of 18 to 24 year-old students in tertiary education from households from the two lowest quintiles rose from 5.5 percent in 2003 to more than 20 percent in 2011, well above the 8 percent target for 2009. IFC successfully supported the UAG in the construction and renovation of its facilities. Moreover, IFC worked with FINEM to expand its lending operations to provide loans to students. With IFC investment, *Edilar* financed the sale of additional products to public sector teachers, as well as the lending of resources for continuing education.	Financial: **FY06:** Tertiary Education Student Assistance I (P085593); **FY11:** Harmon Hall - English language school (IFC 29753) **FY12:** FINEM SME - Lending to the education sector (IFC 28680) **FY12:** UAG -Private university in Guadalajara (IFC 30445) **FY13:** Edilar-Educational material content (IFC 31095)	When project finance is not additional, but rather a source of financing for the overall fiscal budget, a clear understanding about how budget for project-supported activities is provided is essential. More care is needed to mitigate against the impact on projects due to a change in administration (as happened with respect to this project in 2006) that is often accompanied by changes that reach far down into the executive. In a sophisticated middle-income country like Mexico, it is not possible to ring-fence a Bank-financed project from the broader, more complex government program. In the case of this project, as the size of the PRONABES program expanded, project restructuring could have included a revision in the project financing plan to include all government financing to PRONABES.
9. Improved human skills, infrastructure, links between local and global companies, financing and legal and regulatory framework for IT.	**Partially Achieved.** The Bank provided support through the Innovation for Competitiveness and the IT Development projects. The number of companies with technical capacity, quality standard certifications, and access to new markets increased to 413 in 2012 (well above the 390 target for 2014). Total private R&D also increased from 0.15 in	**Financial:** **FY05:** Innovation for Competitiveness APL - First Phase (P089865); CD: 31-Dec-2010 **FY08:** Lending: Information Technology Development (PROSOFT) (P106589; CD:31-Dec-2014	The Information Technology project was designed with strong private sector participation. The government's role would thus be limited to the PPP concept design and promotion and also contributing minimum public funds to mitigate risks for private sector investments.

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
Indicators: (a) Number of companies with technical capacity, quality standards certifications and access to new markets; Baseline (2008): 0 Target (2014): 390 Actual (Dec 2012): 413 *(Indicator (a) for this outcome was modified to reflect the change in the indicator of the Information Technology project after Mid-Term Review).* (b) Total private research and development (R&D) as percent of GDP from 0.19 percent to 0.31 percent. CPSPR Baseline (no date): 0.19% CPCR Original Baseline (2004): 0.12% CPSCR Revised Baseline (2004): 0.15% CPSPR Target (no date): 0.31% APL Original Target (2009): 0.20% CPSCR Revised Target (2009): 0.23% **Actual (2009): 0.17%** *(The discrepancy between the baseline and the target between the CPSPR and the CPSCR could be attributed to observations not available today, Yet, the APL revised baseline*	2004 to 0.17 percent in 2009 but below the 0.23 percent target (2009) *(as part of the Innovation for Competitiveness project, the baseline value for 2004 was informally revised from 0.12% to 0.15% based on availability of updated data. The target for 2009 was informally revised accordingly from 0.20% to 0.23%. These targets were revised based on more accurate data from the 2006 innovation survey and revisions to the methodology of the historical GDP series).* Moreover, tax simplification and reduction in the number of tax declarations and payment procedures by businesses benefited the private sector with substantial time (40 percent) and cost savings (over 0.1 percent of GDP). Although the number of agreements to streamline public procurements procedures fell short of the DPL target, the project was successful in mobilizing annual private investment in infrastructure surpassing the MX$15 billion target. The Bank also contributed with the Doing Business reports that provided critical reform benchmarks within Mexico	**FY11:** Strengthening the Business Environment for Enhanced Economic Growth DPL (P112264); CD: 31-Dec-2011 **Knowledge:** Doing Business Report	The availability of a talent pool that is conversant with English language is one of the key drivers of investments in the IT/ITES sector. It was necessary then to include a component of English language training in the project. A DPL approach was rejected on the information technology side because there are no major reforms required to remove bottlenecks in the IT sector and reforms in other sectors (i.e. Education) could not be implemented in practice in the short-term.

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
and target should be used to assess this outcome)			
Thematic Area III: Promoting Social Inclusion			
10. Increase capacities in health, nutrition and education of poor families through human capital investment by promoting regular health check-ups, improving health status, and raising school enrollment and attendance rates. **Indicators:** (1) At least maintain the current level of families participating in *Oportunidades*, 5.2 million; Baseline (2008): 5.04 million Target (2012):5.2 million Actual (2012): 5.85 million (2) 3 million increase in the number of children participating in *Oportunidades*; Baseline (2008): **7.22** million Target (2012):3 million increase Actual (2012): 12.14 million (3) Pilot mid-wife support in the poor municipalities (At least 30) - *Indicator dropped from the Oportunidades project –*	**Achieved.** Through the *Oportunidades* Loan and its Additional Financing, as of December 2012, 5.8 million families were participating in the program and the target to increase the number of children participating in *Oportunidades* was surpassed. Extensive technical support was provided under the programmatic Social Protection which included a strategic review of the *Oportunidades* Program, technical assistance to review the Nutrition's program, a review of state coordination model, among others. Also, as part of knowledge exchanges, during the CPS period, *Oportunidades* received numerous delegations from countries around the world.	**Financial:** **FY09:** Support to *Oportunidades* and AF (P115067+ TF096356+ TF098119) **FY11:** Additional Financing (P122349) - CD: 12/31/13 **Knowledge:** **FY12:** Programmatic Social Protection for the Poor (P116169) Scale Up Nutrition (TF098119) Poverty and Nutrition Maps FBS (P117527) Contigo Vamos Evaluation (TF096356) **Convening:** **FY09-FY10:** SSKE: SEETF Effective Cash Transfers Program Lessons across Honduras, Belize, Mexico And Jamaica (3/2009-9/2010) **FY09-FY11:** SSKE: Tackling Extreme Poverty in Bolivia (TF094130) 4/2009-3/2011 **FY11-FY12:** SSKE: Beyond the Transfers: Building Capacity through Knowledge Exchange on CCT Programs in LAC. 5/2011 - 6/2012. **FY12:** SSKE: CCT Programs in Mexico and Colombia (4/2012 - 5/2012) **FY12-FY13**: SSKE: Exchange on Poverty Committees building and functioning in Latin America and the OECS (11/2011 - 01-2013) **FY13: SSKE:** Study Tour to Mexico – *Oportunidades* (10/2012)	The Bank played an important and effective role during the crisis supporting social Protection Programs. According to an analysis done by CONEVAL, extreme poverty levels would have been even higher, particularly in rural areas, in the absence of social protection programs such as *Oportunidades*. The additional financing instrument became the best mechanism to continue Bank's support to *Oportunidades*. The use of the AF was simpler, faster, and more cost-effective for the borrower, compared to other lending tools. CCT programs cannot be thought of in isolation from other social policies. In particular, achieving the human capital accumulation goals sought by CCT programs will typically require adaptation of the supply of social services, including expanding coverage and improving quality. CCT programs will not be able to break the intergenerational transmission of poverty if there are no jobs or adequate livelihoods available when assisted children become earners in their own right.

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
as per agreement with government.			
11. Preserve and expand the Popular Health Insurance's coverage of poor and informal worker families, and to strengthen its financing and affiliation systems. **Indicator:** Number of individuals affiliated with the Popular Health Insurance increased from 30.5 to 45 million. Baseline (2008-2009): 30.5 million Target (2013):45 million **Actual (2013): 52.9 million**	**Achieved.** With support of the Social Protection System in Health project, the Bank promoted access to healthcare for the poor. PHI affiliates increased from 27 million at the beginning of the CPS period, to more than 52 million at the end, well above the 45 million target. The project also increased the affiliated indigenous individuals by 15.2 percent between 2005 and 2009 and saw an increase in the percentage of health facilities accredited to guarantee access to PHI beneficiaries from 10.7 to 62.4 percent in the same years. Several knowledge exchange events were conducted as part of Bank's support to this CPS outcome.	**Financial:** **FY01:** Basic Health Care Project III (P066321) **FY10:** Support to the Social Protection System in Health (P116226); CD: 12/31/13 Centro Médico Puertas de Hierro - Health services (IFC 26323) - FY08, (IFC 22539) – FY05, (IFC 27603) – FY099 Mexico Hospitals - PPP (IFC 26388) - FY11 Hospitalaria- Health services (IFC 30281) - FY13 **Knowledge:** **FY12:** Social Protection PKS (P116169) **FY12:** Universal Health (P120697) **FY12:** Health System Modernization (P106709) **Convening:** **FY12:** SSKE: Exchange on maternal mortality - Study Tour (4/2012) **FY12**: SSKE: Global Knowledge Exchange Activity on Health Financing in Mexico (5/2012 - 6/2012). **FY12-FY13**: SSKE: Exchange with Argentina's Plan Nacer - virtual exchange + study tour (5/2012 - 9/2012). **FY13:** SSKE. Exchange on maternal and neonatal health (Study Tour). 9/2012	In highly decentralized systems, there is a need for comprehensive health sector reforms to be implemented successfully at the local level. The introduction of health insurance can yield major improvements in the performance of a health system, but the full potential impact will only be realized if beneficiaries are empowered.
12. Improve access to ECD services and learning outcomes of children in the most marginalized municipalities of Mexico.	**Achieved.** The ongoing Compensatory Education project has supported the increase of children attending ECD sessions by 30 percent (51,530) between 2010 and 2013 and the number of parents attending these sessions	**Financial:** **FY10:** Compensatory Education (P101369) – CD: 30-Jun-2014 **Knowledge:**	An APL is a useful instrument to support implementation of a government program where a long-term involvement may be necessary to produce expected outcomes. When designing projects and corresponding

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons and Suggestions for the new CPS
Indicator: 35 % increase in children from 43,241 to 58,685 attending early childhood development programs in poor municipalities. Baseline (2010): 43,241 Target (2014): 58,685 **Actual (2013): 51,530** *(Originally, Outcome 12 had two indicators in the CPSPR Matrix. The first one: "Increase the percentage of poor schools participating …" was moved to Outcome 6 in the CPSCR given that it better captures the engagement in that area. The second indicator remains unchanged in the CPRCR and fully captures the Bank's support to improve access to ECD services).*	increased from 38,620 in 2009 to 49,447 in 2012, exceeding the end of year target. It is expected the project will reach its target 58,685 during its final year of implementation. Several knowledge products were produced that contributed to improve access to ECD services. An impact evaluation to measure the impact of empowering parental participation in the PEC was also conducted.	**FY10:** Comparative analysis of Child Care Programs: Benchmarking of Mexico's Child Care Program to Support Working Mothers **FY12:** Mexico Ages - Strategic Impact Evaluation (TF094146) (P118546 + TF095460) **FY13**: MX- (JIT) Citizen Security NLTA (P143218)	Bank loans with both relatively fast disbursing components and slower technical assistance type activities, it is desirable to build in mechanisms that pace the disbursements of fast disbursing components to progress in the implementation of technical assistance for institutional strengthening type activities. Care is needed in the design of a project's monitoring framework and indicators to avoid individual indicators that are not feasible given the changes brought about by the project. Analysis of the female labor force participation aspects of the Bank programs reviewed proved more difficult than the issues related to Early Childhood Development (ECD). As such, further analysis was recommended to review factors that more closely impact female labor force participation.

13. Strengthen the capacity of the Mexican health system to control epidemic waves. **Indicator:** Percentage of population vaccinated against AH1N1. Baseline (2008): 0 Target (2011): 15% Actual (2010): 24%	**Partially Achieved.** Despite the cancellation of the Influenza project due to problems using planned retroactive financing, the Ministry of Health made significant progress towards the original loan PDOs. By end-December 2010, 24% of Mexico population was vaccinated against A/H1N1. As part of the Influenza project, the SINAVE performance index was selected to measure progress towards the strengthening of the capacity of the Mexican health system to monitor the spread of the Influenza viruses. With Bank's support, the SINAVE (the National System for Epidemiological Surveillance) was strengthened. The Bank completed a performance assessment of SINAVE and identified areas where to	**Financial:** **FY10:** Influenza Prevention & Control Project (P116965) **Knowledge:** **FY10-FY12:** Influenza A/H1N1 TF Grant (TF095094) **FY12:** Health System Modernization (P106709) **FY12:** Universal Health Coverage (P120697)	Efficacy of the emergency instrument in health emergencies. Consistency of emergency policies with other fiduciary policies. GAC policy and its application under emergency situations. Different nature of emergencies requires different responses; non-incremental financing incentives. High-risk groups can only be reached through an intense communication effort. In order to reach specific high-risk population groups, it is necessary to make adjustments based on their specific characteristics and conditions. The grant process in emergency situations is

	improve the system. The SINAVE performance index[35] improved from a baseline of 79.8 in December 2008 to 81.5 in December 2010, while the SISVEFLU index improved from a baseline of 49.0 to 61.0 over the same period.		slower than one would expect given the systems in place for grant management and the Federal nature of the country. There is a need to review Mexico's financial and administrative system so as to speed up the implementation of grants. PKS's proved to be a very flexible instrument. They enabled the Bank to respond quickly to unexpected emergency situations.
Thematic Area IV: Developing Infrastructure and Assuring Energy Security and Environmental Sustainability			
14. Development of massive urban transport evaluating alternative solutions and proposing frameworks for private sector participation. **Indicator:** Improved bus system energy efficiency (in liters of diesel per passenger kilometer). Baseline (2006): No change in bus system energy efficiency. Target (2007): Field measurement comply or surpass previously estimated emission reductions caused by implementation of corridor. **Actual (2007): Target was achieved given that 368 buses were scrapped or disassembled (no longer generating emissions) with support from the Bank. Old buses were then replaced with new articulated buses which consume less fuel per passenger km.**	**Achieved.** The Bank has been deeply engaged with the *Secretaría de Comunicaciones y Transportes* (SCT) through an FY09 FBS (now Reimbursable Advisory Service, RAS) and the Urban Transport Transformation Project (UTTP) with the objective of designing a federal program to support the development of massive urban public transport systems (i.e., PROTRAM), which now has a portfolio of 31 projects, out of which 18 are in the pipeline and 13 have been approved. According to the M&E indicators for the UTTP, between 2010 and 2013 the project leveraged 910 million dollars in counterpart financing. Moreover, the 'Insurgentes Bus Rapid Transit System Carbon Finance' project has contributed to improve bus system energy efficiency by replacing 368, old, small and mid-sized, gasoline and gas –mainly Liquid Petroleum Gas (LPG)– units with 105 articulated passenger diesel buses. This contributed to lower overall fuel consumption and lower greenhouse gas emissions (GHG) to the extent that articulated buses consume less fuel per passenger/km. This target was achieved given that 368 buses were scrapped or disassembled (no longer generating emissions) with support from the Bank. Old buses were then replaced with new articulated buses which consume less fuel per passenger km. Emissions reductions in the period Nov. 1, 2009 to Oct. 31, 2010 (report received by the Bank on July 22, 2011) were 50,180 tons CO_2/year, of which modal change were 38,790 tons.	**Financial:** **FY06:** CN: Mexico City Insurgentes Bus Rapid Transit System Carbon Finance Project TF056112 (P082656); CD: 31-December-2015 **FY09-FY13:** GEF Grant Sustainable Transport and Air Quality Program (STAQ) (TF095695, P114012) **FY10:** Urban Transport Transformation Project (UTTP) (TF096291, TF097689, P107159) CD: 30-Jun-2017 **Knowledge:** **FY09:** AAA FBS in Massive Urban Transport Federal Program (P110474)	The main drawback for safeguards implementation in the transport sector is the lack of environmental and social capacity within Mexico's financing intermediary that functions as the counterpart of the Bank (i.e. BANOBRAS). There is ample room for a federal program aimed at supporting mass transit projects in Mexican cities. FONADIN is an adequate vehicle for implementation.

15. Catalytic use of Clean Development Mechanism to foster technology, regulatory and institutional changes in the public transport sector. **Indicator:** Improved bus productivity: serving more passengers with lesser number of units and increased modal share for large buses. Baseline (2006): 360 bus units operating inefficiently on *Insurgentes*. Target (2007): Increase in modal shift to 10%. **Actual (2012): 368 buses have been scrapped or disassembled (no longer generating emissions). This represents a (ii) modal shift of 18 percent, well above the 10 target.**	**Achieved.** Through the Framework for Green Growth DPL, the Bank supported the government to further develop the regulatory, monitoring and financial framework to achieve low emissions in the transport and energy sectors. In parallel to the Green Growth DPL, the introduction of Climate Friendly Measures in Transport supported the design of the BRT corridors in Mexico City (Metrobus) and the creation of the institutional, regulatory, and business framework for operating the BRT system. Metrobus has now become a more robust agency in technical terms and is mobilizing 800,000 passengers per day. The 'Insurgentes Bus Rapid Transit System Carbon Finance' project has also contributed to improve bus productivity by serving more passengers with lesser number of units and increase modal share of large buses. As of end 2012, (i) 368 buses have been scrapped or disassembled (no longer generating emissions); (ii) modal shift is at 18 percent, well above the 10 target; and (iii) demand continues to grow reaching an average of 290,000 rides per weekday with peaks of over 300,000 trips per day. (*The indicator chosen for the CPSPR was a first attempt to reflect a quantitative value on the implementation of a Clean Development Mechanism in the transport sector in Mexico (i.e. Mexico City BRT system). Yet, in the CPSCR, we do acknowledge that this indicator does not completely capture the overall engagement of the Bank in this area and does not fully capture the target outcome. As a result, we also report other activities that qualitatively reflect the Bank successful support to foster technology, regulatory and institutional changes in the public transport sector)*	**Financial:** **FY09-FY10:** Framework for Green Growth Development Policy Loan (P115608) **FY02-FY09: GEF Grant:** Introduction of Climate Friendly Measures in Transport (TF-51612, P059161) **FY09-FY13 PHRD Grant:** Low Carbon Bus Corridor - TF091333 (P106305) **FY11**: Roads Concessions improvement-PPP (IFC 26232)	A DPL can pave the way for many other Bank-financed operations, and in turn, those operations enrich the dialogue to develop the DPL. It is difficult to overcome political differences between the Federal District's and the State of Mexico's administrations. The metropolitan character of some of the projects (i.e. Mexico City metropolitan area) and the involvement of the State of Mexico, which shares the same transport and air quality related problems, was limited. Development of transport baseline methodologies needs to be further encouraged. Similarly, further field testing of bus technologies is needed for defining emission standards and for the decision-making process on alternative bus technologies for public transport. Introduction of new bus technologies and low carbon fuels needs to be encouraged to form a larger share of the modal and fuel mix.
16. To improve federal housing system to facilitate access to housing by low- and moderate-income families. **Indicator**: MX$23,000 million on financial support provided by SHF to private sector intermediaries (including loans to primary market,	**Partially Achieved.** Outcomes aiming at improving federal housing systems were partially achieved. A loan approved in FY09 to support mortgage lending, including greater down-market access via *Sociedad Hipotecaria Federal* (SHF) successfully strengthened SHF's financial position and stabilized the housing market during the crisis. Overall, the project successfully contributed to the achievement of the higher-order outcome indicator goal of 1 million housing solutions per year between 2008 and 2012. Yet, the project did not achieve the expected gradual expansion of SHF's products towards lower income	**Financial:** **FY07-FY08:** MX Affordable Housing and Urban Poverty Reduction Development Policy Loan III (HUDPL III) (P101342) (2007). **FY09:** Private Housing Finance Markets Strengthening Project (P112258). CD: 12/31/12 **FY04-FY08:** Housing and Urban Technical Assistance Loan (HUTAL) (P088080). **FY08:** Vinte- Low income housing (IFC	There are tradeoffs between ambitious and comprehensive sectoral reform programs, which are potentially more beneficial, but inherently more risky, and more focused programs that address a limited range of issues for which both the potential benefits and risks are lower. In large and sophisticated middle-income countries like Mexico, an operation should avoid promising sector-wide reforms when commensurate results cannot be realistically achieved in the short timeframe and with the

secondary market purchases, liquidity lines). Baseline (June 2008): 20,700 Target (Dec 2008): 23,000 **Actual (Dec 2008): 23,000** *(The CPSPR Matrix only included a medium term intermediate outcome indicator. To capture the overall sector performance to which Sociedad Hipotecaria Federal was expected to contribute, this CPSCR incorporates a higher development outcome: 1 million housing solutions delivered per year).*	segments (i.e. MX$23,000 million on financial support provided by SHF to private sector intermediaries) reflecting flaws in project design and delays in the implementation of relevant reforms. Although IFC made several investments in equity, debt and guarantees to bond issuances to support several non-bank financial institutions (*Su Casita*, *Vértice*, GMAC) which made loans to the low-income mortgage sector, the three largest homebuilders are currently experiencing a liquidity crisis after a market environment shift in 2012. At the end of FY13, IFC had a portfolio totaling US$175 million exposure (net of equity write downs) in the sector, with the following projects: (i) US$50 million secured A Loan and US$20 million secured Canada Climate Change Program ("CCCP") Loan to *Urbi*; (ii) US$48 million unsecured, revolving line to *Urbi* through Global Trade Supplier Finance ("GTSF"); (iii) US$71 million unsecured, revolving line to *Homex* through GTSF; and (iv) US$25 million equity investment in *Alpha Geo*, a subsidiary of *Geo*, which has recently been written down to US$5.4 million. The four transactions were committed in mid-to-late FY12 and early FY13.	26292) **FY11:** Artha Capital- Sustainable Urban Projects (IFC 30836) **FY12:** Alpha Geo- Low income housing (IFC 30545) **FY13**URBI: Verde-Energy efficient low income housing (IFC 31548) **Knowledge:** **FY08-FY13:** AAA Housing Finance Program TA (P128130) + FBS to Sociedad Hipotecaria Federal FPD Mexico Non-banking financial institutions (P106361) + FBS for Housing Finance (20051272) Cancelled +Third FBS to Sociedad Hipotecaria Federal (P117971) **FY 12:** AAA Sustainable Urban Development in MX Cities (P127214 + TF010018)	relatively modest scale of assistance offered. Contrary to down-market aims, establishing a sound reputation in financial markets and sustaining a high quality and expanding portfolio can lead a new mortgage financier up-market, by targeting higher income borrowers with larger loans. In general terms, Technical Assistance Lending has limited benefits in a MIC environment. Traditionally TALs offer a means of supporting nascent and weak institutions and of preparing for investment operations. In a MIC, however, the costs of setting up and operating public institutions are covered by existing government revenue. Both sector wide assistance and institutional development remain elusive for MICs. HUTAL's attempt to implement sector-wide reform by assigning simultaneous (and complementary) tasks and technical assistance funding to various implementing agencies proved frustrating for its failure to foster agreement even on a strategy for unification, let alone sector unification itself, and costly for increasing supervision costs.
17. Tools and instruments to induce local authorities to improve financial sustainability and efficiency of water supply and sanitation service provision in their jurisdiction. **Indicator:** Replicable models of successful and sustainable provision of water and sanitation services available. Baseline (2006): No baseline was set.	**Achieved.** The PATME experience documented and disseminated successful water models in 10 water utilities participating in the program. Manuals developed by CONAGUA were distributed to water utilities and water and sanitation sector institutions beyond the realm of PATME. A satisfactory degree of improvement was observed in operational and financial performance of water utilities that participated in the program. Continuity in PATME program was one of the main determinants of success. For 10 water utilities participating in PATME for more than one year, results showed an increase in continuity of service by over 10% while also coverage of water and sanitation services also increased. Water production per person decreased from 297 to 274 for 2006 and 2009 respectively. Regarding efficiency improvements: A	**Financial:** **FY06-FY10:** Modernization of the Water and Sanitation Sector Technical Assistance Project (P091695) **FY04-FY09:** Lending Decentralized Infrastructure Reform and Development Loan (P080149) **FY03-FY09:** Lending: Integrated Irrigation Modernization Project (P035752) **FY08:** Tlalnepantla Municipal Water Conservation Project - PPP (IFC 530171) **FY10:** Grant Enhancing Capacity of Water Utilities for Integrated Water Resources Management (TF096725) **FY11:** DPL: Framework for Adaptation to Climate Change in the Water Sector	Direct IBRD-support for infrastructure at the subnational level in Mexico is both feasible and important. However, a new paradigm for delivering this type of support needs to be formulated to be more efficient. Multi-sector SWAP operations may not be practical. This requires significant effort to design and supervise, and potentially dilute the Bank's ability to provide good policy advice and technical assistance. It is necessary to distinguish form from substance. Most of the innovation (OBD, SWAP, National Program, and Country Systems) included in some of the water sector DPLs were internal Bank preoccupations barely understood by the client at the state and municipal levels.

Target (2010): Replicable models documented and disseminated. **Actual (2010): Documentation and dissemination of replicable models of sustainable provision of water and sanitation services was achieved.**	satisfactory degree of improvement was observed in operational and financial performance of water utilities that participated in the program. Non-revenue water showed a reduction of 4% in relation to the starting point (set at 46.6%). The recovery tariff increased in absolute terms of 31% far exceeding the target set in the PAD of 10%. Through the successful rehabilitation and modernization of irrigation infrastructure, and the adoption of improved farm irrigation application systems, the Bank significantly impacted water use efficiency. Moreover, the Water Sector DPL, approved in FY10, had a significant institutional impact. In an effort to support selected Mexican States to improve their provision and performance of infrastructure services (including water supply and sanitation), the Bank worked with the State of Guanajuato in the implementation of the Decentralized Infrastructure Development Loan. A substantial improvement was observed in the accounted-for water during the life of the project, from 129.6 to 171.5 million m^3 between 2005 and 2008—i.e., equivalent to a 32 percent increase. IFC provided capacity advisory support to the municipal water company (OPDM) during the design and implementation of a wastewater recycling plant in the municipality of Tlalnepantla. Additionally, in 2010 IFC invested in Water Capital a leasing company that provides energy efficiency, renewable energy, and supply and demand water management solutions tailored to the specific needs of its customers.	(P120134) CD: 31-Dec-12 **FY10/FY11:** Water Capital- Lease of water treatment and efficient water equipment (IFC 29509) **FY10-FY12:** Grant PPIAF: Market Based Infrastructure Financing for Campeche (P122401) **Knowledge:** **FY08:** AAA Water Sector Financing Strategy (P104740) **FY10:** AAA Water Sector Flagship (P111969) **Convening:** **FY09:** Sharing Int'l Experiences in WSS (P112539)	For modernization of irrigation projects in Mexico aiming to have impacts on increased agricultural competitiveness, it is necessary to establish a common strategy between institutions such as SAGARPA and CONAGUA that forces them to setup a joint M&E system and report on the same indicators – not only in terms of number of hectares with modernized systems and improved irrigation technologies, but also on indicators of agriculture productivity, labor generated, areas under high-value crops.
18. Provision of environmental services of national and global significance and secure long-term sustainability. **Indicator:** Additional hectares under environmental service contracts. Baseline (2006): 538,106.86 ha	**Achieved.** Mexico has been recognized as an international leader in forest management. Its PES (Payment of Environmental Services) program is the second largest in the world in terms of total area enrolled. With the support of the Environmental Services project and a GEF grant, the Bank aimed to enhance the provision of environmental services of national and global significance and secure long-term sustainability. The project had an important impact in increasing hydrological, biodiversity conservation, and carbon sequestration services. By the end of the project, 1.5 million additional hectares were	**Financial:** **FY08-09:** Mexico Environmental Sustainability Development Policy Loan (ENVDPL III) (P095510) + Supplemental + TF055408 **FY02-FY10:** GEF Grant Consolidation of the Protected Areas System (SINAP II) Project + Additional Financing (P065988, TF-50311, P106103 and P112327) **FY00-FY09:** GEF Grant Mexico Mesoamerican Biological Corridor Project (TF24371, P060908)	Trust Fund resources were indispensable for providing TA to advance the government reform program and to strengthen coordination among key stakeholders. Development of robust monitoring and evaluation is important for the credibility of PES programs. The credibility of environmental services programs relies not only on fiduciary monitoring but also mainly on quantification of the actual impacts of environmental services. Although the *Comisión Nacional de Áreas*

Target (2011): 500,000 ha additional **Actual (2011): 2.5 million ha.**	added under environmental service contracts, well above the 500,000 hectares target. CONAFOR gained more experience in managing Payment of Environmental Services (PES) projects, and strengthened its capacity to share lessons of experience internationally. A study that evaluated the PES program found that deforestation dropped by 10% in participants properties. A series of Environmental DPLs were also approved during crisis years as part of the Bank's support in structural reforms areas. The ENVDPL III aimed to increase the support for sustainable forestry management. During the loan period, the Bank provided technical assistance to revise and update the Forest Fund. By the end of 2009, 15 million ha. of forest under sustainable forest management operations were financed by the Mexican Forest Fund. Another major achievement of this project was the congressional approval of the Energy Sector reform package.	**FY05-FY10:** Lending Access to Land for Young Farmers Pilot Project (P088732) **FY10:** EURUS- Wind power (IFC 28434) **FY11:** EDF La Ventosa- Wind power (IFC 28070) **FY12:** Sacred Orchids of Chiapas: Cultural and religious values in conservation project - TF091426 **FY13:** Proteak- Certified teak plantations (IFC 31195) **Knowledge:** **FY03-FY08:** Second Community Forestry Project (PROCYMAF II) (P035751) **Convening:** **FY06-FY11:** Lending Environmental Services Project (P087038, P089171) + GEF Grant (TF055086 FY05-FY07) + TF056321 (FY07-FY11) **FY 11:** Grant + Convening Services South-South Cooperation and knowledge sharing for REDD Activities in Latin America and the Caribbean (TF096113)	*Naturales Protegidas* (CONANP) has put in place processes for measuring outcomes, it does not have the ability to address threats since this requires strong coordination with other Government agencies that are often understaffed and underfunded. The energy invested in the evaluation of Environmental Impact Assessments (EIAs) not only pays dividends in avoiding environmental impacts and sustainability issues, but also provides early opportunities to encourage biodiversity offsets. When an opportunity to improve project design is missed, the team should consider conducting an additional external evaluation to realistically evaluate design or implementation flaws and inadequacies that can be corrected
19. Increase access to efficient and sustainable integrated energy services in --predominantly indigenous-- rural areas of Mexico. **Indicators:** (a) 47,080 HH electrified with Renewable Energy Technologies (RET); Baseline (2008): 0 Original target (2012): 47,080 Revised target (2014): 4,432 **Actual (2013): 0**	**Partially Achieved.** The Bank supported the Government's rural electrification program through a combination of investment operations and grants from the Global Environment Facility (GEF). Both projects, however, showed limited progress due to a combination of complex procurement processes and project implementation difficulties. By the end of the CPS period, the number of households electrified with solar photovoltaic technology had not increased, given that the solar farms had not yet started to operate. After a restructuring of the project, including a one-year extension of the closing date (to June 2014) and a simplification of the project's implementations arrangements, the bidding process for the first set of subprojects financed by the Bank was launched during the first quarter of 2013, and it is expected that the next	**Financial:** **FY07**: GEF Grant: Solar Thermal Project *Agua Prieta* II (TF057033, P066426); CD: 31-Jan-2014 **FY08:** Lending and GEF Grant: Integrated Energy Services Project (TF091733, P088996); CD: 30-Jun-2014 **Knowledge:** **FY13:** MoU Reducing Fuel Subsidies: Public Policy Options (P112959)	The fact that the Bank was one of the first agencies to support renewable energy in risky projects and within complex settings, has helped many others to follow.

(b) Incremental increase in 5650 MWh/year of electricity consumed for productive uses in targeted communities (MWh/year). Baseline (2008): 0 Original target (2012): 5,650 Revised target (2014): 5,768 **Actual (2013): 0** *(The CPSPR indicator baselines and targets were changed in the CPSCR matrix due to a restructuring of the IBRD project - P088996)*	bidding processes will advance during the next CPS period. Although it is hard at this time to evaluate if the development outcome will be achieved within the new time frames, progress during the CPS period was slow and the outcome is not observed yet. However, since the end of 2012 and based on lessons learned, the Bank hired a local consultant to help smooth out the implementation of these projects. The main intervention under this outcome, the Integrated Energy Services project (P088996), was focused on rural development. As the majority of people living in the communities targeted are indigenous, the Project is still considered an indigenous people development initiative. In preparation for the Project , the Mexican Ministry of Energy (SENER), in coordination with the governments of targeted States and Municipalities, undertook a systematic social assessment that included: - A comprehensive analysis of the social context and the applicable legal and institutional framework. - Baseline information (demographic, social, cultural, political, and other). - A review of stakeholder dynamics (including institutions). - A structured consultation to assess the potential positive and negative effects derived from the Project and to identify preventing or mitigating measures.		
20. Regulatory, monitoring and financial framework for low emissions evolution of the transport and energy sectors developed. **Indicator:** (a) 919 small and medium-sized agri-businesses adopting environmentally sustainable technologies;	**Partially Achieved.** As part of the Bank's support in the agriculture area, the ongoing Sustainable Rural Development project is well on target to meet this outcome. By the end of 2012, 770 small and medium-sized agri-businesses adopted environmental sustainable technologies (i.e. renewable energy sources, energy efficient technologies, and/or sustainable waste management and biomass conversion), equivalent to 600,000 tons of CO_2 equivalent avoided (close to the original target of 919 SMEs and 770,000 tons of CO_2 equivalent). Moreover, the Efficient Lighting and Appliances project promoted Mexico's efficient use of energy and the mitigation of climate	**Financial:** **FY10:** Lending and Grant (GEF): Mexico Sustainable Rural Development Project (TF093134, P106261) + Additional Financing (P130623) + TF090643 AD: 24-Feb-2009; CD: 31-Dec-2016 **FY11:** Lending and GEF Grant: Efficient lighting and appliances (P106424) CD: 30-Jun-2014 + Additional Financing (P120654, TF98062, TF98465) CD: 30-Jun-2014 **Knowledge:**	Even in middle-income countries, a grant is very important to finance aspects of studies that may be overlooked, especially areas of environmental and social concerns. Based on technical assistance, a viable strategy to scale-up renewable energy in any country should include at least the following elements, which are mentioned in Mexico's Renewables Law: (1) The national strategy must establish a legal obligation and a regulatory framework; (2) Must establish a renewable generation target; (3) Must include financial incentives to attract investors in

Baseline (2010): 0 Original target (2013): 919 Revised target (2013): 2,168 **Actual (2012): 770** (b) 770,000 tons of CO_2 equivalents avoided. Baseline (2010): 0 Original target (2013): 770,000 Revised target (2013): 1,987,000 **Actual (2012): 600,000** *(The CPSCR indicators baselines and targets reflect the revised targets for the Sustainable Rural Development additional financing project).*	change by increasing the use of energy efficient technologies at the residential level. Specifically, less consumption of electricity favored the environment, as an emission of about 865,000 tons of CO_2 was avoided with the 22.9 million light bulbs that were changed during 2012. IFC, through its SBA, worked with projects that co-finance studies to prove the financial viability of adopting cleaner technologies, such as a study to install a Waste Heat Recovery for 3 MW power generation in a cement plant. The study identified potential savings of 21,000 tCO_2e/year.	**FY10:** AAA Energy Sector MOU (P114892) **FY12:** Grant+ Convening Services Renewable Energy Assistance Program (ESMAP) (TF095212)	renewable energy; (4) Must define a set of rules for renewable energy contracting; and (5) The national strategy requires institutional support (Ministries, environmental and regulatory bodies, etc.).
21. Reduce GHG (CO_2) emission through the adoption of emission-reduction technologies. **Indicator:** Successful piloting of renewable energy production with GEF/CN financing. *(The CPSPR indicator did not include baseline and targets. The Bank, however, supported two wind projects in Mexico to achieve this outcome: La Venta II, through Carbon Fund financing, and La Venta III, through GEF financing. These two projects contributed to the reduction of GHG through the adoption emission-reduction technologies).* Based on these two projects, a quantitative indicator for the reduction of GHG is the following:	**Achieved.** The Bank supports two wind projects in Mexico: *La Venta II*, through Carbon Fund financing, and *La Venta III*, through GEF financing. Both wind farms are operational. La *Venta III* (i.e. the wind power Large-Scale Renewable Energy Development project) started operations in October 2012, after facing many hurdles, from the failure of the first bidding process for the construction of the plant to social tensions which slowed down the entire project. Yet, it is still expected that Bank tariff subsidy for the generation of wind energy at *La Venta III* will contribute to a reduction of around 247,000 tons of CO_2 equivalent per year of operation in the upcoming years. *La Venta* III, however, has paved the way for the development of wind energy in Mexico, as it was the first bidding process to be launched for the provision of wind energy under the Independent Power Producer scheme. Today more than 1,300 MW capacity of wind power energy are in operation (under the IPP and *auto abastecimiento* schemes). Prices of wind energy have decreased (from US$11c/kWh to US$6c/kWh), demonstrating the commercial viability of this technology. It could thus be argued that the Bank achieved its objective of piloting renewable energy production with GEF/CN financing, simultaneously achieving the overall objective or reducing GHG (CO2)	**Financial:** **FY05:** Mexico: Waste Management and Carbon Offset Project (P088546) CD: 30-June-2012 **FY06:** Large-scale Renewable Energy Development Project (Phase 1 = $25M; Phase 2 = $45M) - TF056781 (P077717) CD: Jun 2014 **FY11-FY12:** MEDEC DPL Approval: FY11; Closing: 06/2012 **FY08-FY11:** Lending Climate Change Development Policy Loan (P110849) **Knowledge:** **FY09:** AAA Low Carbon Development Study (P108304 + TF090715) **FY11:** AAA + Convening Services Renewable Energy Assistance Program (P117870) **FY10-FY11:** AAA + Convening Services Promoting Mini-Hydro Potential in Mexico (P118293) **FY11: Grant +** Convening Services: ESMAP - Energy Sector Mgmt. Assistance program (TF095211)	*La Venta* III was one the first wind parks in the Tehuantepec Isthmus. It was the slowest to start operations but it paved the ground for several others to come and set the standards in terms of environmental and social safeguards. As part of the Waste Management project, the alliance between the public and private sector incentivized each part to guarantee the successful development of the project and created institutional memory which is important to reduce the impacts of rotational management but, especially, to ensure that experiences and practices learned are not lost.

(*The CPSPR did not include a quantitative indicator for this outcome*) Emissions reduced (tons year), over baseline (CO2, NOx, SOx, and particulates). Baseline (2007): 0 Target (2014); 247,000 tons per year of operation **Actual (2012): 124,616 tCO2 over the October 2012-August 2013 period, lower than target due to:** **- lower production** **- emission factor of Mexican grid (2012:0.4929 tCO2/MWh) is lower than factor used during preparation (0.667 tCO2/MWh).**	emissions. IFC financed the first two private wind power projects in Mexico, paving the way for the expansion of the wind power industry in the country. The projects have a capacity of 250 MW and 67.5 MW each and are expected to reduce greenhouse gas emissions by approximately 600,000 tCO_2 per year.		
22. Promoting Adaptation to Climate Change. **Indicators:** (a) National emission reductions target set; Baseline (2008): 0 Target (2011): Emissions target set **Actual (2009): The Mexican government Special Climate Change Program (i.e. PECC in Spanish) defined emissions targets through 2012 and longer term goals.** (b) At least five states committed to adopting a climate change action plan. Baseline (2008): two states were defining plans Target (2011): at least five states	**Achieved and Exceeded.** The Bank tailored knowledge and convening services around a series of annual DPLs that successfully supported the Government of Mexico's effort under its National Climate Change Strategy to mainstream climate change consideration in public policy. Proof of this was the approval and publication of the PECC (Special Program for Climate Change) in Mexico's official Gazette in August 2009, which was fundamental to create a comprehensive policy framework for reduction of emissions across sectors, and set a national emission reduction target. Moreover, state climate change action plans have been completed or they are currently under preparation for 26 states. The five states that have completed and adopted their climate change action plans are: Distrito Federal, Veracruz, Puebla, Nuevo León and Guanajuato (2011).	**Financial:** **FY08-FY11:** Lending Climate Change Development Policy Loan (P110849) **FY12-FY13:** Lending Strengthening Social Resilience to Climate Change DPL (P120170) - FY12; Closing: 03/30/13 **FY10:** Optima Energia- Energy service company ESCO (IFC 28383) FY11: Comemsa- Solar energy equipment (IFC 30229). **Knowledge:** **FY11:** Sustainable Energy Finance Mexico (IFC 583007) **FY12** Green building investment across sectors (City Express, Vinte, Hospitalaria) through the Leadership in Energy & Environmental Design certification program. **FY12:** AAA Social Impacts of Climate Change (P112024) **FY13:** AAA + Grant Support the	The model of DPL cum MoU provided an integrated framework within which assistance was provided for climate change DPLs to the benefit of the entire program. It is unquestionable that many actions, especially with respect to adaptation to climate change, are best addressed at the state level. The importance of targeting SEDESOL Programs to the most vulnerable municipalities based on comprehensive indicators of sustainability/vulnerability which are readily available, and relatively easy to update. The strong demand among municipal and state level government for guidance and advice on the preparation of sustainable local development projects, and the need to provide practical and interactive learning tools to meet this need Implementation of the *Programa de Administración de Riesgos de Mercado a*

committed to CC Action Plan Actual (2011): Completed – State climate change action plans completed or under preparation for 26 states. The five states that have completed and adopted their climate change action plans are: Distrito Federal, Veracruz, Puebla, Nuevo León and Guanajuato *(No outcome on climate change was originally linked to the CPSPR Matrix. The PDO indicators of the Climate Change DPL were selected to measure impact of this outcome).*		Municipality of Othon Blanco for a Sustainable Development Strategy TF097159 (P122021) **FY13:** AAA + Grant: MOU Subnational CCH Plans (P105849) + State Climate Change Initiatives (TF098962) - FY13 **FY14:** PKS: Disaster Risk Management Mexico: RAS Programmatic Engagement in DRM **FY13-14:** PKS: Agriculture Risk Management in Mexico Agriculture Insurance Market Review (P130161) – FY13 RAS Agriculture Commodity Risk Management in Mexico JIT (P131285) - FY13.	*través de Intermediartios Financieros* (PARMIF) represents a positive step towards improving the institutional framework, better alignment of public and private incentives, and strengthening the operations of government-supported risk management programs.
Thematic Area V: Strengthening Institutions			
23. Selected Federal departments and agencies providing decision makers and the public with rigorous, timely, user-friendly information on the efficiency and effectiveness of government organizations and program expenditures. **Indicator:** Performance information (PI) presented in budget requests from line secretariats to SHCP and in budget submitted to Congress. Baseline (2009): Performance information is not widely used by line secretariats in their budget requests. PI is sent to Congress on tight deadlines and in format/content that makes it non-useable.	**Partially Achieved.** Through the support of the Results Based Management project, the Performance information was used during the 2013 budget preparation between the Ministry of Finance and line ministries and to Congress. A portal with financial and non-financial performance information on budget is now available for citizens. A series of FBSs to the Ministry of Finance supported the new Integrated Financial Management System (IFMS) and the implementation of the SIDAFF (Integrated Mgmt. System). Also, Federal entities and departments such as CONEVAL and SEDESOL received Bank's support to strengthen its M&E systems.	**Financial:** **FY09:** Results Based Management and Budgeting (P106528) **Knowledge:** **FY08**-FY12**:** Public Sector MOU (P101891) – CPAR Review (P101733) – FY08 SHCP FBS on IFMS (P106230) – FY08 Performance Budgeting International Conference (P111122) – FY08 FBS for Querétaro (P114425) – FY09 SHCP FBS on IFMS II (P103871) – FY10 SHCP FBS on IFMS III (P120790) – FY11 FBS for PEMEX (P111121) – FY11 FBS for Public Financial Mgmt. Reform (P126616) – FY12 **FY08:** FBS Results Based Mgmt. & Evaluation Framework in SEDESOL (P106419) **FY08:** FBS for Guerrero-State Development (P106210) **FY08:** FBS for CONEVAL: Support to the National M&E Agenda in Mexico	The effectiveness of Bank support depends on commitment of counterparts to implement reforms and change management. During an election period, the Bank should support a sustainable reform process thru sensitizations and capacity building program for management and operational staff. FBS can be a powerful instrument but the Bank needs to avoid over quantification, and flexibility and adaptation along the way is critical. Frequent supervision of the program, both by top authorities and an independent audit, will allow concerned parties to anticipate corrective actions in the face of errors, new challenges or deviations that might take place with respect to the results expected in each phase. Identifying strengths and/or weaknesses of working teams to enhance the former and redress the latter in a timely fashion. Strong ownership from the Government along with an almost inexistent turnover in the staff with responsibilities in the project, can lead to a successful implementation.

Target (2013): PI presented in a timely fashion to Congress in a format that allows interpretation and meets their needs. Secretariats send budget requests to SHCP with PI. **Actual (2013): PI information used during the 2013 budget preparation.**		(P101567) **FY09:** Treasury's Office Reform AAA (P108417) **FY12**: FBS with PEMEX – Strategic Assessment (P116628) **FY14:** Grant: Strengthening Cash Mgmt. and Control Systems IDF (TF097593): CD: 08/31/13 **FY14:** Grant: Strengthening & Consolidation of Internal Control Framework of Federal Gov't IDF TF097295 (P120116); CD: 12/21/13	Using own country systems, facilitate project execution.
24. Improved administration in selected municipal governments. **Indicator:** Programs with improved strategic design and reporting. Baseline (2009): Zero (0) Target (2010): 10 new products to be added to the website (studies, course materials, etc.) **Actual (2011): 20 new products were added to the website.**	**Achieved.** Through an IDF the Bank contributed to the establishment of an online space or information system for the dissemination of successful experiences, training material, socio-economic information and social demographics. The grant for the creation of a Public Observatory of Municipal Management, took the work developed under a previous grant (TF051739) and identified areas where local governments could be improved such as their managerial and administrative capacities to generate social and urban development. The grant made possible the compilation of these materials and good practices on a public website that other municipalities –not covered by the grant— could reference, and provided the means to, for example, prepare personnel who would further train local public servants in an improved way. This space has helped preserve and share municipal management experiences and innovations. By end-December 2011, 20 new products were added (200% above the 2010 target) to the Municipal Management Observatory website, and in addition, 120 new databases were also incorporated.	**Knowledge:** **FY10:** Grant: Creation of a Public Observatory of Municipal Mgmt. - TF091989 (P109696)	The online platform demonstrated to be a cost-effective strategy to systematize information, while creating a virtual space to exchange good practices and other valuable knowledge. It is essential to create a dissemination strategy and provide adequate training on how to maximize the use of the online platform, how to manage the information and databases and who is responsible of updating the information.
25. Improved efficiency of Customs processes. **Indicator:** Increase in the perception by users of the efficiency of the services offered by Customs.	**Not Achieved.** At the request of the GoM, the Customs project was cancelled; hence the development outcome was not achieved. However, the Bank provided support to improve the GoM's custom processes measuring customs performance through the implementation of the CATT.	**Financial:** **FY10:** Customs Institutional Strengthening Project (P114271) **Knowledge:** **FY11:** Customs Assessment Tool for Trade (CATT) – TF095406	The client's involvement is key to improving the product. Preparing the CATT with the involvement of experts from other agencies and other units of the Bank was key for project success.

(No baseline and targets were set: During the May 2011 mission for the Customs Institutional Strengthening Project, a new set of indicators were agreed with counterparts. However, restructuring never took place and the loan was cancelled).			
26. Strengthened fiscal transparency, governance and accountability. **Revised Indicator:** An active network and portal to inform society at large on a regular basis about budget performance, increasing transparency and accountability to citizens. Baseline (2008): PI is available to civil society via the new portal but has not been expanded to all levels of government. Target (2013): Portal containing PI on budget performance is available for citizens and the information has been expanded to all levels of Government. **Actual (2012): By end 2012, a portal was available for citizens, and the information has been expanded to all levels of government.** *(The original indicator was revised after project was restructured in 2012).*	**Partially Achieved.** With the support of the Results Based Mgmt project, a portal containing financial and non-financial performance information about the budget and its process is available for citizens as of end-December 2012. Also, through two IDFs to Congress, the Bank was able to strengthen its institutional capacities by developing an integrated information management system. By end 2011, the system was operating in 12 areas. However, the creation of the monitoring and evaluation system for Congressional performance and technical staff was not achieved. Several knowledge products were produced that supported the enhancement of fiscal transparency and accountability at the subnational level. Such is the case of the work done in Aguascalientes through an IDF Grant.	**Financial:** **FY09:** Results Based Management and budgeting project (P106528) **Knowledge:** **FY10:** AAA: Accounting Harmonization among Subnational Gov'ts (P110047) **FY12**: PKS in Public Service (P122802) **FY11:** Grant: Institutional Strengthening of Congress I- IDF-TF058294 (P104290) **FY11:** Grant: Fiscal Transparency IDF-TF091135 (P104406) Aguascalientes Trust Fund**.**	The PKS shows a remarkable milestone in the focalization of the Bank's PSMG interventions in Mexico. It is prioritizing the Bank's work on public financial management at the federal level of government and has opened a new entry point of reform with subnational governments with the implementation of the Oaxaca RAAP. When working with Congress, implementing the project gradually proved to be the wisest decision considering the nature of the institution. The Bank is a key development partner in this institutional environment by contributing to convene the reform among the different actors, to provide a safety net against certain political interests/biases to the reform itself, and, moreover, playing an important role at the fiduciary level since it helps the institution to prevent potential practices that could distort the regular funding and bidding processes.
27. Support the improvement of institutional performance of judiciaries. **Indicator:** Improved user	**Partially Achieved.** The Bank helped implement the new ICT network that provided timely information on demand and supply of justice services in the Federal District Government (GDF). Implementation of a new management model supported by this ICT platform was completed. Ten user	**Financial:** **FY12:** Judicial Modernization (P074755)	Institutional reform projects in upper-middle income countries may be implemented directly by line agencies, sometimes with the support of other agencies experienced in Bank procedures. While focusing on internal strengthening,

confidence. Baseline (2004): cero applications uploaded to the institutional ICT network. Low user confidence and stakeholder satisfaction in TSJDF services. Target (2008): 10 user service applications uploaded to the institutional network that serves as backbone of the management model increase user confidence and stakeholder satisfaction in TSJDF services. **Actual (2012): 5 applications uploaded to the ICT institutional platform that provides rapid and reliable decision-making information and 22 public kiosks have access to the status of judicial decisions and location of cases in target courts have increased confidence and stakeholder satisfaction.**	service applications uploaded to the institutional network that served as backbone of the management model have increased user confidence and stakeholder satisfaction in the tribunal system of justice of the GDF. New ICT network has increased public information available. As of Dec 2011, 620,896 judicial decisions were filed in the "Judicial Resolution Consultation System" and could be accessed by staff. Access to these decisions by the public was expected by June 2012. Annual statistics reports have been published and disseminated since 2010. Annual reports are also available on line. There is an online judicial bulletin that provides the status and location of cases in courts. In the four target criminal judicial centers, there are 22 kiosks available to the public for case status consultations. The first survey on user satisfaction was carried out in 2010 by an independent survey firm (EPADEC). More than half of respondents (55%) were satisfied with justice services in DF. The level of satisfaction with the image, attention and functioning of the target criminal courts was 63%. Users' satisfaction reported by this survey was higher than the trust in the justice system reported for the whole country by Americas Barometer, LAPOP, in 2010.		institutional reforms should also pay attention to demands of users or potential users, in particular from vulnerable groups. Working at subnational level poses additional challenges in a complex sector. Major cancellations and/or reallocations impacting the PDO and results framework must be accompanied by comprehensive restructurings. A realistic assessment of justice sector issues at the early stages of preparation process is essential as a basis for quality project design. Justice projects should be structured around a problem-solving strategy and should engage all actors required to implement a proposed solution. Civil society participation is critical at all stages of design and implementation of justice projects.
28. Improved capacity building and communication practices. **Indicator:** Timely information made available.	**Achieved.** The Bank helped strengthen and improve the institutional capacity of several institutions such as the Federal Institute for Access to Information (IFAI) and the National Agrarian Registry (RAN), through the implementation of different grants and knowledge services. The IDF supporting IFAI contributed to expand the INFOMEX system to all 31 states. While a system for access to information was in place at the federal level, subnational governments presented a different scenario. There was a lack of institutional framework and tools to provide adequate responses; moreover, the state governments were facing an enlarged demand for public information in a context of increased openness and democratization. At the time the **TF054316** closed, 1,569 entities were operating INFOMEX. At least 30 states, 449 municipalities, 20 state legislative bodies and	**Knowledge:** **FY09:** Strengthening of the Federal Institute for Access to Information IDF-TF054316 (P090533) **FY10:** Building an integrated rural cadastral information system IDF - TF056996 (P100082) **FY12:** Strengthening Information in the State of Yucatán (TF096286) **FY10:** FBS with Yucatán on SIEGEY (P115917) **FY12**: FBS with Yucatán on SIEGEY (P123123)	The importance of developing a solution that could be customized to solve needs of different actors/governments. The need to closely monitor fiduciary arrangements as well as to ensure the institutional capacity to manage a Bank project. Be cautious when expanding the scope of the activities and consider the different dimensions affected under the new scenario. It is expected that the experience under this FBS and the new FBS will serve as a model to be replicated in other states.

	25 state judicial entities have adopted the system. The Bank contributed to improve the design and helped implement the Integrated Rural Cadastral Information System in Colima. The RAN (National Agrarian Registry) was the strategic partner to develop and coordinate and M&E system **available to public and private users.** Within the scope of the IDF grant (TF056996), it **was possible to strengthen the (RAN) capacity** to link geographical and legal information and develop a sound technological platform to integrate and analyze data. The Bank also contributed to strengthening the information system in Yucatán (SIEGEY).		

CPSCR Annex 2. Evolution of World Bank Lending, FY08-13

		Active	Closed	FY08	FY09	FY10	FY11	FY12	FY13
Thematic Area I: Accelerating Growth									
P118070	MX Economic Policies DPL		●			1,504			
P123505	MX Fiscal Risk Management DPL	●						301	
	Total								**1,805**
Thematic Area II: Improving Competitiveness									
P106682	MX (AF) Savings&RurFinance SAGARPA		●	21					
P106589	MX IT Industry Development Project	●			80				
P111839	MX (AF-C)Savings & Rural Fin 2nd phase		●		50				
P101369	MX Compensatory Education	●				100			
P112262	MX Upper Secondary Education DPL		●			700			
P115347	MX (APL2)School Based Management		●			220			
P112264	MX Strength. Business Env for EcoGrowth		●				752		
P123367	MX Savings and Credit Sector Loan	●						100	
P126297	MX 2nd Prog. Upper Secondary Educ DPL		●					301	
	Total								**2,324**
Thematic Area III: Promoting Social Inclusion and Reducing Poverty									
P115067	MX Support to Oportunidades Project	●			1,504				
P116965	MX Influenza Prevention and Control		●			491			
P116226	MX Social Protection in Health	●				1,250			
P122349	MX (AF) Support to Oportunidades	●					1,250		
	Total								**4,495**
Thematic Area IV: Developing Infrastructure & assuring Energy Security & environmental Sustainability									
P088996	MX (CRL2) Integrated Energy Services	●		15					
P101342	MX Affordable Housing DPL III		●	201					
P110849	MX Climate Change DPL/DDO		●	501					
P095510	MX Environmental Sustainability DPL		●		301				
P106261	MX Sustainable Rural Development	●			50				
P112258	MX Priv Housing Finance Markets Strngth		●		1,010				
P115101	MXSupplement to Env Sustain. DPL		●		401				
P107159	MX Urban Transport Transformation Progr	●				150			
P115608	MX Framework for Green Growth DPL		●			1,504			
P120134	MX Adapt. Climate Change in WtrSct DPL		●			450			
P106424	MX Efficient lighting and appliances	●					251		
P121195	MX Efficiency Improvement Program	●					100		
P121800	MX MEDEC Low-Carbon DPL		●				401		
P120170	MX Strengthening Social Resilience to CC		●					301	
P123760	MX Forests and Climate Change (SIL)	●						350	
P126487	MX MOMET for Improved Climate Adaptation	●						105	
P130623	MX Sustainable Rural Development AF	●							50
	Total								**6,140**
Thematic Area IV: Strengthening Institutions									
P106528	MX Results-based Mgmt. and Bugdeting	●			17				
P114271	MX Customs Institutional Strengthening		●		10				
	Total								**27.2**
	Total per FY			**738**	**3,423**	**6,369**	**2,754**	**1,458**	**50**
	Investment Operations Total								**14,790**

CPSCR Annex 3. Emerging Subnational Engagement – State of Oaxaca

1. The World Bank has also supported since 2011 the reform agenda for inclusive growth of Oaxaca – one of the states with the highest levels of poverty and the lowest levels of economic performance among the Mexican States – through a strategic programmatic partnership. The Bank and the Government of Oaxaca signed in June 2011 a MoU, including multi-year, multi-sectoral support to the state, combining a package of knowledge, convening and financial services, structured around four areas: public sector modernization, sustainable development, finance and private sector, and human development.

2. In keeping with the flexible design of the CPS, the MoU with Oaxaca was developed as an instrument for coordinating AAA, loans, and grants around the critical development challenges at the subnational level in Mexico. The approach of this partnership is similar to a country's CPS, and it represents a departure from an operational or ESW-centric approach to sector dialogue and development solutions. It recognizes the need to retain long-term engagement based on agreed objectives and development challenges not subject to the unanticipated changes in financing and knowledge needs in particular sectors. In addition, the Bank and IFC worked together in the identification of the areas where the active engagement of IFC on its own or jointly with the Bank was needed, leading to IFC providing advisory services related to public private partnerships

3. The MoU was originally established for two years, 2011-2013, and it was renewed for another two years on June 2013. As a result of this partnership

(a) Technical capacity has been built on the government counterparts in the different areas of reform (e.g., training and workshops in strategic sector planning, public investment, water utility management, forestry management), and advisory services and initial diagnostics for key public-private partnerships projects have been provided.

(b) The Bank has informed policy design and implementation.

(c) Resources have been mobilized, leveraging co-financing of other organizations, such as the UNDP, the MacArthur Foundation, and Transparency International–Mexico.

(d) A concurrence of key national and local stakeholders has been brought together to the table to participate in a specific development agenda.

(e) Concrete and fundamental tools for efficient policymaking have been generated.

4. Some of the main outputs of this partnership to modernize the State of Oaxaca's public institutions and policies have been: (a) design and implementation of a methodology to structure strategic sector planning oriented to results; (b) design proposals for an integrated public financial management and public investment management systems; (c) strengthened tax administration capacity; (d) map of existing social programs; (e) exchange of good practice to reduce maternal mortality; (f) support the consolidation of rural financial institutions; (g) exchange of good practice on public–private partnerships; (h) strengthen water utility management; (i) Atlas of Climate and Climate Change; and (j) exchange of good practice on sustainable development.

ANNEX 3. MACROECONOMIC PERFORMANCE

1. Mexico's solid economic performance stands out in a global environment of higher volatility and lower growth. Economic activity fully recovered from the severe contraction experienced following the global financial crisis as a rebound and continued growth of export, domestic investment, and consumption managed to close the output gap by the end of 2012. A track-record of prudent monetary and fiscal policies is providing the framework, confidence, and buffers required for a continued expansion of economic activity in line with potential output, which is supported by strong external trade, investment and financial ties. Progress on an ambitious structural reform agenda, aimed at enhancing productivity may spur investment and eventually raise the level of productivity and economic growth in a sustained way.

2. **The Mexican economy rapidly recovered from the impact of the global financial crisis and experienced, more recently, a cyclical downturn.** After a severe contraction following the global financial crisis, resurgence in demand for Mexican manufactured exports led to a sharp rebound in economic activity. The output gap, generated by the 2008-2009 contraction, was expected to be closed towards the end of 2012 after the economy experienced an average annual growth of 4.4 percent between 2010 and 2012. More recently, a global slowdown led to a significant deceleration of economic growth in Mexico widening the output gap again. Weakening economic growth, industrial production and, in particular a stagnation in overall import demand in the U.S. had an adverse impact on growth of Mexican manufactured exports as of the second half of 2012. With an improvement of economic indicators in the U.S., the weak spot in economic activity experienced in 2013 is likely to be temporary and a rebound of exports and economic growth is expected towards the end of the year.

3. **Fiscal consolidation and a slow start of public investment further deepened the deceleration of economic activity.** Fiscal prudence continues to enjoy broad political support as a cornerstone of macroeconomic stability in Mexico with fiscal policy being conducted within the framework of the Fiscal Responsibility Law (FRL). The FRL includes a balanced budget rule with an escape clause that allows for a budget deficit under extraordinary circumstances. The latter requires the outline of a plan to return to balanced budget. Following the severe contraction in 2009, a budget deficit of 0.8 percent of GDP was allowed for 2010 with a three-year timeframe to get back to a balanced budget. In effect, fiscal support has been gradually withdrawn with budget deficits of 0.6 and 0.3 percent in 2011 and 2012, respectively, and an initial target for 2013 to return to a zero budget deficit. The impact of this consolidation effort on aggregate demand was intensified by a slow start of public investment at the beginning of the new administration, bringing public sector capital expenditures down by almost 7 percent in real terms during the first half of 2013. In the meantime, the government revised fiscal consolidation plans as it intends to maintain the planned level of expenditure despite lower-than-expected revenue, thereby allowing for a budget deficit of 0.4 percent of GDP this year.

4. **Moderation of inflation and inflation expectations allowed the monetary authorities to lower short-term interest rates in support of economic activity.** Despite several supply shocks that temporarily raised headline inflation earlier this year, overall consumer price inflation and, in particular, core inflation moderately trended down to the medium-term inflation target of 3 percent. The success in moderating longer term inflation and inflation expectation as well as, more recently, the widening of the output gap led the monetary authorities to reduce the monetary policy interest rate to an all-time low of 3.75 percent, through reductions by 50 and 25 basis points each last March and September, respectively. The recent

policy move confirms the view of the monetary authorities that secondary round effects of supply shocks as well as the pass-through of exchange rate depreciation on inflation and inflation expectations have greatly diminished.

5. **Mexico experienced a surge in capital flows that has been largely reflected in an easing of financing conditions.** Net private capital inflows totaled more than US$180 billion over the three year period between 2010 and 2012, equivalent to an annual average of about 6 percent of GDP. A mayor part of these flows, US$100 billion between 2010 and 2012, has been invested in domestic currency denominated government debt creating a downward pressure on longer term interest rates as well as an appreciation of the currency. The surge of capital flows over the past few years did not lead to a corresponding increase in the balance of payments current account deficit. While the economy's external deficit did show a gradual increase to 1.2 percent of GDP by 2012 as a result of the economic recovery, significant capital inflows mainly led to a substantial accumulation of external assets by Mexican public and private economic agents, including through direct investment of Mexican companies abroad as well as the build-up of international reserves.

6. **Economic growth will recover following strengthening of external demand and the implementation of monetary and fiscal policies in support of economic activity.** Following the cyclical downturn created by softness in external demand and the subsequent weakening of domestic private consumption and investment demand, economic activity is expected to rebound led by strengthening of external demand as the global economy, and in particular the U.S., emerges from the soft patch observed in 2013. Domestic demand will be strengthened through supportive monetary and fiscal policies, as monetary authorities lowered short-term interest rates and the government announced its plans for additional spending next year. Economic growth is projected at a level slightly above potential output growth over the next couple of years, as the output gap generated by the shallow recession in 2013 will be closed gradually.

7. **Next year's budget includes countercyclical fiscal stimulus mitigating the impact on aggregate demand of the revenue-enhancing tax reform.** In addition to a budget deficit of 0.4 percent of GDP to be incurred in 2013 (in terms of the FRL), the proposed budget for 2014 anticipates a budget deficit of 1.5 percent of GDP to provide for a stimulus of economic activity following the widening of the output gap during 2013. Fiscal stimulus is projected to be withdrawn gradually with a budget deficit of 1.0 and 0.5 percent of GDP in 2015 and 2016, respectively, and a return to a balanced budget by 2017. In terms of the broader Public Sector Borrowing Requirements, the fiscal deficit increases to 4.1 percent of GDP in 2014 and gradually diminishes to 2.5 percent of GDP by 2017.

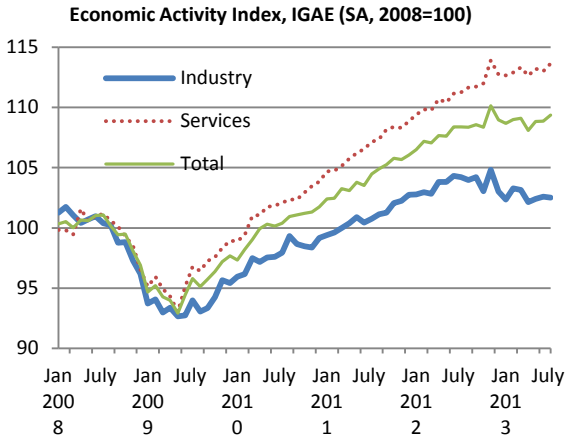
8. **Exit from unprecedented monetary policies by advanced economies over the next few years may lead to reversals in gross capital flows giving rise to higher domestic interest rates and a weaker currency.** Emerging markets, including Mexico, observed a surge in gross capital flows over the past few years, partly attributed to unprecedented monetary policies and low interest rates in major advanced economies. With growth in advanced economies accelerating, prospects of a gradual exit from monetary policy support are drawing closer possibly leading to investors' portfolio adjustments and a moderation or temporary reversal in gross capital flows to emerging markets. The surge in gross capital inflows to Mexico has been mainly absorbed by offsetting public and private capital outflows rather than a significant deterioration of the current account. Such a financial adjustment tends to buffer the economic impact of volatile capital flows and moderates the required adjustment in real

economic activity in case of a sudden capital flow reversal. Financial adjustment to capital flow volatility mainly operates through domestic interest rates and the exchange rate creating incentives for offsetting capital flows, diminishing variations in net capital flows. Expectations about an exit from unprecedented monetary policies by central banks from advanced economies already led to a sharp steepening of the yield curve and a significant depreciation of the currency over the past few months and financial markets, in the case of Mexico, were able to cope without mayor liquidity pressures or the need for public intervention. Further sharp swings in capital flows can be expected as investors react to withdrawal of monetary support in advanced economies over the next few years.

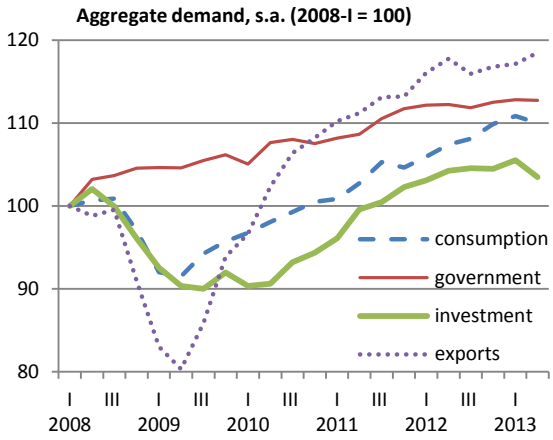
9. **International reserves and an IMF Flexible Credit Line (FCL) enhance credibility of the policy framework providing economic resilience to volatile capital flows.** While the major part of stabilizing financial adjustment to sudden shift in gross capital flows should come from the buffering behavior of private agents to changes in domestic interest rates and the exchange rate, international reserves and access to additional resources under the FCL provide the means for complementing public sector contribution to financial adjustment in case of extraordinary market conditions. International reserves have been accumulated over the past few years as all public sector foreign exchange transactions are channeled outside of the market through the central bank. The public sector has been a net recipient of foreign exchange, mainly due to net oil sector revenue, and international reserves at US$172 billion are up by US$80 billion compared to the end of 2009 (previous to the recent surge in capital flows) and by US$10 billion over the last twelve months. Mexico renewed its FCL with the IMF in November 2012 for a two-year period to an amount of approximately US$73 billion, providing additional assurance to investors on the adequacy of the economic policy framework.

Annex 3 Figure 1. Selected Economic Indicators

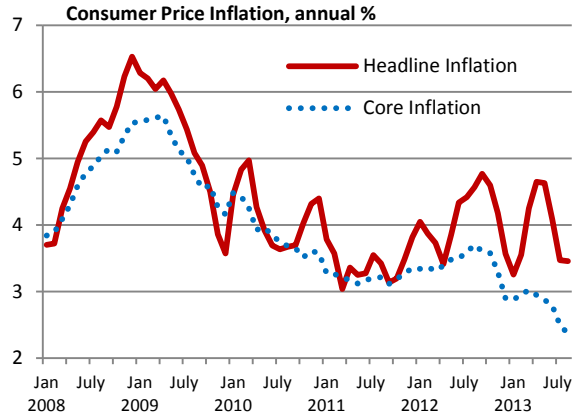
Economic growth started to weaken as of mid-2012…



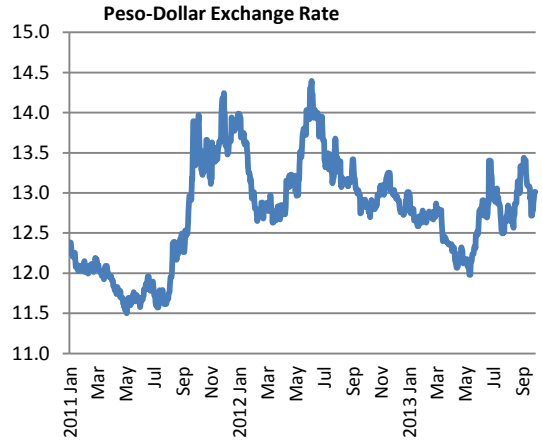
…as the expansion of exports moderated, followed by consumption and investment



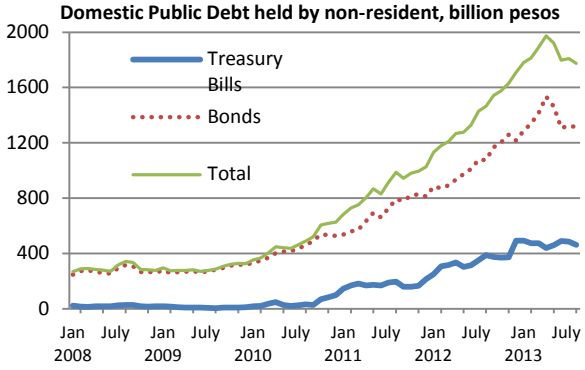
Despite some recent supply shocks, inflation is maintained on target…



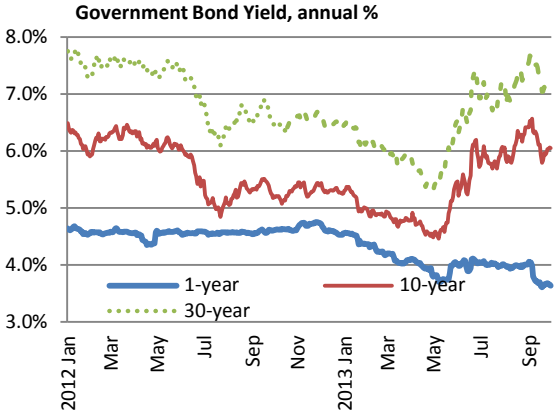
...without major concerns yet about a pass-through of exchange rate volatility.



The surge in capital inflows is reflected in the holdings of domestic public debt held by non-residents…



…with the recent reversal in capital flows leading to increased yields on longer term government bonds.



ANNEX 4. COUNTRY DIAGNOSTIC: OVERVIEW MEXICO POLICY NOTES

MEXICO REFORM AGENDA FOR INCLUSIVE AND SUSTAINABLE GROWTH

1. This Annex presents an overview of Mexico's forthcoming reform agenda from the World Bank's vantage point (World Bank 2012). It distills the main messages in the policy notes that make up this compendium. The purpose is not to provide definitive answers to the many policy questions likely to occupy the new Mexican administration, or to provide a comprehensive account of progress to date and policy recommendations. Instead, it is to provide a view of the main challenges facing Mexico in its quest for inclusive and sustainable growth — and to propose feasible policy options to address them.[36] Because implementing them will prove a daunting task for any government, prioritization is critical. The analysis in these notes attempts to structure policy priorities with a proposed sequencing (short-term policy options, or quick gains in the first year; and medium-term reform options, which may take longer to bear fruit).

Overview

2. **In its quest for inclusive growth Mexico needs to address four main challenges**. These key challenges are to: (a) increase productivity; (b) ensure that poorer segments of society benefit from and are able to contribute to the growth process; (c) combine the economic and environmental aspects of sustainable development; and (d) strengthen public finances and improve government efficiency. Achieving these objectives involves technical work and the political challenge of addressing entrenched interests in the public and private sectors.

3. **Productivity is central to accelerating growth**. Despite progress on macroeconomic and financial stabilization, growth in Mexico has failed to converge with high-income economies. A reform agenda focused on unleashing productivity could place Mexico on a path to higher long-term growth. Such agenda includes deepening and broadening the financial system, promoting market competition and removing regulatory barriers for doing business, liberalizing key input sectors such as telecommunications and energy, reducing labor market rigidities, developing a workforce with skills for the 21st century, and boosting innovation.

4. **Growth can only be sustained with equity**. Reducing poverty and inequality should be at the center of the reform agenda. Mexico has made great progress on reforming social policies with its flagship social programs that have achieved universal health insurance coverage (*Seguro Popular*) and have strengthened social protection for the poor (*Oportunidades*). Over the last decade, the country has also witnessed the rise of an emerging middle class. Yet, Mexico still faces high levels of poverty and inequality that are also a drag on economic growth. The reform agenda needs to focus on second-generation social policy reforms to develop the skills and the mobility of the workforce, strengthen the performance of existing social protection programs, broaden the coverage of the social protection system to include the elderly and those affected by shocks such as natural disasters and economic crises, and reduce the middle class's vulnerability to poverty.

5. **A growth strategy that is accompanied by a deterioration of the environment is likely to be self-defeating**. The reform agenda should also promote green growth — growth that is efficient, clean, environmentally sustainable and socially inclusive. Mexico, a global leader on climate policy, has a long and distinguished record on promoting environmental sustainability and managing climate change. But the country's vulnerability to climate change

continues to have negative impacts on some segments of the population and environmental degradation poses challenges to the sustainability of growth. As Mexico continues to industrialize, the incidence of pollution and the societal pressures to use water, energy, and forests will rise. This calls for a green growth reform agenda that reduces the environmental footprint of growth and optimally manages natural assets.

6. **Sound public finances and a more efficient government are critical for inclusive and green growth**. Mexico is a model of prudent fiscal management and a global pioneer on public debt and fiscal risk management. Fiscal policy, through tax measures and expenditure programs, has a central role to play in promoting productivity, reducing poverty and inequality, and promoting green growth. Yet, the ability of fiscal policy to deliver on these goals is constrained by several factors. Non-oil tax collection rates are low — reflecting a narrow tax base, a complex tax system, low citizen's trust in the state, and weak tax administration capacity of subnational governments that are highly reliant on Federal Government transfers. Mounting medium-term expenditure pressures compound these challenges as oil revenue declines and age-related public spending rises. This calls for an integrated fiscal and public sector modernization reform agenda that raises non-oil tax revenue, improves the transparency and quality of public spending, and strengthens subnational fiscal management.

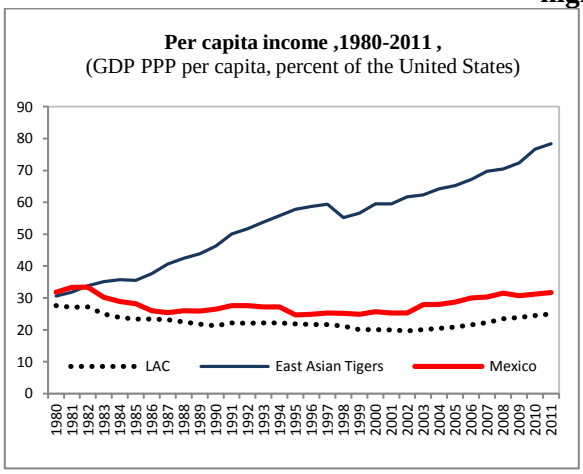
Unleashing productivity

7. **Mexico has achieved remarkable economic and social progress over the past several decades**. The country has become an investment grade borrower with solid global standing in capital markets. It is a model of financial and commercial integration and of prudent macroeconomic management. It is also a pioneer of innovative public programs that have been replicated around the globe (in areas as diverse as fiscal risk management, social assistance, and climate change). Globalization, urbanization, and democratization have given rise to an emerging middle class that demands a modern and responsive state — a state that not only ensures macroeconomic stability but also provides opportunities for all.

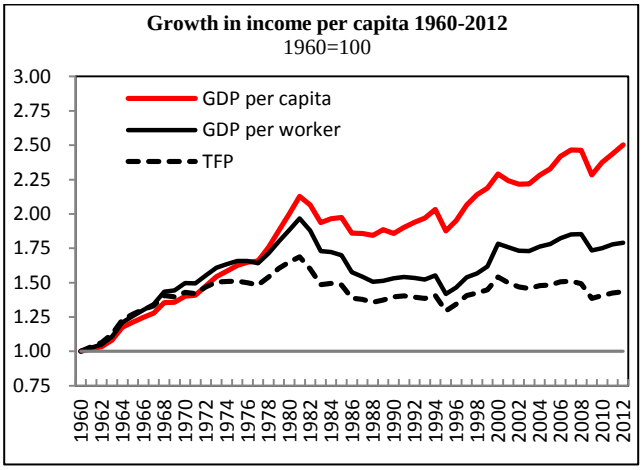
8. **Like many other countries in Latin America**, **however**, **Mexico faces challenges in its quest for inclusive growth**. It is a country of contrasts — rich and poor states, dynamic urban centers and isolated rural areas, small informal enterprises serving the domestic market and large companies competing abroad, top executives graduated from top universities abroad and youth who neither work nor study.

9. **Unlike some major emerging market economies**, **Mexico has failed to catch up with high-income economies**. It enjoyed macroeconomic and financial stability, market-oriented economic policy reforms, openness to foreign trade and investment, and a "demographic bonus," with a rising share of the working-age population over the past decades. But Mexico has not unleashed high growth rates, failing to close the gap with high-income economies. Over the past decade the Mexican economy grew at less than 2 percent a year, well below the regional average (4 percent). Its per capita income has remained at about 30 percent of that of the United States.[37] By contrast, East Asia's per capita income, which tripled over the past three decades, is currently at about 60 percent of that of the United States (Figure 1).

Annex 4 Figure 1. Unleashing productivity could help Mexico accelerate growth and converge to higher income levels



Source: World Development Indicators / World Bank (April 2012).



Source: World Bank estimates

10. **Mexico's trailing productivity partially explains its slow income convergence**. The country's growth has largely been driven by capital and labor accumulation, not by growth in labor productivity (average output per worker) or total factor productivity (combined efficiency of labor and capital). While physical capital accumulation rates are within reasonable range by international standards, labor productivity and total factor productivity collapsed during the eighties and have remained low since then. This explains the limited contribution of productivity to Mexico's economic growth over the last fifteen years. Total factor productivity is interpreted in the economic literature as a measure of technological progress and explains a substantial share of the per capita income differences across countries (Bosworth and Collins 2013: 113-79).

Annex 4 Table 1. Mexico Sources of growth (1961–2011), annual average GDP growth

Period	GDP	Labor	Capital	GDP per worker	Contribution to GDP growth		
					Labor	Capital	TFP
1961-1981	6.8	3.4	5.8	3.3	2.2	2.0	2.5
1982-1995	1.3	3.7	2.2	-2.3	2.4	0.8	-1.9
1996-2011	3.0	1.6	3.9	1.4	1.0	1.4	0.6

Source: World Bank estimates. The methodology assumes a labor augmenting Cobb-Douglass function. Alpha= 0.4; Delta=0.06.

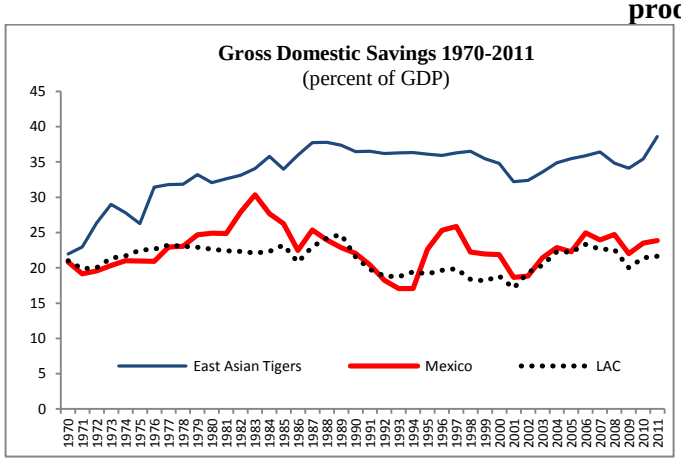
11. **The economic literature offers several explanations for Mexico's low productivity growth**. An underdeveloped financial system, labor market rigidities, high informality, scarce skilled labor, regulatory barriers for doing business, and weak innovation and limited market competition are often cited as binding constraints to productivity growth (Hanson 2010). It has proven hard to establish empirically the relative importance of each of these obstacles to productivity growth. In the absence of rigorous empirical evidence of the most binding constraint to growth, this note argues that making progress on several of these obstacles may be a reasonable strategy to accelerate growth, particularly in view of the possible interactions between some of these constraints. The next sections discuss these challenges in greater detail.

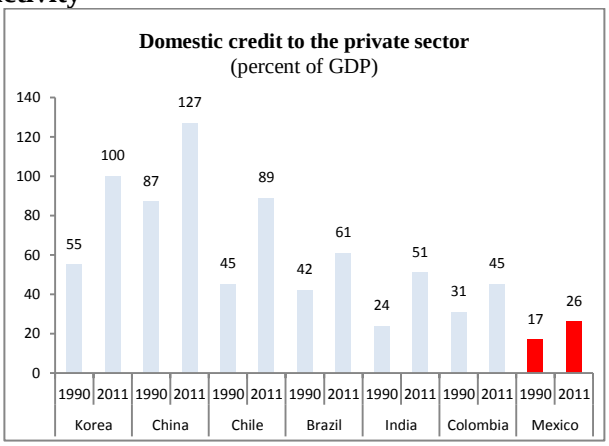
Deepening and broadening the financial sector

12. **Thanks to the financial sector reforms implemented over the last decade**, **Mexico has a sound banking system and a diversified set of financial intermediaries**. Financial sector oversight has been revamped and assessments of compliance with international supervisory standards note the high quality of the current financial regulatory and supervisory framework, especially for the banking sector. Authorities have been pro-active in adopting measures to protect financial sector stability from external shocks and endogenous developments; and following lessons from the recent global financial crisis, Mexico was among the first countries in the world in creating a formal body in charge of systemic risk monitoring. Also, in recent years there have been substantial efforts to improve financial inclusion through the operation of banking correspondent agents, propitiating the use of new technologies (such as mobile phones) for financial transactions, improving financial infrastructure (i.e., collateral registries and credit bureaus), and using public institutions and resources to catalyze private sector funding toward small and medium-size enterprises as opposed to crowding private sector activity (i.e., through the creation of an electronic factoring platform and public credit guarantees schemes).

13. **Yet**, **Mexico's financial sector remains small for its stage of development**, **impeding the channeling of financial savings into long-term productive investments**. The market for government debt is deep and liquid, but there are few issuers in the private bond and corporate equity markets. The financial system has done a fair job of mobilizing savings in recent years but continues to lag in risk taking and maturities, limiting its contribution to growth. Commercial bank lending focuses on consumer credit, which has higher intermediation margins. Institutional investors, including pension funds and mutual funds, hold many of their assets in fixed-income securities, mostly government bonds. Deepening and broadening Mexico's financial system could support the growth and investment of credit constrained SME's and households, raise productivity, and spur growth. Improving creditor rights and insolvency procedures could also enhance firms' access to credit. Continued efforts are required to foster financial sector development and inclusion while maintaining the soundness of the financial system (refer to Mexico Policy Note 1).

Annex 4 Figure 2. A more developed financial sector mobilizing domestic savings and credit could raise productivity





Source: World Development Indicators/ World Bank (April 2012)

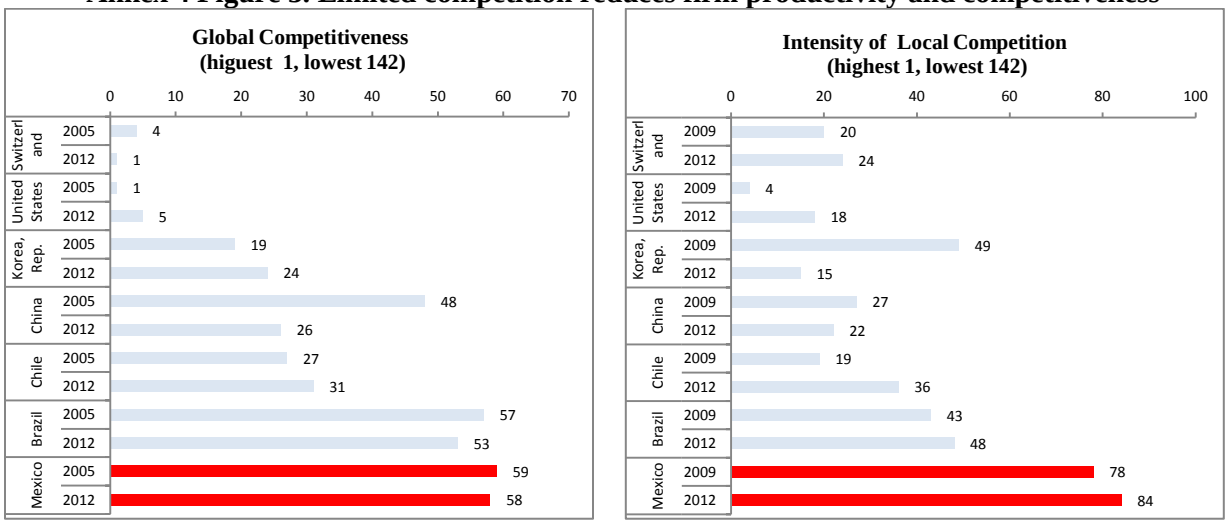
Promoting competition and streamlining business regulations

14. **Strengthening competition and reducing the costs of doing businesses are key to boost productivity**. The availability, quality, and cost of inputs in the production process, such as capital, labor and intermediate goods and services, as well as the cost to operate a business are critical for firm productivity. In international benchmark exercises, including the World Bank's annual Doing Business exercise, Mexico at times stands out for the high cost and/or low availability for key inputs in the production process (refer to Mexico Policy Note 2). High concentration in key sectors of the economy and restrictive regulation hinder competition and aggregate productivity growth. Monopolistic behavior results in higher prices, inefficient resource allocation, consumer deadweight loss, and disincentives to innovate or invest. Similarly, regulatory burden for firms can also increase the costs of doing business. National and subnational regulations, such as those related to the cost of enforcing contracts and the time needed to obtain licenses and permits, restrict the ability of firms to do business, while monopolistic behavior reinforces inequalities by hurting low-income households disproportionally (refer to Mexico Policy Note 2).

15. **In recent years**, **Mexico has made progress in supporting a more competitive business environment and streamlining of business regulations**. Amendments to the Federal Competition Law have been adopted that strengthen the power of the Federal Competition Agency to investigate non-competitive market behavior as well as to impose more significant monetary and criminal sanctions to deter economic agents from such practices. With regards to the streamlining of business regulations, progress has been made in facilitating tax filing and payment procedures, the elimination of redundant testing and certification requirements by recognizing the equivalence of Mexican product standards and certifications with international ones and the development of a Single Trade Window that will allow enterprises to comply with all trade related regulations through a single electronic platform.

16. **But more needs to be done to remove barriers to competition and reduce the costs of doing business**. Reforms to promote market competition could focus on ensuring an effective implementation of the Federal Competition Law; and creating a high-level commission with the mandate of recommending the elimination of anticompetitive practices at the subnational level. The cost of doing business could be substantially reduced with reforms aimed to simplify firm registration procedures, reduce the cost of formal hiring and firing processes and ensure effective and prompt contract enforcement.

Annex 4 Figure 3. Limited competition reduces firm productivity and competitiveness



Source: Global Competitiveness Index and Table 6.01 Intensity of Local Competition 2011-2012 rankings (World Economic Forum, Global Competitiveness Report).

17. **As a network industry**, **telecommunications is critical for promoting firm productivity**. The telecommunications sector is undergoing radical technological and regulatory changes throughout the world. In Mexico, the overwhelming dominance of the incumbent in the sector has caused improvements to be far smaller than those observed elsewhere. Penetration of telecommunication services in Mexico still shows a lower level and slower growth compared to OECD countries or Latin American peers. In 2010, the penetration rates (number of subscribers per 100 inhabitants) for fixed telephony, mobile telephony, and broadband services in Mexico were 18, 78, and 10, respectively, compared to 36, 114, and 25 in OECD countries, and 21, 106, and 10.3 in Chile. This is partly attributed to higher prices and low-network coverage in rural areas. Using the OECD methodology of representative baskets on consumption, prices for moderate use of mobile phone services exceed the OECD average by around 30 percent and fixed-line prices for moderate-use consumer and business services exceed OECD averages by 67 and 82 percent, respectively, in PPP terms (OECD 2011).

18. **Recent reforms sought to improve investment and competition in the telecommunications sector**. But a more ambitious reform is required to boost productivity. Examples of recent reforms include auctions for the lease of part of the optic fiber network owned by the state-owned Federal Electricity Commission for data transmission and for the use of radio spectrum for mobile telephony, as well as a program to support the reduction of interconnection rates for mobile telephony termination. Additional regulatory interventions are needed to facilitate entry in the telecommunications sector. Eliminating restrictions to foreign ownership and developing an integral and transparent interconnection policy are key elements of the reform agenda. In the event that such measures fail to increase competition, sector regulators could be given the power to break up companies with monopolistic power whenever they abuse their dominant position in the market. While such powers are difficult to implement in practice, the mere threat of being able to do so could induce more competitive behavior.

19. **Opening the energy sector to private participation in core activities could also contribute to productivity growth**. Dominating Mexico's energy sector, state-owned companies, as a result of being insulated from meaningful competition, have been slow to adapt and innovate in response to changing market conditions, technologies, and management

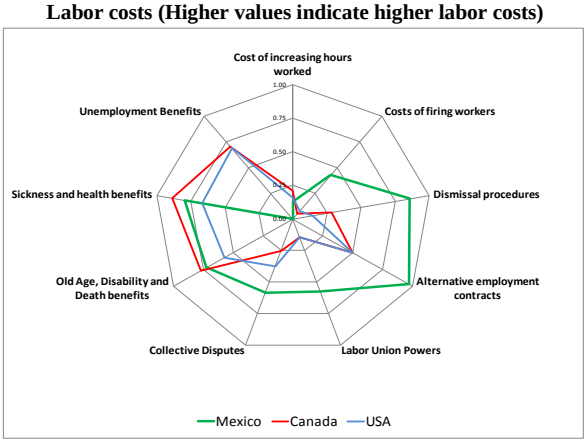
practices. The operation of state-owned electricity companies is constrained by federal budget controls and ceilings that have led to insufficient investment, and political interference in pricing policies and investment priorities. These constraints hamper longer-term prospects for oil and gas supply and the development of downstream capacity, pipelines and storage facilities to meet rising domestic demand. Similarly, relatively high prices for electricity use by the industrial and commercial sectors (as opposed to subsidized rates for residential and agricultural use) as well as low quality of service delivery increase the cost of doing business. An energy reform promoting greater efficiency and a diversification of financing sources for investment will enable a more dynamic energy sector and a more adequate provision of a key production input that could raise firm productivity. The energy reform goes hand and hand with fiscal and green growth policy reforms. The discussion of the fiscal dependence on oil revenues, energy pricing and subsidies, the promotion of energy efficiency and the reduction of greenhouse gas emissions are discussed in more detail in this compendium (Refer to Mexico Policy Notes 6, 7, and 10).

Reducing labor market rigidities

20. **Labor market rigidities constrain the efficient allocation of labor across firms and industries**. Rigid labor market regulations prevent the Mexican labor from working efficiently. The cost of employing formal sector workers remains high because of fairly rigid labor market regulations, particularly regarding dismissal (Figure 4). Furthermore, severance pay regulations likely reduce companies' willingness to adopt new productivity enhancing technologies, for fear of threat to job security. While informality is partly a reflection of Mexico's stage of development and of labor market rigidities, the large number of informal firms reinforces low productivity levels. Lower wages in the informal sector reflect a productivity gap, resulting from credit and technology constraints, limited access to employee training, and a bias against growth in order to continue to hide their activities. Addressing regulatory hurdles in hiring and firing workers, reducing formalization costs and, strengthening unemployment insurance could improve labor market efficiency and enhance productivity (refer to Mexico Policy Note 4).

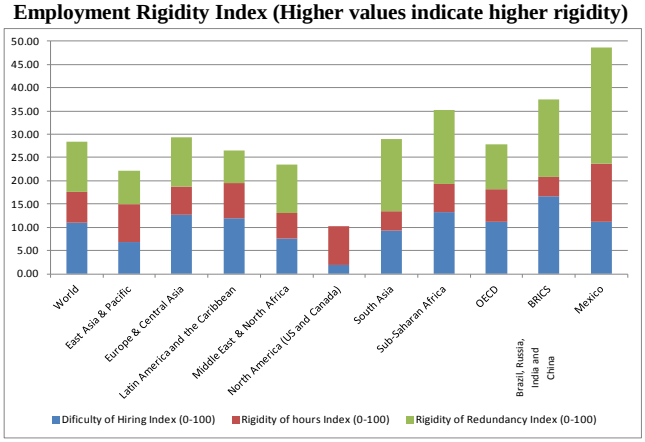
Annex 4 Figure 4. Labor market rigidities, in particular dismissal costs, remain high

Labor costs (Higher values indicate higher labor costs)



Source: Botero and others (2004: 1339-82).

Employment Rigidity Index (Higher values indicate higher rigidity)



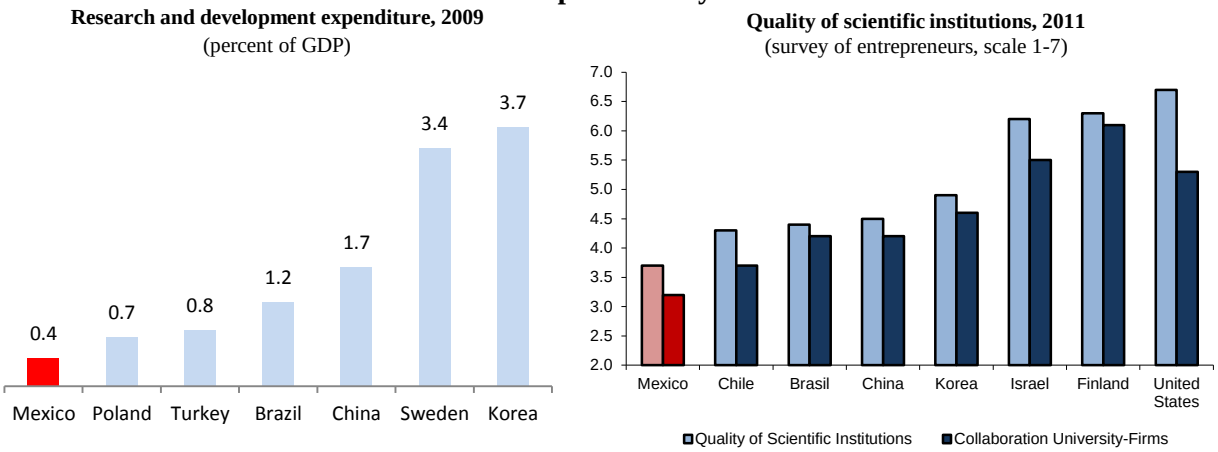
Source: Doing Business 2012: Doing Business in a More Transparent World (IFC).

Promoting innovation

21. **Boosting innovation in Mexico is critical for growth and productivity**. Empirical evidence suggests that sustained productivity growth is contingent upon increasing knowledge

generation and absorption.[38] Intermediate indicators for innovation, such as investments in research and development (R&D), technology licensing, and patenting, suggest that Mexico faces an innovation shortfall. Investments in R&D remain low relative to countries with a similar GDP per capita: 0.4 percent of GDP in 2009, well below other emerging markets such as Brazil and China and even farther below such top innovators as the Republic of Korea and Sweden (Figure 5). Furthermore, Mexico has yet to fully exploit the opportunities that its proximity to the United States offers for technological progress and productivity. Despite the long history of computer assembly in Mexico for U.S. companies, there is little indigenous patenting or evidence of new startups or spillovers, as in Korea. The quality of scientific institutions and collaboration between universities and firms also remains below a number of comparator countries (refer to Mexico Policy Note 3).

Annex 4 Figure 5. Low investments in innovation and weak scientific institutions hinder productivity



Source: World Bank estimation. OECD (2009). Global Competitiveness Report 2011-2012 (World Economic Forum).

22. **The reform agenda to boost innovation seeks to raise public R&D, improve the quality of scientific institutions, and strengthen links between universities and businesses.** Policy reforms to promote innovation started with the enactment of the Law on Science and Technology in 2002. These reforms were followed by programs that sought to encourage technology transfer and R&D by private firms. In 2009, subsequent amendments to the Science and Technology Law expanded its scope to incorporate business innovation as a key policy objective; and to remove regulatory constraints to technology transfer. Going forward, the challenge is to strengthen the capacity of public research centers for technology transfer activities to take root. Sectoral programs to encourage applied research have been put in place as well as increased investment in human capital to improve the quality of scientific institutions. Further resources need to be devoted to increase R&D funding, improve the quality of R&D programs and develop monitoring and evaluation tools to assess their impact.

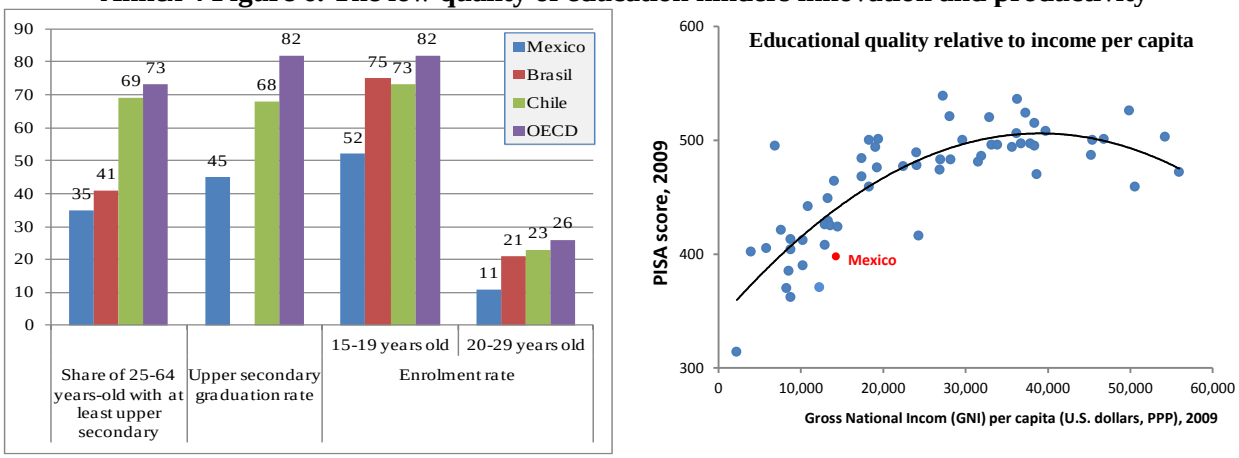
Developing worker skills and facilitating job matching

23. **Mexico has achieved near universal primary school completion, but it lags its Latin American and Caribbean (LAC) and OECD peers in higher education enrollment.** While 35 percent of the Mexican labor force has completed secondary school, more than 70 percent of OECD workers have done so (Figure 6). Despite a 50 percent increase in tertiary education enrolment over the past decade, current enrollment rates of 30 percent lag behind the LAC average (37 percent). Enrolment rates in vocational training programs in Mexico are half of those in Brazil and Colombia and only one-fifth of those in Turkey and Poland. In addition

to improving the coverage of education and training programs, Mexico needs to strengthen the quality of education.

24. **Mexico's performance on international cognitive skill tests has improved over recent years**. But, it lags behind OECD peers; and the quality of the skills development system remains low. Over the past decade, the performance of Mexican students on the PISA international learning test (measuring largely cognitive skills) has improved. But Mexico still lags behind its peers. Among the 14 countries, with a similar GDP per capita as Mexico, that applied the PISA test, Mexico ranks 10th in reading and 11th in math and science tests (Figure 6). Going forward, Mexico needs to improve its skills development system, both in schools and training institutions, to provide workers with the broad set of skills required to innovate and compete globally.

Annex 4 Figure 6. The low quality of education hinders innovation and productivity



Source: OECD (2011); PISA (2009).

25. **Mexican firms report skill mismatch in cognitive, technical, and social-emotional skills as a constraint to labor demand and firm expansion**. Socio-emotional skills have increasingly been promoted, as reflected in the recent Upper Secondary School Reform. But they are not sufficiently valued and taught by the skills development system. Roughly one-third of firms consider inadequate worker skills an obstacle to firm expansion, and more than two-fifths struggle to fill vacancies for low-skilled jobs (compared with 31 percent on average in other countries). While employers continue to demand cognitive (numeracy, literacy, problem-solving) and technical skills, a recent survey found that 40 percent of Mexican firms identified socio-emotional skills (such as communications, customer relations, teamwork) as the most difficult skill set to find (refer to Mexico Policy Note 4).

26. **Productivity is also constrained by inefficient matching of workers and firms**. More than half of Mexican workers find their jobs through family, friends, and other personal contacts. This informal matching mechanism likely results in the misallocation of skills and lowers productivity. Public spending on job intermediation services is lower in Mexico than in other OECD countries. The absence of unemployment support may be responsible for quick rather than efficient job matches. Reform options for addressing these challenges include a national strategy for building labor market–relevant skills; continued reorientation of upper-secondary school toward the labor market; portability of skills across the education, training, and labor market systems; and facilitating job search and matching by developing integral employment services, including unemployment insurance (refer to Mexico Policy Note 4).

Reducing poverty and inequality

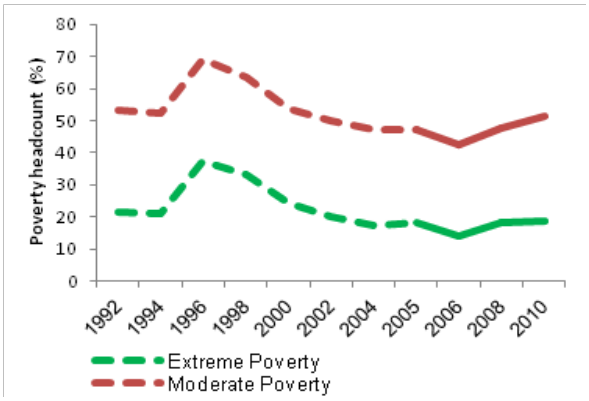
27. **Low productivity growth is linked to high levels of poverty and inequality**. Inequity of opportunity in access to key economic and social services (such as education, credit, and infrastructure) prevents a large segment of the Mexican population from fully realizing their economic potential. This reduces productivity and slows growth, and perpetuates existing poverty and high-income inequality. Breaking this vicious circle is difficult and requires an integrated reform agenda focused on economic and social objectives that are mutually reinforcing (Bourguignon and Dessus 2009: 45-69).

28. **Poverty in Mexico remains high and increased in recent years**. Between 2006 and 2010, the moderate poverty rate increased from 42.7 percent to 51.3 (to 57.7 million people) and the extreme poverty rate from 13.8 percent to 19.8 (to 21.2 million people). The increase in poverty, in 2008 and 2010, broke a decade-long trend of poverty reduction. In 2010, 57.7 million people suffered from patrimony poverty, 12.2 million more than in 2006 (Figure 7). Until 2006 Mexico kept pace with the rest of Latin America and the Caribbean in poverty reduction. But since 2008 the economy suffered a series of shocks — global food price crisis, global financial crisis, the AH1N1-flu epidemic, natural disasters, and a recent wave of drug-related crime — that slowed economic growth.

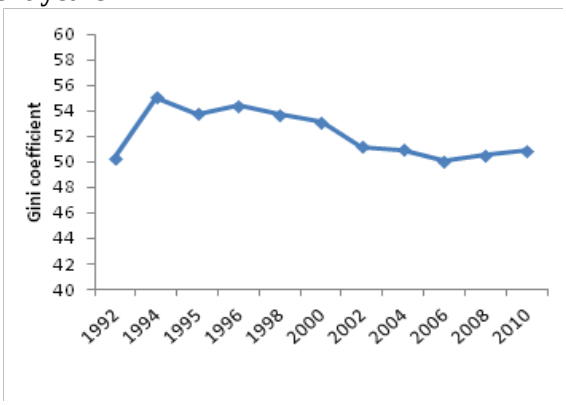
29. **The recent increase in poverty was largely driven by a rise in urban moderate poverty**. As of 2010, poverty rates are higher in rural areas (with 6 out of 10 households in rural areas are poor), but the largest group of people living in poverty is located in urban areas — 35 million people in urban areas compared to 17 million people in rural areas based on multi-dimensional poverty measures (CONEVAL, 2011). The sharp increase in urban poverty that began in 2008 is at the center of the social policy and labor market reform debates. Stagnant real wages and higher unemployment and underemployment likely drove the increase in moderate urban poverty from 2008 to 2010. At the same time, safety nets in urban areas are not as well targeted as those in rural areas. The Temporary Employment Program (*Programa de Empleo Temporal*) focuses mainly on rural areas. It was expanded to urban areas in 2009 but could not prevent the increase in urban poverty. The flagship social protection program *Oportunidades* was not designed to quickly sign up transient populations that may fall into poverty when a crisis hits.

30. **Inequality and the vulnerability of the Mexican middle class have also risen**. **Over the last decade**, **Mexico has seen the emerging rise of the country's middle class**.[39] However, the vulnerability of the middle class to shocks and downward economic mobility is at the center of economic policy debates. Following the recent global economic crisis per capita income growth (2008-2010) turned negative for all income deciles (by more than 2 percentage points). The largest income losses were for those in the top and bottom of the income distribution, with those in moderate poverty experiencing the smallest loss. Limited social security coverage (limited unemployment insurance and high out-of-pocket health spending) explains Mexico's middle-class vulnerability to fall back into poverty when a crisis hits. The expansion of social programs, targeted at the lowest-income households, has not been accompanied by an increase in social security insurance for those vulnerable groups earning incomes above the poverty line (Torche and López-Calva 2010).

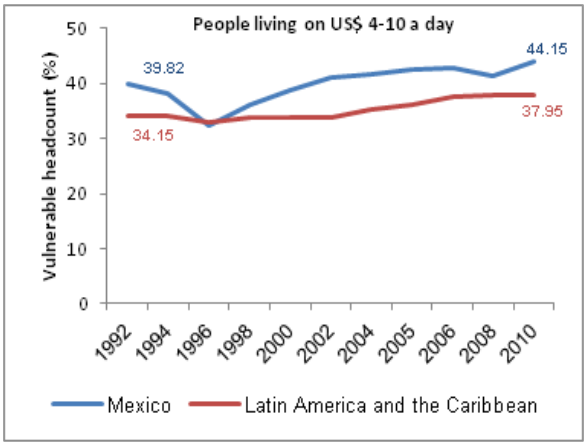
Annex 4 Figure 7. Poverty, inequality, and the vulnerability of the middle class increased in recent years



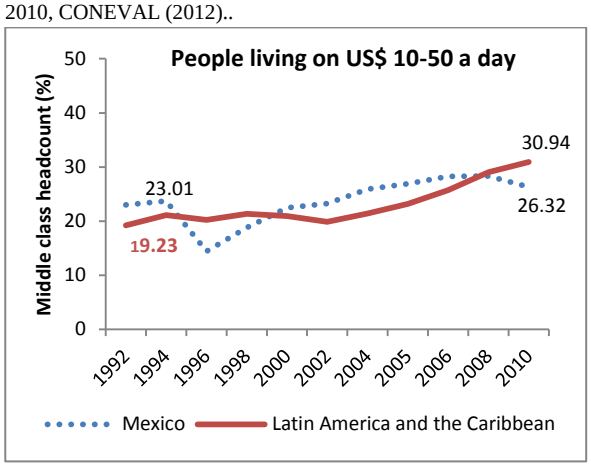
Source: CONEVAL (2012).



Source: From 1992 to 2006, World Bank (2012b); from 2008 to 2010, CONEVAL (2012)..



Source: CEDLAS (2012) and World Bank (2012b).



Source: CEDLAS(2012) and World Bank (2012).*

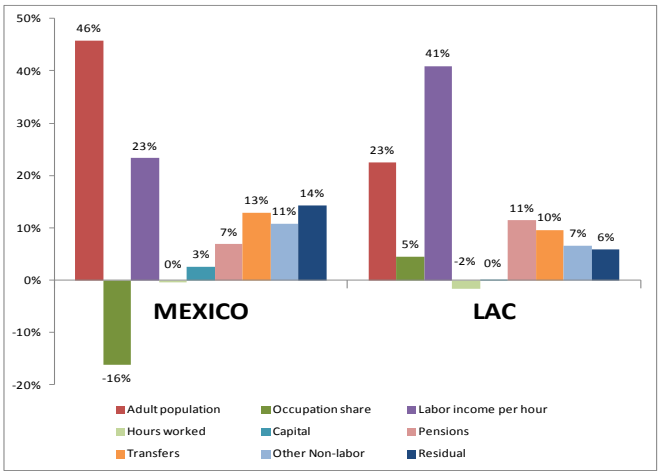
* ***Note:*** Vulnerable individuals are defined as those individuals with a per capita income of US$4-10. Middle-class individuals are those with a per capita income of US$10-50. Per capita income is expressed in international prices (2005 US dollars, PPP terms).

31. **Regional income disparities remain a concern**. Income per capita in the richest state was 6.7 times that of the lowest in 1950, and 6.1 in 2000. In 2010 the state with the highest moderate poverty was Chiapas (78.4 percent), followed by Guerrero and Oaxaca (each at 67.2 percent), while Nuevo Leon had the lowest (28.7 percent). Income disparities across Mexican municipalities are also large. In addition, access to and quality of public service delivery also varies significantly across regions. The states and municipalities with higher poverty rates tend to be those more prone to crime and/or natural disasters, and those where the population is spread in mountainous locations with limited accessibility to basic social services.

32. **The rise in poverty and vulnerability**, **underscores the urgency of a reform agenda focused on reducing the inequity of opportunities through inclusive growth**. In Mexico, most of the decline in poverty over the past decade was driven by demographic factors (the increase in the adult population). In contrast, for Latin America the rise in labor income was the main contributor to poverty reduction (Figure 8). Since 2008, the labor poverty trend index (a leading indicator of poverty which tracks the number of individuals who cannot obtain the basic food basket with their labor income) has been on the rise, suggesting that poverty is likely to remain high. To reduce poverty and inequality, Mexico's reform agenda needs to address several related challenges: (a) labor market failures that hinder the creation of more and

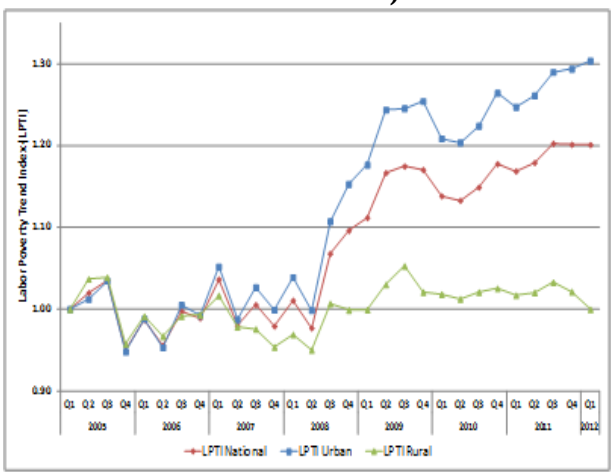
better jobs; (b) the impact of natural disasters and economic crises on the poor; (c) lack of protective measures to reduce households' vulnerability; and (d) regional disparities reflected in unequal opportunities in access and quality of basic social services.

Annex 4 Figure 8. Labor income drove poverty reduction in Latin America and to a much lesser extent in Mexico (2000–2010)



Source: World Bank estimates; Azevedo and others (2012).
Note: Moderate poverty at US $4/day (PPP 2005).

Annex 4 Figure 9. A leading indicator of poverty tracking individuals with labor incomes insufficient to obtain the basic food basket- has been on the rise (2005-2011)



Source: CONEVAL 2012.

Promoting labor markets for inclusive growth

33. **Mexico faces challenges as it seeks to develop a labor market that protects workers, creates more and better jobs for men and women, and improve their long-term standard of living**. A move toward labor formalization, institutionalization of universal social protection, and improved education and skill development for all workers could contribute to higher labor productivity and economic growth.

34. **Labor is the main source of income for most of the population**, **particularly for low-income households**. The reliance on labor income by low-income households reinforces the importance of promoting a dynamic labor market that can contribute to poverty reduction. While labor income has been the main driver of poverty reduction and upward mobility in Latin America, it has not delivered similar results in Mexico. Between 2000 and 2010 it only contributed 23 percent to the decline in moderate poverty in Mexico compared to 41 percent in the region (Figure 8). Gender disparities in labor income remain, with female workers earning on average 20 percent less than their male peers (World Bank 2012c).

35. **Mexico's large informal sector reinforces inequality**. The mobility between the formal and the informal labor markets provides a buffer against unemployment during economic downturns. But informality limits the Government's public spending capacity and restricts social insurance benefits. The prevalence of informality leaves approximately half the workforce outside the social security system, thereby exacerbating inequities. During the 2008 financial crisis, only workers with access to the formal pension system were able to use early withdrawal from retirement accounts as a protective mechanism to smooth consumption. The informal workforce also generates fiscal pressures for the Government. On the one hand, it results in a narrow tax base. On other hand, the Government needs to fund a parallel set of non-

contributory social programs for the informal sector. Programs seeking to protect informal workers can have unexpected implications since they can make informality more attractive for new entrants and lead to a reallocation of workers to lower productivity activities. In spite of the economy recovery since 2010, informality rates have remained constant with two in every three new entrants to the labor market being informal.

36. **Recent economic shocks added to existing labor market pressures**. Labor supply is outpacing labor demand. Higher than expected population growth, a 5 percent rise in labor force participation rates since 2005, and a sharp reversal in migration to the United States have significantly increased the labor supply. Before the 2008 crisis, the Mexican economy was able to absorb labor supply, maintaining steady and fairly low unemployment. However, in the second half of 2008 and in 2009 a gap opened between labor supply and labor demand. By 2010 employment growth once again matched labor supply, but the gap remains.

37. **Labor force composition has shifted toward lower-quality jobs**. The share of the workforce in tradable sector jobs declined since 2005 but increased in non-tradable services — the latter characterized by low productivity. Despite the economic recovery, real wages have remained stagnant and even fallen; in 2010 they still remained around 90 percent of their 2008 levels. The number of jobs paying below two minimum wages, up during the crisis, represents the highest share of all jobs, unlike previous years where jobs paying between two and three minimum wages were most common.

38. **The reform agenda should focus on increasing worker skills**, **addressing labor market rigidities and improving social protection**. Due to the importance of labor income for lower-income households, social inclusion should be fostered through interventions that help the most vulnerable groups acquire labor market-oriented skills and access the labor market. More generally, the Government should aim to strengthen skills development through education and training services, improve employment intermediation services, address labor market rigidities, and promote active labor market programs. The agenda also needs to strengthen the social protection system, in particular unemployment insurance, for the poor and the non-poor vulnerable to sudden income losses in a crisis.

Improving social protection

39. **Despite recent progress**, **social protection faces important equity and efficiency challenges**. Mexico's social protection system includes several contributory social security schemes, social assistance programs, and labor market programs. Social protection programs such as *Oportunidades* are globally recognized as quite successful. But the social protection system as a whole suffers from fragmented programs, weak design, and gaps in coverage (refer to Mexico Policy Note 5).

40. **The social protection system remains fragmented**. **In health insurance the different contributory schemes and the Social Protection System in Health operate in parallel with little coordination**. Each scheme has its own funding source, insurance pool, administration structure, financial reserves, and service provider network — resulting in large inefficiencies. For labor markets, programs overlap and are duplicative. At the federal level, 63 programs and actions promote income generation and economic well-being, many with the same goals and target populations (mostly indigenous and rural).

41. **The social protection system faces weaknesses in the design and targeting of programs**. Mexico has gained experience in targeting social protection programs to the poor (*Oportunidades* and *Seguro Popular*). But some social programs (such as the energy subsidies)

continue to disproportionately benefit the wealthiest while absorbing a large share of resources. Other programs are regressive by design, such as the Employment Subsidy Program (*Subsidio para el Empleo*), which covers only formal sector workers (less than 5 percent of the subsidies go to the poorest household decile).

42. **Even the most successful programs suffer from inefficiencies**. An organizational and functional reform of health insurance schemes, in particular related to the separation of financing and provision, as well as provider payment mechanisms to allow strategic purchasing could strengthen performance. Using production-based payments more would offer incentives for providers to decrease inefficiencies while improving quality, particularly if purchasing across different schemes becomes the norm. Oportunidades would benefit from reviewing those conditions that originally motivated the program and making appropriate adjustments, including the need for greater focus on promoting the employability of beneficiaries, support to those living in disaster-prone regions, efficiency in urban areas, and mechanisms of intervention in indigenous areas.

43. **Gaps in coverage particularly affect the poor and vulnerable and those in the informal sector**. Employment services, which promote employability and intermediation, have limited coverage, while important gaps persist in urban and peri-urban areas. The pension system also poses challenges. Only 7 percent of those age 65 or older in the poorest decile receive a pension, compared with 41 percent in the richest. The recent expansion of noncontributory programs — such as *70 y más* and *Seguro Popular* — address some of the gaps, but they remain insufficient to ensure full old-age protection. While some instruments can protect households in times of emergencies or crises, the Social Protection System lacks the full range of mechanisms to mitigate the negative impact of economic shocks.

Promoting Green and Inclusive Growth

44. **While inclusive growth is central for income convergence and poverty reduction**, **the environment**, **and the use of the country's natural resources must be recognized as an integral part of Mexico's reform agenda**. It is widely recognized that economic growth is a critical driver of social and human development. But international experience has demonstrated that it is often accompanied by the deterioration of the local and global environment, while adversely impacting the poorest and most vulnerable members of society. This highlights the importance of a green growth agenda that mitigates environmental damage while ensuring sustainable and inclusive development (Hallegatte and others, 2011).

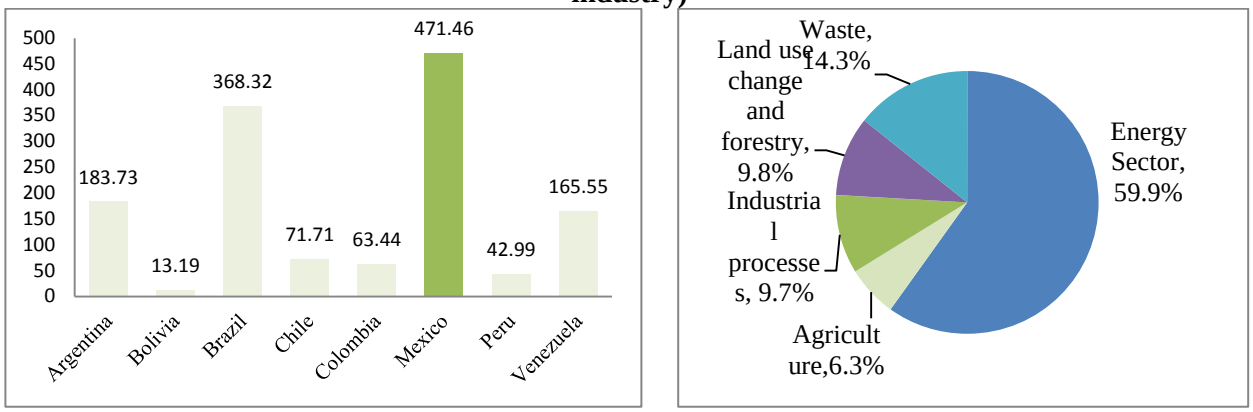
45. **Green growth is defined as growth that is efficient**, **clean**, **environmentally sustainable**, **and socially inclusive**. While sustainable development is often treated as a longer-term objective, green growth is the short term path to this longer-term objective, with a focus on more immediate concerns. The green growth approach is concerned with what needs to occur in the short term (over the next 5-10 years), before the world gets locked into patterns that would be irreversible and extremely expensive to modify, and it aims to maximize synergies and economic co-benefits (Hallegatte and others, 2011).

46. **Mexico has a long and distinguished record on many aspects of environmental sustainability and climate change**. The country is widely recognized as a global leader on climate change and is a pioneer among developing countries in climate change policy and negotiations. The country's comprehensive strategy for climate resilient, low-carbon economic growth is one of the most ambitious in the world.

47. **Yet, the country's vulnerability to climate change remains high, especially in the rural areas**. Mexico is experiencing longer and hotter periods resulting in droughts, more intense rains and hurricanes, frequent flooding, and mudslides. Environmental change is having, and will continue to have, disproportionally negative effects on poor and indigenous groups who depend on climate-sensitive sources of income. A World Bank study found that "Estimates of the macroeconomic cost of climatic natural disasters suggest that on average, each of them causes a 0.6 percent reduction in real GDP per capita. To the extent that, since the 1990s, such events have taken place on average once every three years—compared to once every four years in the period since 1950—their average impact on the affected countries would be a 2 percent reduction in GDP per capita per decade" (De la Torre and others, 2009: 4).

48. **As one of the largest contributors of carbon dioxide (CO_2) in Latin America and the Caribbean, Mexico has adopted an ambitious plan to drive down GHG emissions**. Mexico ranks 12th in the world in CO_2 emissions (with 471.46 million tons CO_2 emissions)[40] (Figure 10). The climate change agenda includes partnership with the states as well as the recently approved General Climate Change Bill (*Ley General de Cambio Climático*), which calls for a 30 percent CO_2 reduction by 2020 and a 50 percent reduction by 2050 (compared with 2000 level).

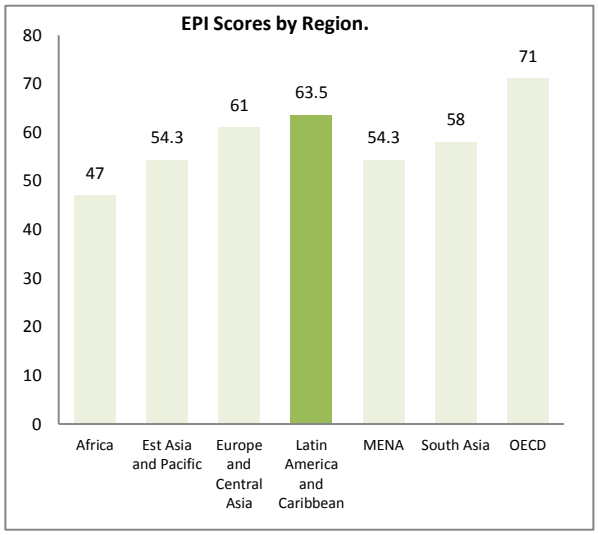
Annex 4 Figure 10. Mexico is a large contributor to global CO_2 emissions (mostly driven by the energy sector, including transport, energy generation, manufacturing and industry)

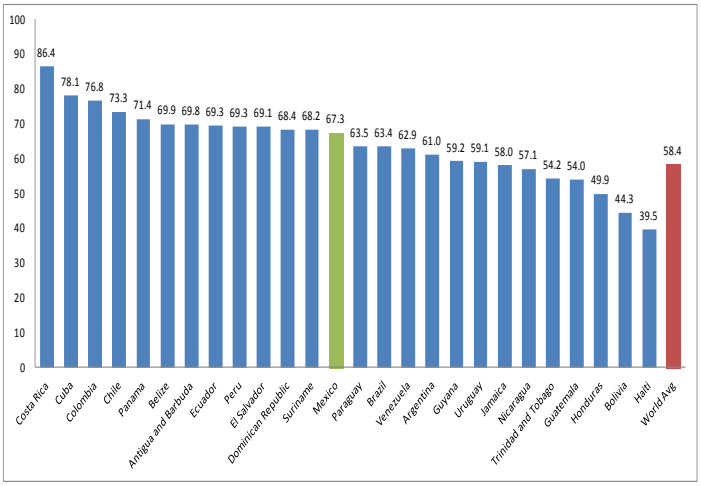


Source: Mexico: Fourth National Communication of Mexico to the United Nations Framework Convention on Climate Change / Secretaría de Medio Ambiente y Recursos Naturales, Instituto Nacional de Ecología (2009); UNDP (2007). Figure 22. Energy and Environment. – In: Human Development Report 2007-2008: Fighting Climate Change: Human Solidarity in a Divided World.
Note: World Bank estimations based on 2006 data.

49. **In spite of Mexico's commendable performance on the global and domestic climate agenda, local environmental pressures continue to rise**. One commonly used aggregate indicator is the Environmental Performance Index (EPI), which is a summary of 25 different measures of environmental pressure.[41] The EPI combines air and water pollution estimates, resource depletion, and aspects related to policy and institutional frameworks. As with any broad measure, there are problems with aggregation and interpretation, but the EPI is a useful starting point to assess how countries perform relative to their peers. Latin America scores well relative to other developing economies, and Mexico is a mid-range performer within the region (Figure 11).

Annex 4 Figure 11. Mexico is a mid-range environmental performer in Latin America





Source: Yale University (2012) and World Bank estimations.
Note: Higher scores indicate better environmental performance.

50. **Mexico has adopted innovative reforms to promote green and inclusive growth**. Policy innovations such as the Green Mortgage Program (*Hipoteca Verde*) have unleashed market forces in the service of environmental efficiency. The Green Mortgage Program offers loans for the installation of green equipment accessory packages (such as solar heaters, low-energy bulbs and low water consumption toilets and faucets). Initially designed as an addition to the regular mortgage loan, the Green Mortgage Program has evolved and now also applies to remodeling, expansion, and construction activities. The program began in March 2008 and was modified in 2011 in an attempt to broaden the choices to select accessory packages and hence promote greener consumption patterns. Before 2011 the program package was fixed and depended on climatic zones. Currently the beneficiary can either buy a house with installed equipment or chose the equipment to install in the house.

51. **Going forward**, **two critical policy concerns need to be addressed to promote greener and more inclusive growth – tackling the environmental footprint (externalities) and managing natural assets under pressure**. As Mexico grows and industrializes further, so too will the incidence of pollution if there are no compensating policy responses. Similarly, demands on common property natural resources such as water and forests will continue to rise, enhancing the need for policy innovation and stewardship.

52. **Greening growth requires reducing the environmental footprint of the urban economy**. In particular, the following pending policy issues related to land use planning, waste collection, urban pollution, and energy efficiency should be addressed (refer to Mexico Policy Note 6):

- ***Urban planning***. Mexico is a highly urbanized country. Reducing the resource intensity of current urban development might lead to significant efficiency gains, and an improvement of economic activities, thus enhancing the efficiency and quality of growth. Urbanization also has negative externalities that impact and adversely affect quality of life, environmental sustainability, and exposure to natural disasters, mainly for the most vulnerable. Addressing these externalities (in an economically appropriate manner)

would yield a double dividend — efficiency and economic gains in terms of improved land use management and greater productivity and resilience.

- ***The brown agenda***. Although Mexico has developed good environmental legislation and protection strategies related to waste management,[42] these are not being adequately implemented, especially at the local level. There are still important gaps, including an insufficient number of solid and hazardous waste disposal facilities; municipal sewage and industrial effluents polluting rivers in urban areas and costal environments; and serious air, water, and land pollution especially in urban centers. Contaminated sites can result in significant human health impacts, often associated with poor or marginalized communities.

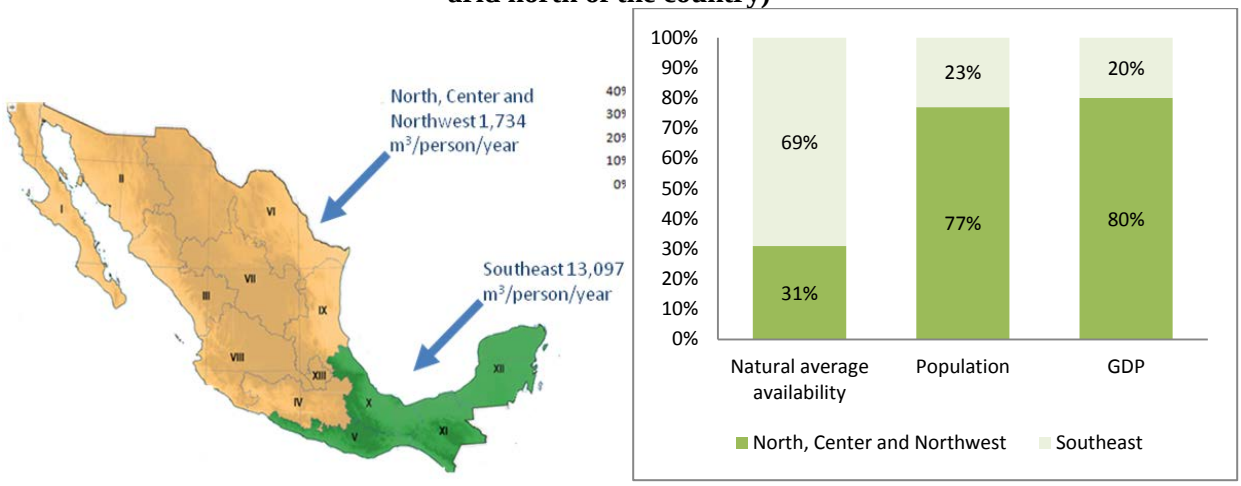
- ***Energy efficiency***. Energy is one of the most important sectors in the Mexican economy. First, oil revenues contribute at least one-third of the federal budget, yet oil production and reserves have been steadily declining. Second, being state owned and financially constrained by the federal budget ceiling, the energy sector has been limited in terms of technological progress, corporate practices, and pricing policies. Third, energy consumption and production contribute over 60 percent of Mexico's total GHG emissions. Enhancing energy efficiency would improve the country's competitiveness and mitigate the fiscal burden from energy subsidies, as well. However, energy policies involve crucial economic, environmental, and social tradeoffs; so paying close attention to this issue should be a high priority going forward.

53. **Green growth also requires managing the use of natural resources optimally**. Progress and challenges regarding forests, water management and the energy sector include the following (refer to Mexico Policy Note 7):

- ***Forest and biodiversity management***. While Mexico's forests have long been valued as a source of timber, they are increasingly being appreciated for their role in helping to regulate the environment. Mexico ranks twelfth worldwide in forest cover, with 33 percent of its area being classified as either forests or "wooded land" (FAO 2010). Poverty is widespread in forest communities, owing to degradation (the usual common property problem) as well as market failures that do not recognize the value of environmental services generated in forests. Hence stewardship of forests and biodiversity must continue to rank highly on the policy agenda.

- ***Water management***. Reduced water availability and poor water quality are two of the main factors that will affect economic growth and development in Mexico. Water resources in Mexico are scarce and heterogeneously distributed across the country, with the bulk of the water supply concentrated in the south while the population and demands are greatest in the more arid north of the country (Figure 12). About 63 percent of the supply comes from surface water sources, and 37 percent is from groundwater sources (CONAGUA, 2011). Despite steady improvements in water management across the country, there is ample evidence of the costs associated with poor water governance and includes diseases, rising costs of alternative sources, and the costs of the implicit electricity subsidy to Mexican farmers (Muñoz Piña and others, 2006). But it is the unsustainable extraction of groundwater that remains by far the biggest unresolved challenge in Mexico.

Annex 4 Figure 12. Spatial Water Challenge in Mexico
(most of the water supply is concentrated in the south while water demand is greatest in the more arid north of the country)



Source: World Bank estimations based on Atlas del Agua (CONAGUA 2011).

- ***Renewable energy***. The possibility of Mexico turning into a net oil importer poses the challenge of radically transforming the energy matrix composition. The heavily based hydrocarbon structure and the declining oil production affect the configuration of the power sector and other industrial energy uses. Through the introduction of newer technologies and regulatory changes, the power sector has become the main driver of natural gas demand in Mexico. Diversification through the expanded use of renewable energy sources is a key element to strengthening the long-term sustainability of the Mexican economy.

54. **Finally**, **a comprehensive system for tracking and monitoring progress and environmental pressures needs to be developed**. Mexico's leadership and early efforts at developing green GDP accounts are steps in the right direction. Going forward, the remaining challenge is to: (a) strengthen available measures for each sector (physical and economic indicators of environmental progress) and (b) build on the green GDP accounts to guide macroeconomic and sectoral policies.

Promoting sound public finances and efficient government

55. **Sound public finances and an efficient government are critical to achieve and sustain a green and inclusive growth agenda**. A modern public administration is fundamental for executing public programs effectively and efficiently and for raising the resources required to finance these programs. An efficient and coordinated public administration with well-articulated institutions is also required to manage medium-term fiscal pressures through policy choices consistent with available resources. In some areas (such as macroeconomic policy and public debt management) Mexico has developed the necessary institutions and systems. In others, such as the management of expenditure to achieve quality results, progress has been made at establishing a framework, but challenges remain to improve the working of the entire budgetary and policy cycle. Finally, although improvements have taken place in tax administration in recent years, Mexico faces the challenge of developing a broad-based taxation system that substantially enhances public revenue to finance its development effort without discouraging investment and formal sector employment generation.

Improving service delivery and the quality of expenditure management

56. **In recent years Mexico has undertaken a number of important initiatives to improve the quality of expenditure and service delivery**. These include developing a new legal framework to increase expenditure efficiency, including a Performance Evaluation System (*Sistema de Evaluación del Desempeño*, or SED). Affecting all three levels of government, the framework:

- Defines new policies on results-based management and budgeting;
- Strengthens budget discipline by improving budget management across the budget cycle, from planning through execution to audit and evaluation;
- Introduces a financial management information system (*Sistema Integral de Administración Financiera Federal*, or SIDAFF), which began implementation in 2012; and
- Establishes a specialized function for comprehensive evaluation of selected Federal Government policies and programs within the Ministry of Finance (refer to Mexico Policy Note 9).

57. **All of these initiatives have yielded benefits**, **but require institutionalization for Mexico to improve public sector performance and the quality of expenditures**. Budget and financial management covering key functions in the budget cycle, from planning to execution to evaluation, have traditionally focused on process compliance and input control. These functions and systems need further upgrading to provide public sector managers and decision-makers with relevant, timely, high-quality information on financial inputs and outputs and on outcomes from public projects and programs. This challenge requires actions on several fronts: continue to implement modern harmonized accounting standards and performance-informed budgeting policies, using information technologies more intensively for public sector management (e-government), raising standards of administrative procedures and procurement, and strengthening the capacity of federal and subnational governments to deliver high-quality public goods and services in a timely fashion.

58. **The performance budgeting and evaluation system reform led by the Ministry of Finance has advanced a results- and performance-informed orientation in the federal budget process**. To incorporate results and performance dimensions into resource allocation, the new system uses performance indicators for public sector programs, along with systematic evaluations of public sector policies and programs. Consolidating performance-based budgeting at the federal and state level depends on consolidating the SIDAFF and equivalent state financial management systems, improving the quality of the performance information, institutionalizing the evaluation function, and working with sector ministries to consolidate the performance culture, implement the new tools and processes, and expand capacities to use them. As experience from other countries shows, setting up a performance-informed system requires a culture change, with a new management style based on performance incentives; management delegation; and a focus on inputs, outputs, and outcomes. In addition, because results-informed management requires mechanisms for accounting, reporting, and consolidating information, accounting systems are being modernized and harmonized.

59. **Completing the accounting harmonization program will remain a challenge for the next administration**. This task, not simply technical, will require strong political leadership to ensure that the accounting and reporting changes are implemented as the basis for effective resource management in the public sector. At the subnational level, supporting the country's 1,200 smaller and less-developed municipalities must be a priority.

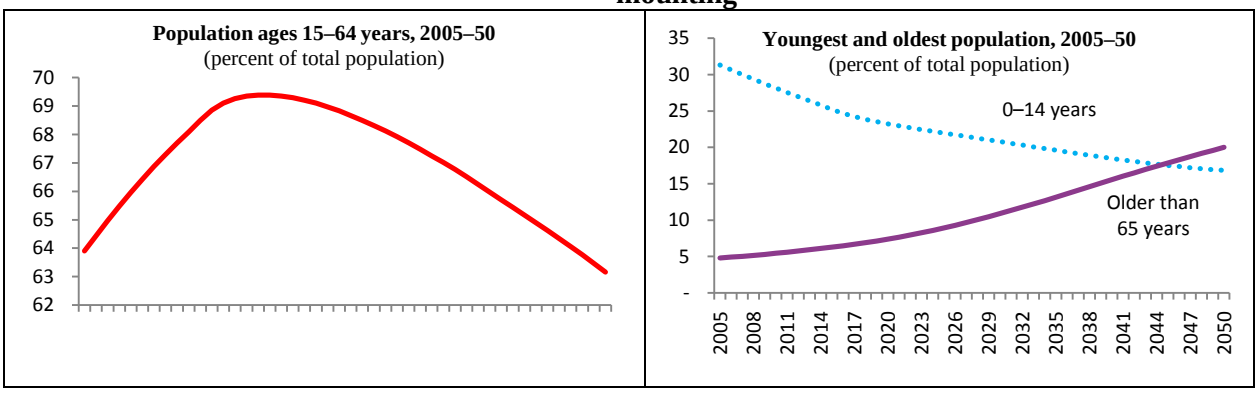
60. **At the subnational level, it will be important to provide support and incentives for implementing state-level financial management systems consistent with the accounting harmonization**. For states and municipalities, establishing a common budget classification system in parallel with accounting harmonization would enhance fiscal transparency and support standardization across levels of government. A more transparent and consolidated accounting framework would improve expenditure monitoring and encourage efficiency and accountability. Incentive mechanisms for subnational governments that adopt an integrated system, and support to those that are willing to move forward first, to implement the new accounting standards will be important through 2013.

61. **Improving the efficiency of government delivery of goods and services requires continuing the procurement system reform initiated in 2009**. Mexico's public procurement system has a large impact on the country's economy: public procurement accounts for 40 percent of the federal budget and about 10 percent of GDP, and the estimated savings from effective procurement are substantial. Until recently, the procurement system was over-regulated, focused heavily on the administrative function, and based primarily on legal regulations. The key challenges are to consolidate the current system and to target more areas. Especially important is continued emphasis on performance outcomes. Because the risk of waste and corruption in procurement systems is high, procurement reform and monitoring can yield substantial gains for the economy and society.

Managing medium-term fiscal pressures

62. **Health and pension spending will rise as the population ages and experiences an epidemiological transition**. Age-related public spending needs will materialize alongside demands for filling the existing gaps in the country's social security and social protection system (refer to Mexico Policy Note 10). Over the next two decades the population 65 years of age and older is projected to double as a share of total population (Figure 13). This demographic transition is expected to lead to an increase of public spending on pension and old-age income provisions by about one percent of GDP over this period. Similarly, health expenditure is bound to increase due to the country's demographic and epidemiological transitions. Total health spending is likely to grow from 6 to 8 percent of GDP over the next two decades. Approximately half of this increase will be on account of the public sector.

Annex 4 Figure 13. Medium-term expenditure pressures related to population aging are mounting



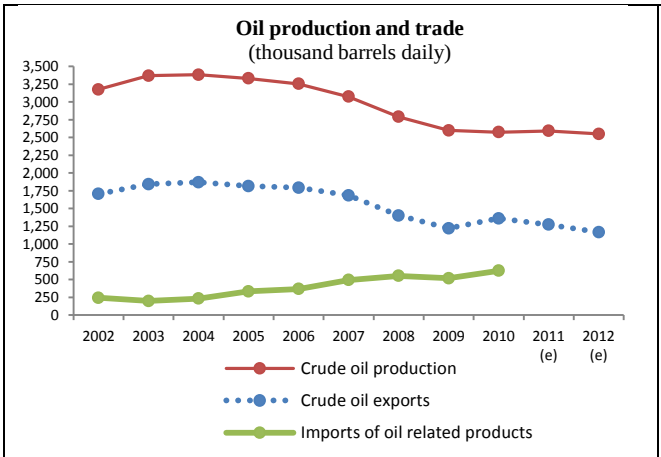
Source: World Bank (2012a).

63. **Mexico's public finance depends heavily on oil revenue, but recent high prices mask an alarming decline in oil production**. Crude oil production has declined by 25 percent

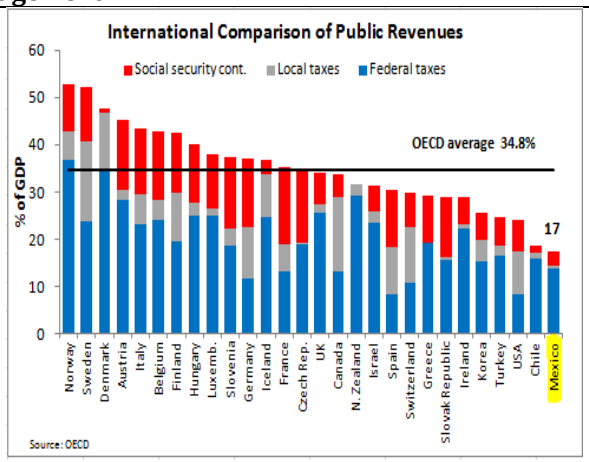
following a peak in 2004. Estimates of oil reserves and production are surrounded by a large margin of uncertainty, though even if production were to stabilize at the current level of 2,500 thousand barrels per day, a growing economy would result in a fall of oil revenue as a percent of GDP. Over the next two decades such a stabilization of oil production could represent a reduction of oil revenue as a percent of GDP by 3 percentage points.

64. **Declining oil revenue, increasing medium-term health and pension spending, as well as other public sector spending requirements call for a strengthening of tax collection**. Federal tax collection in Mexico (13.8 percent) is below the OECD average (19.2 percent). When local taxes and social security contributions are included, Mexico drops to last place among OECD countries (Figure 14). Though the general features and statutory rates of the Mexican tax system compare favorably internationally, tax collection efficiency remains substantially below peers.

Annex 4 Figure 14. Falling oil production and low tax revenues pose a challenge for revenue management



Source: INEGI (2012).



Source: OECD (2011).

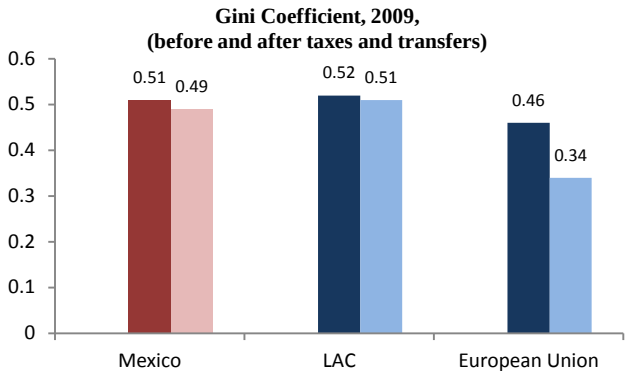
65. **A large informal economy narrows the tax base, and numerous tax loopholes and exemptions hinder tax collection and ease tax evasion**. The Mexican tax collection agency, *Servicio de Administración Tributaria*, estimates that about 77 percent of income tax due on non-salary income is not paid, and that value-added tax evasion is 35 percent. Preferential corporate and individual tax regimes, value-added tax exceptions, and multiple rates complicate the tax system and facilitate noncompliance. Exemptions, deductions, and multiple rates generate substantial revenue losses, have the same effect on the budget as does government spending (like subsidies), and alter the horizontal and vertical equity of the tax system.

66. **Adopting an integrated fiscal reform that simplifies the tax system, reforms energy subsidies, and broadens the tax base could meaningfully bolster revenue**. Reducing or withdrawing tax expenditures would broaden the tax base and strengthen revenues. Forgone tax revenues due to these expenditures are large and mainly regressive. Similarly, reducing public subsidies, especially prevalent in the energy sector, would likely enhance public revenue as well. Energy subsidies, highly regressive in Mexico, mask resource costs. Withdrawing them would raise revenues, avoid distorted price signals, and help Mexico reach its climate change mitigation goals.

67. **The fiscal reform should also aim at improving equity**. The Gini coefficient in Mexico has remained virtually the same before and after taxes, in contrast with European Union

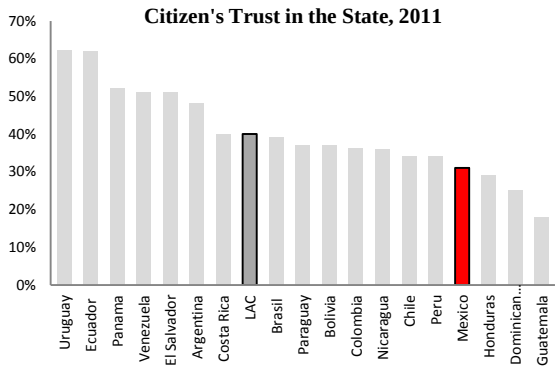
countries, where taxes and public transfers substantially lower-income inequality (Figure 15). This is partly the result of a low share of progressive income taxes in overall tax revenues. The fiscal reform should include a careful evaluation of its distributional impact. But the distributional incidence of the individual fiscal measures should be less of a concern than the overall distributional incidence of the tax-benefit package. Energy subsidies, VAT exemptions and zero rating are in effect non-targeted consumption subsidies. The amount of the subsidy obtained depends on household spending on the subsidized products, which tends to rise with income. The loss in purchasing power for lower-income households generated from broadening the tax base and the removal of energy subsidies would need to be evaluated in parallel to an increase in targeted social spending programs. Eliminating subsidies and preferential tax regimes, along with a compensation mechanism for lower-income households, could lead to a net benefit in the income redistribution function of the tax-benefit system. A fiscal reform that focuses on improving the redistributive impact of taxes and public transfers could improve citizen trust in the state, currently lower than in other Latin American countries, reflecting taxpayer disappointment with public service delivery (Figure 16).

Annex 4 Figure 15. Fiscal policy did not have much redistributive impact in Mexico and Latin America and the Caribbean



Source: Scott (2010).

Annex 4 Figure 16. Citizen trust in the state remains low in Mexico compared to its Latin American peers



Source: Latinobarómetro (2011: 112).

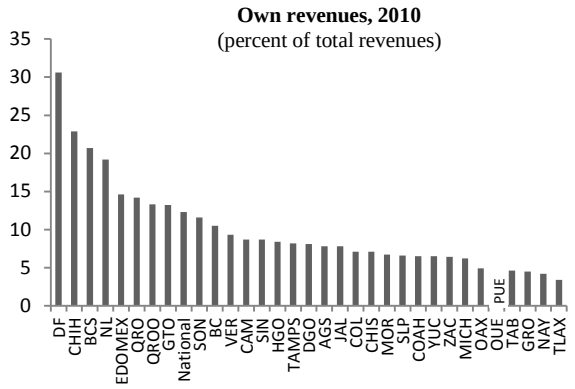
Improving subnational public finances

68. **The high centralization of Mexico's tax system has reduced the incentives of subnational governments to collect taxes**. A number of subnational governments suffer from limited administrative capacity to fulfill key tax administration functions, while the dependence on federal transfers remains high (90 percent of subnational public revenue). These vertical imbalances, combined with the rise in discretionary federal transfers, have reduced states incentives to raise their own revenue. Property tax, for example, is an important source of public revenue for subnational governments in OECD countries, but in Mexico amounts to only 0.2 percent of GDP. Meanwhile, rapidly growing subnational expenditures now constitute more than half of total subnational public expenditures.

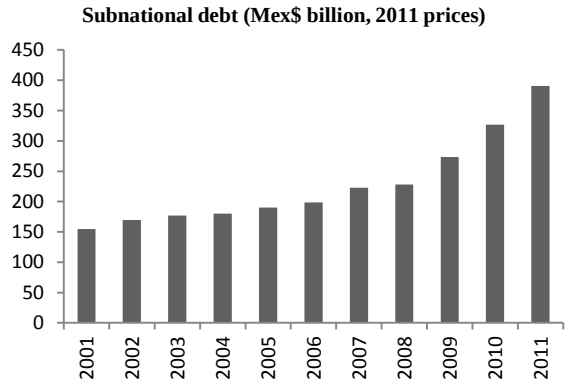
69. **Dependence on federal transfers increases the volatility of subnational public finances during periods of economic instability and puts pressure on state public debt (Figure 17)**. The lack of fiscal discipline has led to unsustainable fiscal positions in some states. This calls for fiscal consolidation programs that combine financing (conditional on fiscal and service delivery targets) with technical assistance to mobilize state revenues and improve

expenditure management. It also calls for a transparent crisis resolution mechanism for states that fall into fiscal distress (refer to Mexico Policy Note 11).

Annex 4 Figure 17. Subnational public finances face low tax revenue and rising public debt since 2009



Source: Banco de Información Económica / INEGI (April, 2012).



Source: Estadísticas de Deuda Publica de Estados y Municipios / Secretaría de Hacienda y Crédito Público (Abril, 2012).

The reform agenda summarized in this overview, **and described in more detail in the compendium of policy notes**, **is challenging but feasible**. It proposes an integrated reform agenda that seeks to promote productivity, reduce poverty and inequality, promote green growth, and strengthen public finances and government efficiency. Mexico has a unique opportunity in the next *sexenio* to promote inclusive and sustainable growth. But it will require setting priorities and sharing responsibilities between the elected government and its citizens.

Policy Notes:

Policy Note No. 1: Fostering sound financial sector development.

Policy Note No.2: Toward a more competitive business environment.

Policy Note No.3: Fostering innovation for productivity and competitiveness.

Policy Note No.4: Labor markets for inclusive growth.

Policy Note No.5: Promoting an integral social protection system.

Policy Note No.6 Reducing the footprint of growth.

Policy Note No.7: Using natural resources in an optimal way.

Policy Note No.8: Managing medium-term fiscal challenges.

Policy Note No.9: Strengthening public revenue and expenditure management to enhance service delivery.

Policy Note No.10: Strengthening subnational public finance.

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ANNEX 5. POVERTY AND SHARED PROSPERITY TRENDS: THE CHALLENGE OF MEASURING THE GOALS OF DEVELOPMENT

1. Poverty is typically understood in absolute terms, defined in reference to a poverty line that reflects the purchasing power sufficient to cover essential needs. There is a broad-based consensus that reducing absolute poverty is a worthy development goal. Along economic growth, poverty reduction is understood as an important development goal in itself, while whether income inequality is an important goal in its own right has been debated for decades. In turn, this reflects at least two underlying and related debates. In particular, how inequality evolves over time and the impact of inequality on growth.

2. As the impact of income inequality on economic growth, or vice versa, remains unresolved, recent policy discussions have tended to focus more on ensuring equality of opportunities alongside protecting people from absolute deprivation, rather than on income inequality alone. This recent emphasis draws from the work of a number of thinkers, including Amartya Sen, whose "capability approach", first conceptualized in the 1980s, has argued — in brief and at the risk of oversimplification — for focusing on and equalizing the "capability set" or the set of possible "functionings", that is, the set of activities that an individual can choose to engage in using resources at his or her command. Defined as such, "well-being" is understood more broadly, and the focus is on protecting individuals from absolute deprivation and removing disadvantages that are beyond any individual's control. Real income remains essential, but having the freedom to make substantive choices also requires good health and education. Following this approach, public policy focuses on ensuring a fair(er) distribution of assets, economic opportunities, and political representation.

3. The multi-dimensional aspect of this understanding of development has warranted a more complex approach to the measurement of well-being and progress. There are numerous alternatives, ranging from the formulation of composite indexes — such as the Human Development Index, which Sen himself helped formulate — to the monitoring of multiple development goals, as in the Millennium Development Goals.

Mexico: pioneer of poverty measurement

4. Mexico became the first country in Latin America to adopt a Multi-dimensional Poverty Index as its official poverty measure. The law on social development (*Ley General de Desarollo Social* or LGDS) published in January 2004, had the key objective of ensuring access to social development and the ability to fully exercise the social rights laid out in the Mexican Constitution for the entire population of the country. This law moved Mexico away from a purely economic measure of well-being to one firmly rooted in Sen's ideas of functionings and linked explicitly to the national Constitution, which lays out a series of detailed social or human rights.

5. The adoption of a Multi-dimensional Poverty Index represented a significant change in how poverty was viewed in Mexico. Up until 2008, poverty was measured in terms of whether a person's per capita income placed him or her below three poverty thresholds. The lowest or most extreme poverty line was "food poverty", set at the value needed to buy a basic basket of food items. According to CONEVAL, food poverty refers to those people who do not have the purchasing power to acquire a basic food basket. As of March 2012 the monthly food poverty

line was equivalent to Mex$1,253.41 in urban areas and Mex$865.58 in rural areas. The second, somewhat higher poverty line is that of "capabilities poverty", which corresponds to the value of income necessary to cover the basic food basket plus basic health and education. The highest line, "*patrimonio* or asset", included additional allowances for housing and transportation.

6. Today Mexico measures poverty through an explicit combination of economic well-being (income) and the social rights of the population. In addition to per capita income, article 36 of the LGDS spells out the social rights whose lack would place a person in a condition of poverty; and rights related to education, health, social security, housing, related utilities and infrastructure, food security, and social cohesion. Importantly, these are all social development rights that are outlined in the Mexican Constitution although the level of detail of each of these rights in the Constitution varies: education was quite explicit while the right to housing refers to a vaguer right to "dignified and decent" housing and food security was only guaranteed for children.

7. Operationalizing the social rights into indicators that could be measured and monitored and establishing a threshold was a substantial undertaking that drew in a wide spectrum of government and civil society. The extensive process was led by the National Council on Evaluation (CONEVAL) in partnership with line ministries, other agencies of government, and academia. Critical decisions had to be made not just on the indicators to include, but the levels below which a person should be considered poor (establishing thresholds). And most troublesome was the need to develop a consensus around an aggregation strategy: whatever combination of multiple indicators is done implies comparative evaluations of the importance of each right.

8. The official Multi-dimensional Poverty Index is conceived of as a two-dimensional indicator with economic well-being (measured by income) seen as one dimension, separate from the other dimension of social rights. By this construction, per capita income is included in the measure as almost an independent measure while a series of six rights (or in their absence, deprivations) are aggregated in the second dimension. While income remained as part of the poverty measure, its definition has changed along with the thresholds in use. (These changes can be seen in Table 1).

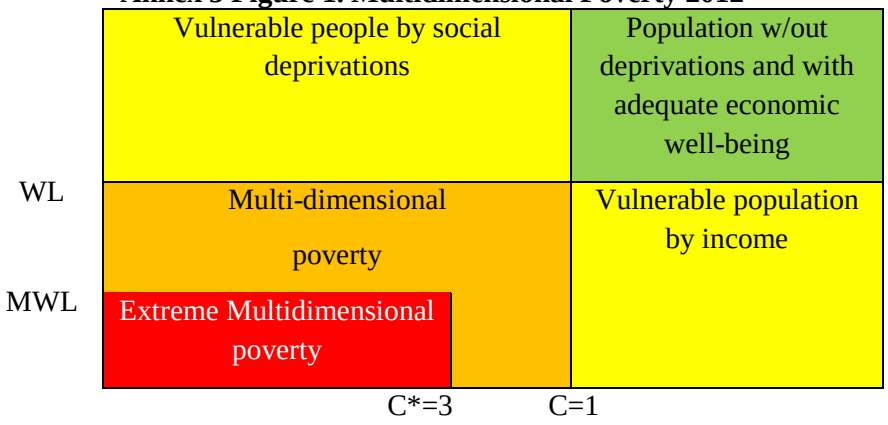
9. The implications of the move to a Multi-dimensional Poverty Index is that government policies that focus purely on income growth only will, in all likelihood, be insufficient for poverty eradication, and the poverty reducing impact of government investment in services is now reflected in the official poverty measure. For persons to be considered poor in multi-dimensional terms, they have income below the monthly well-being line (i.e., income poverty) and have at least one deprivation in terms of housing, infrastructure, education, health, social security, or food security. An extremely poor person has income below the minimum well-being line and suffers from three or more deprivations. Thus, income poverty alone does not make one poor nor can income growth alone move one out of poverty.

Annex 5 Table 1. Comparison of Poverty measures in Mexico

	Monetary Poverty	Well-being Poverty (Income component of MPI)	Multi-dimensional Poverty (MPI) – OFFICIAL POVERTY MEASURE
Types of Poverty Measures	**Food poverty**: income below a level to acquire a basic food basket **Capabilities poverty**: income below a level to acquire a basic food basket + basic health and education **Assets poverty**: income below a level to acquire a basic food basket + basic health and education +basic housing and transportation	**Income below a minimum well-being line**: income is below a level to acquire a basic food basket **Income below a well-being line**: income below a level to acquire a basic food basket + non-food basket	**Extreme poor**: income is below a minimum well-being line and the individual has 3 or more social deprivations **Moderate poor**: income is below a well-being line and the individual is deprived has 1 or more social deprivations
Components of the poverty measures	• Basic food basket • Basic food basket + basic health and education • Basic food basket + basic health and education + basic housing and transportation	• Basic food basket • Basic food basket + basic no-food basket	Social Deprivation Index: • Current income per capita • Educational gaps • Access to health services • Access to social security • Quality and spaces of dwelling • Access to basic services in housing • Access to food
Poverty lines in MX$ per month (of June 2013)	**Food poverty line**: • Urban areas MX$1,253.41 • Rural areas MX$865.58 **Capabilities poverty line**: • Urban areas MX$1,414.6 • Rural areas MX$1,023.37 **Assets poverty line**: • Urban areas MX$2,314.2 • Rural areas MX$1,570.68	**Minimum well-being line**: • Urban areas MX$1,172.9 • Rural areas MX$832.2 **Well-being line**: • Urban areas MX$2,404 • Rural areas MX$1,540	**Minimum well-being line**: • Urban areas MX$1,172.9 • Rural areas MX$832.2 **Well-being line**: • Urban areas MX$2,404 • Rural areas MX$1,540
Poverty lines in USD$ (PPP) per month	**Food poverty line (PPP 2012)**: • Urban areas MX$122.26 • Rural areas MX$84.43 **Capabilities poverty line (PPP 2012)**: • Urban areas MX$137.99 • Rural areas MX$99.82 **Assets poverty line (PPP 2012)**: • Urban areas MX$225.73 • Rural areas MX$153.21	**Minimum well-being line (PPP 2012)**: • Urban areas USD$114.41 • Rural areas USDD$81.17 **Well-being line (PPP 2012)**: • Urban areas USD$234.49 • Rural areas USD$150.22	**Minimum well-being line (PPP 2012)**: • Urban areas USD$114.41 • Rural areas USDD$81.17 **Well-being line (PPP 2012)**: • Urban areas USD$234.49 • Rural areas USD$150.22
Income component	Average current total income of the last 6 months including monetary incomes, non-monetary incomes as well as imputed rents.	Average current income of the last 6 months (monetary and non-monetary). Adjusted by (i) adult equivalent scale; (ii) not imputing rents; (iii) eliminating non-systematic transfers and (iv) excluding incomes derived from asset sales.	Average current income of the last 6 months (monetary and non-monetary) adjusted by: (i) adult equivalent scale; (ii) not imputing rents; (iii) eliminating non-systematic transfers and (iv) excluding incomes derived from asset sales.

10. The Multi-dimensional Poverty Index also calls attention to the vulnerable population. Anyone who has adequate income but suffers three or more deprivations is considered to be vulnerable in terms of social deprivations. Those with inadequate income but having all of their social rights complete are considered to be vulnerable in terms of income. In 2012 the share of the population in extreme poverty was 9.8 percent of the population, an additional 35.7 percent suffered from moderate poverty. The total share in poverty in 2012 was 45.5 percent, a decline from 2010 when it was 46.1 percent but represents still an increase in 0.5 million additional people.

Annex 5 Figure 1. Multidimensional Poverty 2012



Source: CONEVAL.
Note: WL= Well-being line / MWL= Minimum well-being line

The World Bank measures of poverty and shared prosperity

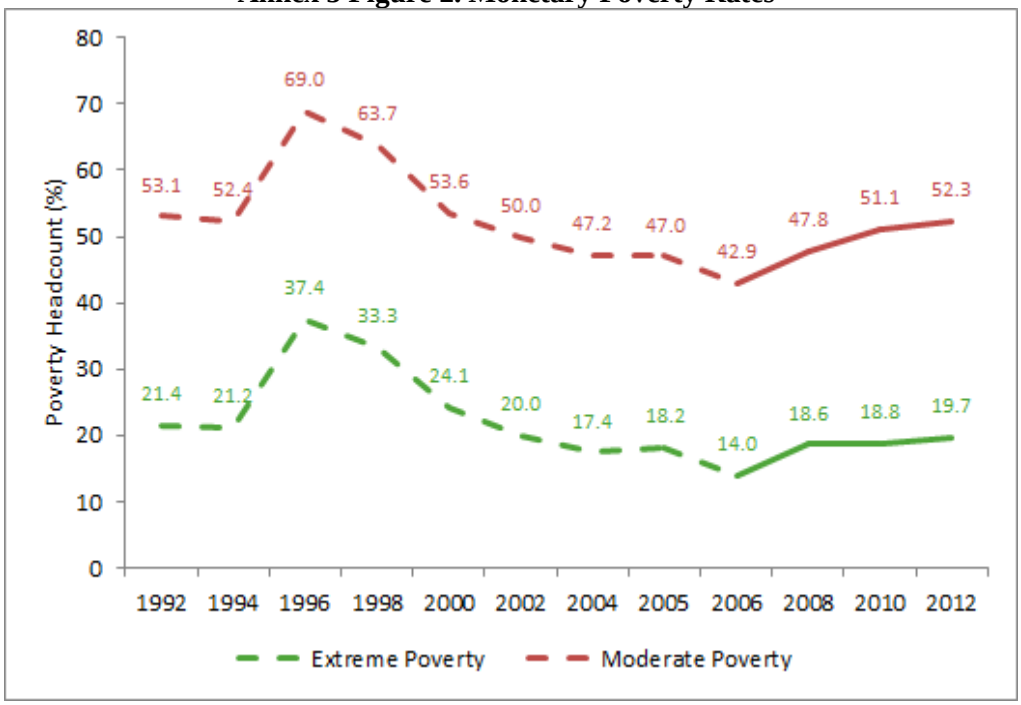
11. The World Bank retains a uni-dimensional measure of poverty, income, or consumption, but argues strongly that poverty is a multi-dimensional phenomena, as its thorough World Development Indicators testify. In spite of these efforts, the World Bank is probably best known for the economic well-being measure of poverty — the widely used metric of "one-dollar-a-day" poverty line. The origin of the line comes from work done for the 1990 World Development Report on Poverty. The aim of this work was to measure poverty in the developing world using standards of the poorest countries. A critical step for such an exercise was the determination of which poverty threshold to use. The line observed in cross-country studies caught the imagination and became the one-dollar-a-day line used often in comparative work across countries and the object of the first Millennium Development Goal. The original work has been updated multiple times: the most recent version sets the value to $1.25; but the overall logic and focus is the same.

12. The recent move to a concept of shared prosperity reflects, in part, the World Bank's concern with broader concepts than average economic growth. Interestingly, although the terms appear to be similar, there has been substantial evolution of thinking about poverty at the World Bank. In 1972, then president of the World Bank, Robert McNamara, stressed the need for governments of the developing countries "... to reorient their development policies in order to attack directly the personal poverty of the most deprived 40 percent of their populations." In 2013, Jim Yong Kim, president of the World Bank, called for attention to be paid to the income growth of the bottom 40 percent of the population. The difference is that in the 1972 case the discussion focused simply on the need to eradicate absolute poverty, while the 2013 emphasis is on the notion of shared prosperity and the need for growth to be pro-poor and inclusive.

Recent poverty trends

13. **Monetary poverty rose between 2006 and 2012**, **breaking a decade-long trend of poverty reduction in Mexico**. Available data spanning two decades of monetary measures of poverty show that monetary poverty rates in 2012 are similar to the rates in 1992: the net reduction of moderate and extreme poverty was of only 0.8 and 0.7 percentage points, respectively, over 20 years (Figure 2).

Annex 5 Figure 2. Monetary Poverty Rates



Source: CONEVAL using the traditional ENIGH 1992-2012.

Note: Estimates 2006-2012 use the adjusted expansion factors from the 2010 Population Census.

14. Between 2006 and 2012 the moderate poverty rate (asset poverty or *pobreza de patrimonio*) increased substantially from 42.9 to 52.3 (to 61.4 million people). During the same period, the extreme poverty rate (food poverty or *pobreza alimentaria*) increased from 14.0 to 19.7 (to 23.1 million people). Poverty increased markedly between 2006 and 2008 (5 percentage points in moderate poverty), with smaller increases in 2008-10 and leveling-off in 2010-12. Extreme poverty increased significantly during the period 2006-08 (when the headcount increased by 4.7 percentage points) and stagnated in the years after, hovering around 19 percent. Until 2006, Mexico kept pace with the region in poverty reduction. Nevertheless, since 2008 the economy suffered a series of shocks — food price crisis, global financial crisis, the AH1N1-flu epidemic, natural disasters — that slowed economic growth.

15. Multi-dimensional Poverty Index shows, however, that between 2010 and 2012 the share of the population living in poverty decreased from 46.1 to 45.5. In absolute terms, poverty increased: the total number of poor according to the Multi-dimensional Poverty Index increased by half a million people over the same period. In contrast to monetary measures and other Multi-dimensional Poverty Index measures of poverty such as moderate poverty and vulnerability measures, only extreme poverty had an unambiguous improvement in relative and absolute terms. Not only did the extreme poverty rate declined from 11.3 to 9.8 percent, but also the number of extreme poor decreased by 1.4 million people (Table 2).

Annex 5 Table 2. Multi-dimensional Poverty Measurement, 2010-2012

Indicators	Percentage		Change	Total Population		Average social	
	2010	2012	2010-2012	2010	2012	2010	2012
Poverty							
Poor	46.1	45.5	-0.6	52.8	53.3	2.6	2.4
Moderate Poor	34.8	35.7	0.9	39.8	41.8	2.2	2.0
Extreme Poor	11.3	9.8	-1.5***	13.0	11.5	3.8	3.7
Vulnerable population due to social deprivations	28.1	28.6	0.5	32.1	33.5	1.9	1.8
Vulnerable population due to income	5.9	6.2	0.3	6.7	7.2	0.0	0.0
Non-poor and vulnerable population	19.9	19.8	-0.2	22.8	23.2	0.0	0.0
Social deprivation							
Population with one or more social deprivation	74.2	74.1	-0.1	85.0	86.9	2.3	2.2
Population with three or more social deprivation	28.2	23.9	-4.3***	32.4	28.1	3.6	3.5

Source: CONEVAL using the MCS-ENIGH 2010 and 2012.
Note: Significance levels *10%, **5% and ***1%.

16. The average population with three or more social deprivations dropped from 28.2 to 23.9 in 2012 (Table 2), and the share of population with social deprivations fell unambiguously in five out of the six social areas in the 2010-12 period (Table 3). The largest statistically significant improvement was in access to health care, where 8.2 million more people gained access. The only social deprivation for which the share of the population increased was access to social security (totaling 71.8 million without access to social security). However, the net increase is not statistically significant (Table 3).

Annex 5 Table 3. Well-being and social deprivation indicators, 2010-2012

Indicators	Percentage		Change	Total		Average	
	2010	2012	2010-2012	2010	2012	2010	2012
Social deprivation indicators							
Educational gap	20.7	19.2	-1.4***	23.7	22.6	3.1	2.9
Access to healthcare	29.2	21.5	-7.7***	33.5	25.3	3.0	2.8
Access to social security	60.7	61.2	0.5	69.6	71.8	2.5	2.3
Quality and spaces of the dwelling	15.2	13.6	-1.6***	17.4	15.9	3.6	3.4
Basic services in the dwelling	22.9	21.2	-1.7***	26.3	24.9	3.3	3.2
Food Security	24.8	23.3	-1.5*	28.4	27.4	3.0	2.9
Well-being							
Population with an income below the minimum well-being line	19.4	20.0	0.6	22.2	23.5	2.9	2.5
Population with an income below the well-being line	52.0	51.6	-0.4	59.6	60.6	2.3	2.1

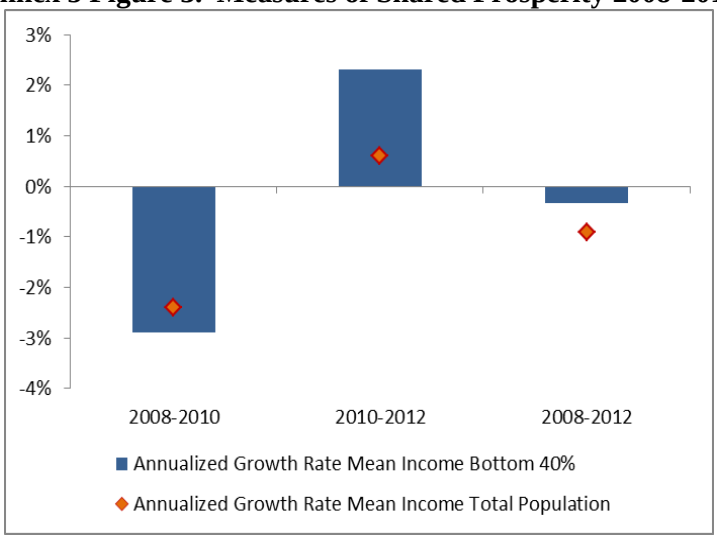
Source: CONEVAL using the MCS-ENIGH 2010 and 2012.
Note: Significance levels *10%, **5% and ***1%.

Shared Prosperity in Mexico

17. For the period 2010-12, Mexico's income growth for the bottom 40 percent had an average annual increase of 2.3 percent while the increase in the average income growth for the total population was 0.6 percent. (Figure 3) The increase was not enough to compensate the drop that occurred between 2008 and 2010, when income growth of the bottom 40 percent decreased slightly more than the total population (2.39 percent versus 2.89 percent). Therefore,

looking at the entire period 2008-12, the average income growth of the bottom 40 percent was negative (but the decline was less pronounced than for the overall population).

Annex 5 Figure 3. Measures of Shared Prosperity 2008-2012



Source: World Bank team calculations using data from MCS-ENIGH 2008-2012.

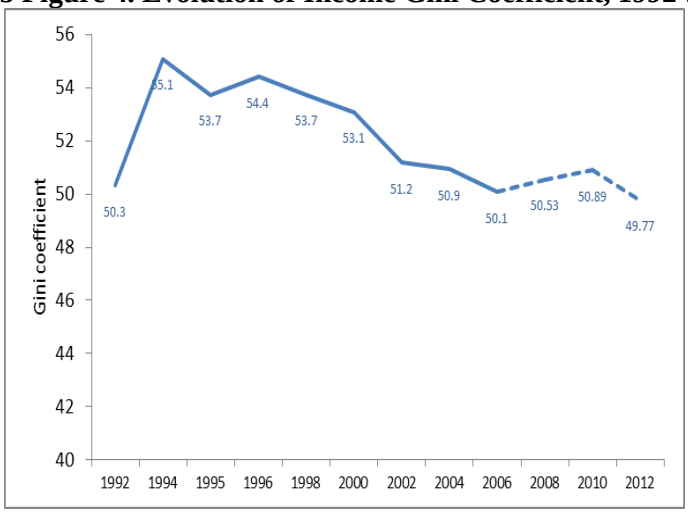
18. Over the 2008-12 period, per capita income growth hovered around zero for almost all income percentiles in Mexico. Only the richest percentile suffered a decreased larger than 2 percent. However, the incidence of growth had different natures within sub-periods. While in 2008-10, the poorest segments were the most affected; in 2010-12 they were benefited the most in the recovery, which explains the drop in inequality during the last years.

19. These recent trends in shared prosperity are accompanied by a reduction of income inequality for the period 2010-2012. According to the income measure from the poverty indicator prior to the adoption of the Multi-dimensional Poverty Index, income inequality had fallen since 1996. The new income variable used as part of the Multi-dimensional Poverty Index shows that inequality rose between 2006 and 2008 (Figure 7 combines the two series). While there are comparability issues between the old and the new series, the new income measure shows that income inequality rose between 2006 and 2010 but then dropped in 2012. However, the latter drop is not statistically significant. More time and data is needed to tell if the trend will continue.

A large degree of regional inequality

20. Differences in GDP per capita across Mexican states and regions have traditionally been high and fairly persistent. GDP per capita in the richest state in 1950 was 6.7 times that of the lowest, and in 2000 this ratio was still 6.1. According to data from CONEVAL, poverty levels are also far from being uniform across the country. In 2012 the state with the highest moderate poverty rate was Chiapas (74.7 percent), followed by Guerrero (69.7 percent), Puebla (64.5 percent) and Oaxaca (61.9 percent). In contrast, the states with the lowest moderate poverty rates in 2010 were Nuevo Leon (23.2 percent), Coahuila (27.9 percent) and Distrito Federal (28.9 percent).

Annex 5 Figure 4. Evolution of Income Gini Coefficient, 1992-2010

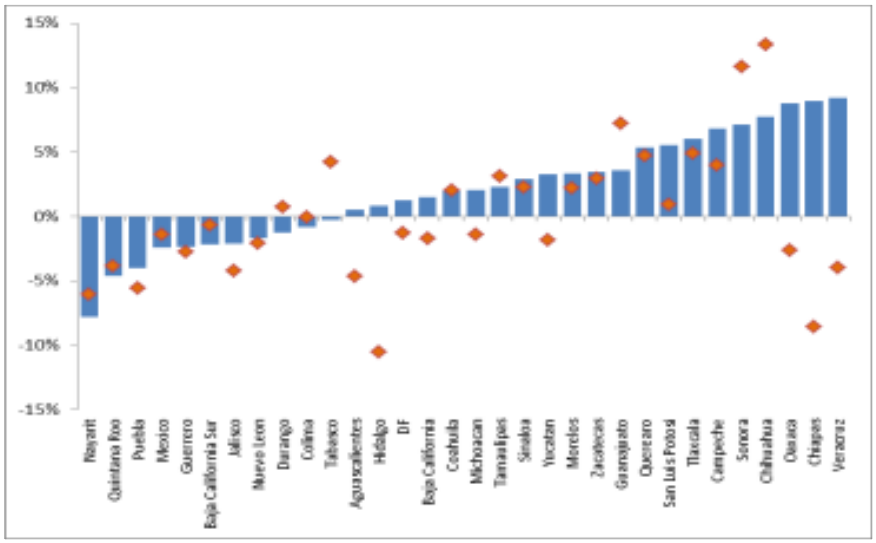


Source: Data from 1992 to 2006 comes from the World Bank WDI. Data for 2008 to 2012 comes from CONEVAL using the MCS-ENIGH 2008.

21. If looking at extreme poverty measures, national average hides important regional differences. Chiapas, Guerrero, and Oaxaca have extreme poverty rates of 32.2, 31.7, and 23.2 percent, respectively. These are 10 times higher than the poverty rates of Nuevo Leon, Distrito Federal, and Baja California (2.4, 2.5, and 2.7, respectively). One out of 3 Mexicans in poverty live in Chiapas, Guerrero, or Oaxaca.

22. There are also large regional discrepancies in terms of shared prosperity in Mexico. While the mean income of the bottom 40 percent in Oaxaca, Chiapas, and Veracruz had an average growth above 8 percent between 2010 and 2012, in the states of Nayarit mean income decreased by 8 percent (Figure 5).

Annex 5 Figure 5. Shared Prosperity in Mexico by States, 2008-2012



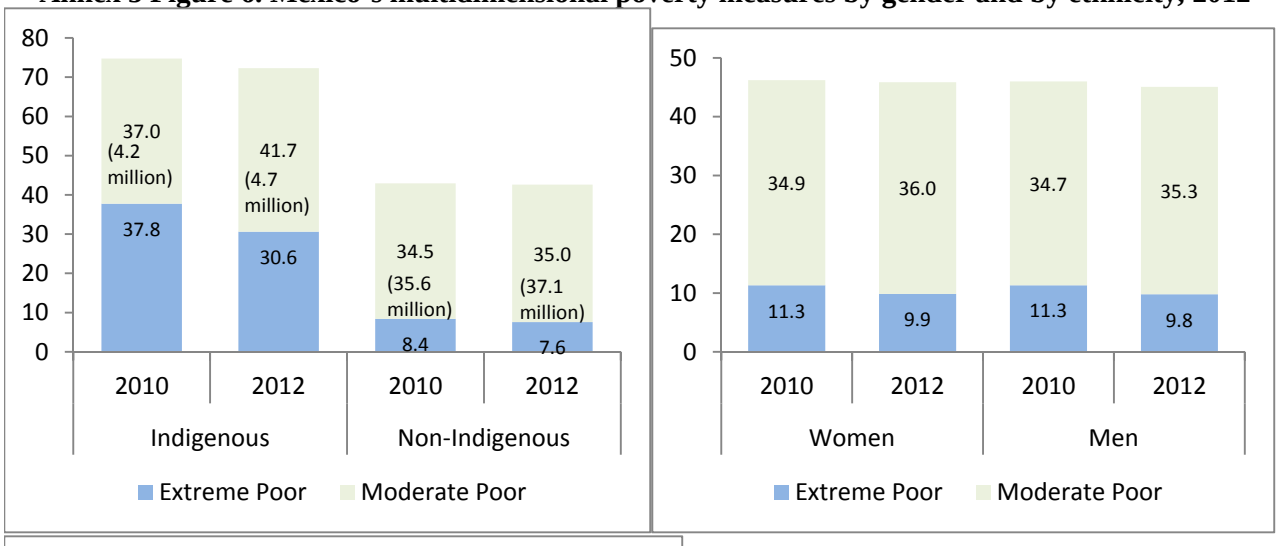
Source: World Bank calculations using data from MCS-ENIGH 2008-2012

Gender and ethnicity differences

23. Gender-specific estimates of poverty indicate differences between women and men. From 2010 to 2012, the Multi-dimensional Poverty Index extreme poverty rate was equally reduced among men and females by 1.5 percentage points. However, in 2012, there were 1.5 million fewer men than women living in moderate poverty. Moreover, 300,000 more women than men live in extreme poverty (left, Figure 6).

24. Poverty among the indigenous population has fallen faster, but their poverty levels remain high. Extreme poverty among indigenous population decreased 7.2 percentage points, lifting more than 800,000 people out of poverty. Despite this progress, 8.2 million indigenous people still live in poverty, 3.5 million of whom are extremely poor (right, figure 6). The social deprivation indicator fell in each dimension among indigenous groups. In particular, they had a large improvement in access to healthcare for which 1.3 million gained access.

Annex 5 Figure 6. Mexico's multidimensional poverty measures by gender and by ethnicity, 2012



Annex 5 Table 4. Extreme poverty headcount rates by Mexican state in 2012

	Mexico's measure of extreme poverty		World Bank's measures of extreme poverty
	Percentage of the population below the minimum well-being line	**Percentage of the population in extreme poverty**	**Percentage of the population below the WB's extre poverty line**
	(using official "minimum well-being line")	(using official miltidimensional measure)	(using World Bank's 1.25 per day poverty line at 2012 prices)
Estados Unidos Mexicanos	*20.0*	*9.8*	*4.4*
Entidad federativa			
Aguascalientes	14.9	3.4	3.5
Baja California	10.9	2.7	1.9
Baja California Sur	13.1	3.7	3.4
Campeche	20.6	10.4	5.0
Coahuila	11.6	3.2	1.7
Colima	11.4	4.0	2.5
Chiapas	46.7	32.2	15.2
Chihuahua	15.9	3.8	3.5
Distrito Federal	6.9	2.5	0.7
Durango	25.0	7.5	6.3
Guanajuato	16.9	6.9	3.2
Guerrero	45.1	31.7	13.9
Hidalgo	23.8	10.0	6.0
Jalisco	16.3	5.8	3.2
México	15.9	5.8	2.2
Michoacán	24.2	14.4	4.3
Morelos	15.0	6.3	1.9
Nayarit	23.4	11.9	8.6
Nuevo León	8.8	2.4	1.6
Oaxaca	34.4	23.3	11.9
Puebla	32.9	17.6	7.3
Querétaro	14.7	5.2	3.5
Quintana Roo	16.6	8.4	4.0
San Luis Potosí	23.3	12.8	6.0
Sinaloa	13.4	4.5	2.2
Sonora	10.2	5.0	2.3
Tabasco	23.6	14.3	5.6
Tamaulipas	14.9	4.7	1.4
Tlaxcala	24.4	9.1	4.0
Veracruz	24.0	14.3	4.4
Yucatán	16.6	9.8	1.7
Zacatecas	30.3	7.5	8.9

Source: World Bank staff using data from, Encuesta Nacional de Ingresos y Gastos de los Hogares, ENIGH (2012), and CONEVAL (2013).

Annex 5 Table 5. Moderate and extreme monetary poverty by Mexican state

	Economic Welfare			
	Share of population below " linea de bienestar minimo"		Share of population below "linea de bienestar"	
	2010	2012	2010	2012
Estados Unidos Mexicanos	*19.4*	*20.0*	*52.0*	*51.6*
Entidad federativa				
Aguascalientes	14.8	14.9	46.2	47.9
Baja California	9.8	10.9	37.9	38.8
Baja California Sur	11.2	13.1	35.5	38.0
Campeche	21.6	20.6	54.8	50.2
Coahuila	11.5	11.6	40.7	40.7
Colima	8.6	11.4	39.6	40.7
Chiapas	50.9	46.7	80.9	76.4
Chihuahua	16.6	15.9	51.8	46.0
Distrito Federal	6.0	6.9	34.0	35.5
Durango	23.4	25.0	60.3	61.2
Guanajuato	16.5	16.9	54.2	49.3
Guerrero	38.8	45.1	69.5	71.9
Hidalgo	23.8	23.8	58.8	55.8
Jalisco	14.7	16.3	43.3	47.9
México	14.5	15.9	48.5	53.1
Michoacán	21.6	24.2	59.1	57.9
Morelos	13.9	15.0	49.1	50.1
Nayarit	17.8	23.4	45.7	53.2
Nuevo León	6.0	8.8	29.2	31.7
Oaxaca	36.2	34.4	68.3	63.6
Puebla	27.7	32.9	67.1	68.7
Querétaro	16.0	14.7	46.4	43.3
Quintana Roo	12.1	16.6	39.4	45.0
San Luis Potosí	26.0	23.3	59.6	57.1
Sinaloa	14.2	13.4	44.4	42.6
Sonora	10.9	10.2	40.0	33.8
Tabasco	22.4	23.6	61.2	52.7
Tamaulipas	14.5	14.9	48.3	47.2
Tlaxcala	26.8	24.4	67.7	63.9
Veracruz	27.8	24.0	62.1	56.6
Yucatán	17.9	16.6	54.8	55.1
Zacatecas	29.7	30.3	67.1	60.6

Source: CONEVAL (2013)

Annex 5 Table 6. Population share by social deprivation

	Fundamental rights regarding social development											
	Educational Gap		Access to healthcare		Access to social security		Quality and spaces of the dwelling		Basic services in the dwelling		Food security	
	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
Estados Unidos Mexicanos	*20.7*	*19.2*	*29.2*	*21.5*	*60.7*	*61.2*	*15.2*	*13.6*	*22.9*	*21.2*	*24.8*	*23.3*
Entidad federativa												
Aguascalientes	17.2	15.3	19.7	14.8	49.3	47.6	6.9	4.9	4.8	3.5	20.2	21.5
Baja California	16.9	14.6	31.4	22.3	54.7	55.7	9.9	8.1	6.6	4.4	16.4	15.2
Baja California Sur	16.9	15.7	20.2	15.1	45.9	43.5	12.3	10.9	9.2	6.8	26.0	21.9
Campeche	24.1	19.2	19.2	12.2	60.0	61.0	22.1	17.7	36.5	33.0	31.2	18.7
Coahuila	12.2	12.5	17.6	14.4	34.3	34.3	4.4	5.4	6.0	5.5	20.8	21.2
Colima	18.8	18.8	16.4	14.6	55.8	50.8	12.1	10.0	9.8	7.9	19.9	22.3
Chiapas	35.0	33.5	35.4	24.9	82.4	83.3	33.3	29.1	60.7	56.8	30.3	24.7
Chihuahua	17.5	16.1	18.5	13.6	48.4	48.4	6.4	5.3	7.0	5.2	17.7	18.4
Distrito Federal	9.5	9.2	32.5	23.4	52.4	52.5	7.6	6.4	3.9	3.0	15.5	13.0
Durango	19.0	16.1	27.5	17.8	58.7	57.9	11.3	9.4	18.5	13.0	20.3	21.4
Guanajuato	23.6	23.9	25.3	19.0	65.7	62.1	9.6	9.8	18.0	15.3	23.7	28.5
Guerrero	28.4	26.8	38.9	25.4	78.5	78.5	40.7	33.4	56.6	59.0	42.7	39.4
Hidalgo	23.4	20.6	29.8	18.7	71.8	71.3	13.6	12.8	31.7	28.3	29.0	25.0
Jalisco	20.6	18.4	31.9	23.7	55.4	53.5	6.7	9.1	12.8	9.2	22.0	20.6
México	18.5	15.4	30.7	25.3	59.0	64.8	12.9	10.2	15.9	11.5	31.6	17.7
Michoacán	30.6	26.1	38.2	28.6	72.2	71.6	22.4	21.1	27.2	30.4	28.8	32.2
Morelos	19.3	19.2	29.9	22.3	64.6	64.4	15.7	14.8	20.6	18.6	22.0	30.7
Nayarit	20.2	19.3	22.8	18.3	61.7	62.6	12.8	11.9	16.4	19.6	23.6	28.8
Nuevo León	13.1	12.7	18.6	15.5	37.2	37.0	6.8	7.0	3.2	3.3	15.7	17.6
Oaxaca	30.0	27.7	38.5	20.9	79.4	75.7	33.9	24.6	58.0	55.5	26.4	31.7
Puebla	25.3	24.1	40.4	29.6	72.3	77.1	19.6	19.4	37.3	34.8	27.6	30.1
Querétaro	19.5	17.5	22.1	15.5	60.6	56.7	9.9	10.9	17.6	14.9	21.3	19.8
Quintana Roo	18.3	17.6	24.3	21.2	53.8	54.9	21.7	19.7	15.2	14.5	21.8	18.6
San Luis Potosí	22.2	21.2	19.0	14.0	57.3	61.6	16.3	13.5	32.3	32.5	30.1	24.7
Sinaloa	19.3	18.4	21.4	16.6	53.6	52.7	8.5	10.1	15.7	16.1	24.5	25.9
Sonora	14.0	13.6	22.7	17.1	46.2	46.8	11.7	10.2	15.3	12.6	25.8	26.0
Tabasco	19.8	19.1	23.9	18.2	73.3	71.2	21.7	19.4	38.9	44.7	33.3	33.4
Tamaulipas	14.4	15.5	20.9	15.8	51.1	50.6	9.6	10.5	16.5	10.6	13.6	19.2
Tlaxcala	15.6	15.8	33.4	24.2	70.8	70.8	11.7	13.0	13.7	16.0	24.1	28.4
Veracruz	25.8	25.8	34.9	25.7	69.2	68.5	24.0	19.7	39.3	39.2	26.1	28.2
Yucatán	24.7	23.4	20.7	15.7	56.9	58.8	19.5	20.6	37.4	42.7	21.4	25.1
Zacatecas	22.9	21.1	25.6	16.7	66.6	62.9	5.9	5.1	17.8	10.9	24.9	22.3

Source: CONEVAL (2013).

Annex 5 Table 7. Percentage of population by social deprivation

	Multidimensional approach											
	Poverty		Moderate Poverty		Extreme Poverty		Vulnerable by income		Vulnerable by social deprivation		No poor and no vulnerable	
	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012	2010	2012
Estados Unidos Mexicanos	*46.1*	*45.5*	*34.8*	*35.7*	*11.3*	*9.8*	*28.1*	*28.6*	*5.9*	*6.2*	*19.9*	*19.8*
Entidad federativa												
Aguascalientes	38.1	37.8	34.4	34.4	3.8	3.4	26.2	24.5	8.1	10.1	27.6	27.6
Baja California	31.5	30.2	28.1	27.5	3.4	2.7	37.9	37.6	6.3	8.6	24.2	23.5
Baja California Sur	31.0	30.1	26.4	26.4	4.6	3.7	32.5	30.0	4.5	7.9	31.9	32.0
Campeche	50.5	44.7	36.7	34.2	13.8	10.4	24.9	28.6	4.3	5.6	20.3	21.2
Coahuila	27.8	27.9	24.9	24.7	2.9	3.2	25.6	24.4	12.9	12.7	33.7	34.9
Colima	34.7	34.4	32.2	30.4	2.5	4.0	33.8	31.7	4.9	6.3	26.7	27.6
Chiapas	78.5	74.7	40.2	42.5	38.3	32.2	13.0	17.2	2.4	1.7	6.1	6.4
Chihuahua	38.8	35.3	32.2	31.5	6.6	3.8	22.8	27.4	13.0	10.7	25.4	26.6
Distrito Federal	28.5	28.9	26.4	26.4	2.2	2.5	34.4	32.4	5.4	6.6	31.7	32.1
Durango	51.6	50.1	41.1	42.6	10.5	7.5	21.1	21.8	8.8	11.1	18.6	17.0
Guanajuato	48.5	44.5	40.1	37.6	8.4	6.9	28.9	32.6	5.7	4.9	16.9	18.1
Guerrero	67.6	69.7	35.7	38.0	31.8	31.7	23.0	21.7	2.0	2.3	7.5	6.4
Hidalgo	54.7	52.8	41.2	42.8	13.5	10.0	27.5	30.7	4.2	3.0	13.7	13.5
Jalisco	37.0	39.8	31.8	34.0	5.3	5.8	33.7	28.3	6.2	8.1	23.0	23.8
México	42.9	45.3	34.3	39.5	8.6	5.8	32.2	29.5	5.6	7.8	19.3	17.4
Michoacán	54.7	54.4	41.2	39.9	13.5	14.4	28.6	30.7	4.3	3.5	12.3	11.5
Morelos	43.2	45.5	36.3	39.1	6.9	6.3	33.6	32.0	5.8	4.6	17.3	17.9
Nayarit	41.4	47.6	33.0	35.7	8.3	11.9	33.4	28.2	4.3	5.6	20.9	18.6
Nuevo León	21.0	23.2	19.2	20.8	1.8	2.4	31.6	29.1	8.2	8.4	39.1	39.2
Oaxaca	67.0	61.9	37.7	38.6	29.2	23.3	22.2	26.1	1.3	1.7	9.5	10.3
Puebla	61.5	64.5	44.5	46.9	17.0	17.6	21.6	22.0	5.6	4.2	11.3	9.4
Querétaro	41.4	36.9	34.0	31.8	7.4	5.2	31.7	32.6	5.0	6.4	21.8	24.0
Quintana Roo	34.6	38.8	28.2	30.4	6.4	8.4	36.1	30.4	4.7	6.2	24.6	24.6
San Luis Potosí	52.4	50.5	37.1	37.7	15.3	12.8	20.9	24.7	7.2	6.6	19.5	18.3
Sinaloa	36.7	36.3	31.2	31.8	5.5	4.5	33.3	33.5	7.7	6.4	22.3	23.8
Sonora	33.1	29.1	28.0	24.2	5.1	5.0	31.6	36.6	6.8	4.7	28.4	29.6
Tabasco	57.1	49.7	43.5	35.4	13.6	14.3	27.2	34.0	4.1	3.0	11.5	13.4
Tamaulipas	39.0	38.4	33.5	33.7	5.5	4.7	26.9	26.8	9.4	8.8	24.8	26.0
Tlaxcala	60.3	57.9	50.4	48.8	9.9	9.1	19.3	23.9	7.4	6.0	13.0	12.2
Veracruz	57.6	52.6	38.8	38.4	18.8	14.3	23.6	30.6	4.5	4.0	14.3	12.8
Yucatán	48.3	48.9	36.6	39.0	11.7	9.8	26.0	27.0	6.4	6.3	19.2	17.9
Zacatecas	60.2	54.2	49.4	46.7	10.8	7.5	18.4	20.4	6.9	6.4	14.5	19.0

Source: World Bank staff using data from Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank). http://sedlac.econo.unlp.edu.ar/eng/, Encuesta Nacional de Ingresos y Gastos de los Hogares, ENIGH (2010), and CONEVAL (2009, 2011).

ANNEX 6. STATUS OF GENDER ISSUES IN MEXICO AND ENTRY POINTS TO THE CPS

1. In the last decade, much progress has been made toward greater gender equality in Mexico. On the one hand, issues such as equal treatment, non-violence, equal law and rights, public expenditure, awareness of unpaid household work, and political participation have all been incorporated into the public agenda. On the other hand, Mexico shows improved gender outcomes in several areas: between 2005 and 2010 the average level of schooling went up from 7.9 to 8.4 for women and from 8.4 to 8.7 for men, and the proportion of women in the House of Deputies has increased from 17.4 percent in 2000 to 36.8 percent in the current administration.

2. The improved gender outcomes may be related to the significant increase in the allocation of public funds in the last 10 years in which the budget dedicated to gender equality has multiplied by 13.3. Also, the Federal Government has enacted several laws to protect women's rights.[43] The process of guaranteeing the rights granted by these federal laws is solidified through adoption of similar laws and regulations at the state level.

3. However, despite progress in promulgation of laws and increases in budgets aimed to enhance gender equality, major issues still need to be addressed. Challenges remain on education, health (i.e., access to health services and maternal mortality rates); opportunities for income generation (i.e., labor markets and occupational segregation, access to assets and financial services, use of time); poverty levels; and women agency and gender roles (i.e., adolescent pregnancy, gender-based violence, and political participation).

Ending Poverty

4. Overall, gender-specific estimates of poverty suggest that there are no big differences between women and men. Analyzing gender poverty is a complex task because incomes as well as inputs into multi-dimensional definitions of poverty are generally measured at the household level, but there are estimates that 52 percent of women live in conditions of multi-dimensional poverty, compared to 48 percent of men.[44]

5. However, estimates of time poverty show noteworthy differences with a higher incidence in women than in men. Women dedicate more time to unpaid activities, both in and outside of the household. Estimates suggest that 62.9 percent of women and 7.1 percent of men aged 15 to 64 live in conditions of time poverty. In rural areas 76.5 percent of women live in time poverty conditions, compared to 59.6 percent in urban areas. For men the numbers are 5.8 percent and 7.6 percent respectively.

6. Maternal mortality is also a persistent public health issue in Mexico; progress on this issue has been very slow with 60 deaths per 100,000 live births in 2002 and only down to 51 in 2010. To improve maternal health, several measures are recommended: (a) ensure that necessary resources are available to send women to specialized hospitals in case of emergency at the local level; (b) the quality of medical attention should be improved; (c) training for medical personnel at a municipal level should encompass detection of risk factors; and (d) increased resources should be spent for prevention measures such as prenatal consultations.

7. Between 2006 and 2011 the incidence of violence against women perpetrated in their last relationship increased from 43.2 percent to 46.1 percent. Large percentages of women (64.6 percent of separated, divorced, or widowed women; 70.7 percent of single; and 75.1 percent of married or common-law wives) do not denounce physical or sexual abuse by their partner or

spouse. These results demonstrate that violence against women has grown in its every form, in spite of public action to combat it.

Shared Prosperity

8. Gender differences also persist in the labor market, which is still highly dominated by men. In 2010, for example, the economically active population rate for women reached 44 percent while it was 81 percent for men. Women are more likely to work in the informal sector: in 2012, 31.6 percent of women and 28.4 percent of men worked in the informal sector. Also, the occupational segregation is another challenge for women's position in the labor market.

9. Inequality permeates Mexican society and analysis of gender differences within states reveals that not all the states have made equal progress toward gender equality. The level of violence against women is one example. Another one is that rural indigenous females have considerably lower average years of schooling (4.5) than the general female population (8.4), and the school attendance among indigenous women fluctuates between 10 and 66 percent depending on the state, while that of non-indigenous women is between 62 and 73 percent.

10. Also, in spite of increased political participation at the federal level, the proportion of women in local congress is very low: up until 2012, only the State of Yucatán had a female governor. These inequalities are accentuated in municipal governments in that only 7.7 percent of all 2,285 municipalities are headed by female mayors.

Proposed Engagement Approach

11. The CPS will expand the World Bank's ongoing analytical and operational activities in the area. Key efforts will be focused on assisting federal, state and municipal agencies responsible for gender issues to increase research and analytical work and inform well-targeted gender policies and investments. The proposed gender work program under the CPS FY14-19 is currently under active preparation and discussion within the country management and sector units as well as with clients and other stakeholders, and as such it has not yet been possible to define gender specific parameters for the CPS Results Matrix (Table 1). The definition of operation- and/or activity-specific gender targets and monitoring indicators will be completed as integral part of their respective preparation processes.

12. Some potential entry points include:

- ***Financial services/inclusion***. Disaggregate the number of people with bank accounts by sex and propose ways to enhance women's agency in terms of financial literacy, access to services.
- ***Labor force participation and formal sector inclusion***. Include a gender dimension in the labor force discussion since fewer women than men are economically active (44 and 81 percent, respectively), and there is persistent occupational segregation and gender wage gaps. Programmatic actions could include analysis to detect gender-specific needs and demands for labor market policies that improve the skills level, formality, and allocative efficiency of the labor force, including the National Employment System.
- ***Education***. There are acute differences in education levels of indigenous and non-indigenous women; indigenous women, age 15 and over, have an average of 4.5 years of schooling, compared to 8.7 years among non-indigenous women. The PEC could provide a channel to work on this.

- ***Gender-based violence***. This might be something to look into further, particularly as it is a key Government priority in the Mexico NDP, and it relates to a nationwide monitoring system.
- ***Oportunidades***. In the work the Bank will support there is mention of "a unified registry of beneficiaries to track which families are receiving (or not) benefits from which social security/assistance programs". If this registry could collect data on an individual level (not just family), useful data would be available for further analysis on gender-differentiated needs and demands.
- ***Green growth***. World Bank engagement in the region (and beyond) has shown that a gender-differentiated analysis of usage patterns, demands, and payment schemes of issues such as water management and energy diversification can provide valuable insights to create more adequate solutions that enhance project effectiveness.

Annex 6 Table 1. Mexico CPS: Proposed Gender Specific Targets

•	Indicator	Gender specific target
IBRD	**Outcome 1: Increased access to finance and improved financial inclusion**	
	Number of new clients mainstreamed into the formal financial sector using financial services. (July 2015)	Target: 1,600,000 (800,000 female)
IFC	**Outcome 3: Enhance Innovation Capabilities for SMEs and in target states and industries**	
	Number of farmers reached: Baseline: 5,500 Target: 7,000 Interim: 6,100	Target: 7000 (3500 female)
IFC	**Outcome 5: Improved employment support for vulnerable youth**	
	Number of students enrolled in institutions financed by IFC (female) Baseline: 52,000 (26,000 female) Target: 70,000 (37,000 female) Interim: 59,000 (31,000 female)	Target: 70,000 (37,000 female)
IBRD	**Outcome 5: Improved employment support for vulnerable youth**	
	% of *Oportunidades* youth registered with Sistema Nacional de Empleo. Baseline: Does not exist yet Target: 2% Disaggregate by sex Source: SNE database	Target (2018): total 2.0 % (males 2.0%, females 2.0%)
IBRD	**Outcome 6: increased use of integrated social assistance programs among the poor together with increased private sector participation in the provision of social services**	
	Average unsatisfied basic needs of the extreme poor population Baseline (2009): 3.7 Target (2018): 3.0 Source: indicator in the National Development Plan	Baseline (2012): total 3.7 (males 3.7 , females 3.6)* Target (2018): total 3.0 (males 3.0, females 3.0)

** below "bienestar mínimo": total 20.0 (males 19.7, females 20.4)*

Portfolio Review

13. A consistent incorporation of gender issues into the World Bank's work has proved to increase developmental benefits. Thus, besides high impact gender specific initiatives at the State and Municipal level through existing or new operations, the World Bank will further explore and support ways to mainstream gender issues within its operational work.

***Gender mainstreaming in existing operations**:*

14. Listed are current projects where gender-specific interventions can be incorporated and are being discussed within the country management and sector units:

- P101369: Compensatory Education
- P115067: Support to *Oportunidades*
- P115347: School Based Management
- P116226: Social Protection in Health
- P106528: Results-based Mgmt. and Budgeting
- P088996: Integrated Energy Services
- P106261: Sustainable Rural Development
- P130623: Sustainable Rural Development Additional Finance
- P106424: Efficient Lighting and Appliances
- P106589: IT Industry Development Project
- P107159: Urban Transport Transformation
- P121195: Water Utilities Efficiency Improvement Program
- P123367: Savings and Credit Sector Loan
- P123760: Forests and Climate Change (SIL)
- P126487: MOMET for Improved Climate Adaptation
- P077717: GEF Large Scale Renewable Development (La Venta III)
- P066426: Hybrid Solar Thermal (Agua Prieta)
- P121116: Sustainable Production Systems & Biodiversity
- P095038: GEF Integrated Energy Services
- P100438: GEF Adaptation to Climate Change
- P114012: GEF Sustainable Transport & Air Quality
- P131709: GEF Coastal Watersheds Conservation Project

ANNEX 7. OAXACA ENGAGEMENT: AN EXAMPLE OF COMPREHENSIVE ENGAGEMENT AT SUBNATIONAL LEVEL

1. The State of Oaxaca faces enormous development challenges and major institutional weaknesses. Oaxaca is among the Mexican states with the highest levels of poverty and the lowest levels of economic performance. The state is characterized by a high illiteracy rate. Its average income per capita at roughly US$3,400 is near to that of Swaziland and Guatemala, but far from the Mexican average of US$8,960. With a predominantly indigenous population, Oaxaca has a highly dispersed population spread across a highly mountainous territory. Service delivery is complicated by numerous municipalities. There is limited budget flexibility and public sector management is weak.

The MoU approach

2. **These development challenges call for multi-stakeholder and multi-dimensional support**. The World Bank has been supporting the reform agenda for inclusive growth of Oaxaca through a strategic programmatic partnership since 2011. In June 2011 the Bank and the Government of Oaxaca signed a memorandum of understanding (MoU) that included multi-year, multi-sectoral support to the state, combining a package of knowledge, convening, and financial services. These services were structured around four areas: (a) public sector modernization, (b) sustainable development, (c) finance and private sector, and (d) human development. The MoU was originally established for two years (2011-13) and was renewed for two additional years in June 2013 (July 2013 – June 2015).

3. **The approach of this partnership is similar to a country's CPS and represents a departure from an operational or ESW-centric approach to sector dialogue and development solutions**. It recognizes the need to retain long-term engagement based on agreed objectives and development challenges not subject to the unanticipated changes in financing and knowledge needs in particular sectors.

4. **After two years of implementation**, **the MoU has proven to be a successful strategy to support the reform agenda for the inclusive growth of Oaxaca**. The strategy has led to the following main results:

- Government counterparts have built up technical capacity in the different areas of reform (e.g., trainings and workshops in strategic sector planning, public investment, water utility management, forestry management).
- The Bank has informed policy design and implementation.
- Resources have been mobilized leveraging co-financing of other organizations, such as the UNDP, the MacArthur Foundation, and Transparency International–Mexico.
- A concurrence of key national and local stakeholders has been brought together to the table to participate in a specific development agenda.
- Concrete and fundamental tools for efficient policymaking have been generated.

5. **Several outputs have been produced from this partnership to modernize the State of Oaxaca's public institutions and policies**: (a) design and implementation of a methodology to structure strategic sector planning oriented to results; (b) design proposals for an integrated public financial management and public investment management systems; (c) strengthen tax administration capacity; (d) map existing social programs, (e) exchange good practice approaches on reducing maternal mortality, (f) support the consolidation of rural financial

institutions, (g) exchange good practice approaches on public-private partnerships, (h) strengthen water utility management, (i) Atlas of Climate and Climate Change, and (j) exchange good practice approaches on sustainable development (see Table 1, Areas of Engagement).

6. **After two years of implementation**, **10 activities have been concluded**, **17 are under execution**, **and 3 new activities will be initiated during FY14**. Around 70 specialists in 75 different technical missions have been to Oaxaca, either as technical experts providing support to policy reforms or sharing experiences in seminars and forums that have been organized to strengthen the institutional capacity of the state.

7. **Sources of funding to develop the MoU include Bank Budget (BB)**, **Global Environmental Facility (GEF)**, **Institutional Development Fund (IDF)**, **and Financial Sector Reform and Strengthening Fund (FIRST)**. Development solutions to improve competitiveness and the business climate in Oaxaca have also been explored through the Foreign Investment Advisory Service (FIAS), a joint facility of the International Finance Corporation (IFC) and the World Bank. The IFC has also contributed to the promotion of public and private associations in Oaxaca.

Proposed engagement approach during the next CPS

8. **Development challenges in Oaxaca are structural and require sustained long-term support in order to shift the current trends**. The Bank and the Government of Oaxaca will expand the Bank's ongoing analytical and operational activities during the next two years. Mexico's Ministry of Finance has also asked the Bank to expand the Oaxaca's thematic MoU model to states of Guerrero and Chiapas. This support both at the federal and state levels reinforces the Bank's subnational engagement.

9. **A work program with Oaxaca has been prepared and agreed for FY14-15**. The MoU is composed of 20 activities, most of which are the continuation of the work that was carried out during FY12 and FY13, and a set of new activities has been identified to accompany the government efforts and strengthen its agenda such as an assessment of governmental accounting harmonization status, the development of tourism development strategies, and a project on sustainable production systems and biodiversity.

10. **Oaxaca has also expressed its interest in expanding the program with the Bank through a specific loan in the water sector**. The Water and Sanitation Sector (WSS) Modernization Program (P145578) will seek to improve the quality and sustainability of WSS services and WSS sector information in the State of Oaxaca.

11. **The Bank will continue to provide to Oaxaca with all the necessary information and technical advice to facilitate the participation of the state in the federal programs that are supported by the Bank**. Specifically, Oaxaca could get technical support and the necessary financing to improve urban transport, promote renewable energy sources, and support rural communities to sustainably manage their forests.

12. **The Bank's knowledge program on Oaxaca will also be supported by Reimbursable Advisory Services (RAS)**. Reimbursable advisory services are an increasingly important way for the Bank to meet Oaxaca's demand through the provision of customized advisory services. In June 2013, for example, a RAS was signed between the Government of Oaxaca and the World Bank to contribute to the improvement of the quality and efficiency of the State of Oaxaca's public expenditure management.

Annex 7 Table 1. Areas of Engagement with the State of Oaxaca by Type of Services Provided

Areas of Engagement

Sector	*Financial Services*	*Knowledge Services*	*Convening Services*
Public Sector Modernization		Rapid Assessment and Action Plan (RAAP) for the State of Oaxaca (April 2011to December 2011). Proposal for improving the regulatory framework of the State Planning System (July 2012 to June 2013). Sectoral strategic planning guidelines (January 2012 to June 2013). Results-based sectoral strategic plans: agriculture, water, roads, economics, forestry, tourism, livestock, fishing and housing (October 2011 to June 2013). Proposal on the Institutional Design of the Public Investment System (November 2011 to June 2012). Proposal on the conceptual model of a Plan on Integrated Management Information and Financial Performance and Implementation (November 2011 to June 2012).	Workshops on Strategic Sector Planning, Public Investment, and Budgeting (October 2011 to June 2012). Workshops on Good Practices on Tax Administration (July 2012 to June 2013). Country Knowledge Exchange: Oaxaca – Canada in results-based management and budgeting (May 2012). Country Knowledge Exchange: Oaxaca – Chile to share experiences in planning, investment, budget and evaluation.
Sustainable Development	Water and Sanitation Sector Modernization Program (P145578) – FY14 Integrated Energy Services (P088996) (solar energy farms in 12 communities in Oaxaca) – FY14 Urban Transport Transformation Program (P107159) – FY14 Mexico Forests and Climate Change Project (P123760) Large-scale Renewable Energy Development Project (La Venta III) (P077717)	Sector diagnostic and design of a modernization program for water and sanitation (June 2011 to June 2013). Atlas of Climate and Climate Change (January 2012 to June 2012).	Support to establish the Technical Advisory Council on Reducing Emissions from Deforestation and Forest Degradation REDD+ (January 2012 - June 2012).
Finance and Private Sector		Plan for consolidation of cooperative financial institutions. Report with practical recommendations to identify and eliminate anticompetitive regulations (February to June 2013).	Seminar on Public-Private Partnerships (February 2012).
Human Development		Pilot program to reduce maternal mortality (July 2011-June 2012). Technical assistance to develop the basic education strategy of the State (*Todas y Todos a la Escuela*) and action plan for implementation (April to May 2012). Strategy to increase coverage of high school education in rural areas and plan for the implementation of the strategy (January 2012 to June 2013). Analysis of the linkage between the human resources profile generated by the Higher Education (HE) sector and the labor market in Oaxaca (January 2012 to January 2013). Dissemination of the main findings of the study "Higher Education and Development in Oaxaca" (February 2013). Inventory of social programs at the federal and state levels (November 2011 to June 2012). Operating Manual for the use of the inventory of social programs in Oaxaca (June to December 2012). Literature review of the best practices in micro-regional development and integrated land management (January 2013).	Country Knowledge Exchange Oaxaca - Peru to share experiences in the design, implementation and monitoring of integrated approaches for improving maternal and newborn health (February and September 2012). Series of meetings between the Ministry for Human and Social Development (SEDESOH) and the National Council for the Evaluation of Social Development Policy (CONEVAL) to analyze the tools used to assess social protection policies in the State (June to September 2012). Country Knowledge Exchange on micro-regional development models between officials from SEDESOH, Jalisco's government and Honduras (January 2013). International seminar on models of inter-municipal management with participants from Oaxaca, Jalisco and Honduras (May 2013).

Annex 7 Table 2. Results Matrix – Oaxaca MoU FY14-15

World Bank Group Strategy FY14-15		
Long-term Outcome	***Outcome Indicator***	***WBG Intervention part of Development Solutions***
Theme I: Strengthening Public Finances and Government Efficiency		
I.1. Enhancing service delivery		
Outcome 1: To introduce transparency and accountability practices that contribute to the improvement in the water and sanitation sector.	(i) Implementation of action plans in specific municipalities.	***IBRD AAA:*** Transparency and Accountability on the Water and Sanitation Sector Program (BB)*
Outcome 2: To strengthen the State of Oaxaca's governance and management capacities for better results and effectiveness of selected public institutions.	(i) Implementation of a strategic sector planning pilot program. (ii) Improvement of the planning, investment and budget system. (iii) Strengthen public sector management capacities on investment and budgeting. (iv) Development of technical capacities among public servants on social conflict resolution.	***IBRD RAS/FBS***: Oaxaca Strengthening Public Sector Management (P129050) (RAS/FBS) ***IBRD AAA***: Oaxaca: Strengthening the State's Management Capacities (P129968) (BB + Institutional Development Fund - IDF)
I.2. Managing medium-term fiscal challenges at national and subnational levels		
Outcome 3: To conduct a comprehensive assessment of the current status of implementation of the governmental accounting harmonization process to identify the gaps, main challenges and areas of opportunities in terms of readiness for alignment with the General Law on Governmental Accounting (LGCG) and develop the institutional capacity training requirements.	(i) Report on Alignment with the LCGC, MCG and other relevant normative documents issues by CONAC produced. (ii) Proposed Action Plan to address the gaps in alignment and a capacity development strategy presented.	***IBRD AAA:*** Assessment of Governmental Accounting Harmonization Status in the State of Oaxaca (BB)
Theme II: Promoting Green and Inclusive Growth		
II.1. Reducing the footprint of growth		
Outcome 4: To contribute to the transformation of urban transport in Oaxaca toward a lower carbon growth path.	(i) Development of Integrated Transit Systems that reduce CO_2 emissions in Oaxaca.	***IBRD Lending:*** MX Urban Transport Transformation Program (P107159)
II.2 Using natural resources in an optimal way		

World Bank Group Strategy FY14-15		
Long-term Outcome	***Outcome Indicator***	***WBG Intervention part of Development Solutions***
Outcome 5: To improve the quality and sustainability of Water and Sanitation Sector (WSS) services and WSS information in the State of Oaxaca. *To achieve this objective, the program will provide a multi-year steady financing framework to increase the legal and financial autonomy of service providers in priority areas, strengthen their operational performance, and establish the tools to collect key sector data.*	(i) Institutional framework modernization conducted. (ii) Improvement of the users' satisfaction of the service quality. (iii) Improvement of the revenues collection. (iv) Number of rural service providers strengthened. (v) Number of rural service providers registered in the information system.	***IBRD Lending***: Oaxaca Water and Sanitation Sector Modernization Program (P145578) ***IBRD Convening****:* Regional workshop on the Rural Water and Sanitation Sector Information System (i.e. SIASAR in Spanish) (BB)
Outcome 6: To support rural communities in Mexico to sustainably manage their forests, build social organization, and generate additional income for forest products and services including the reduction of emissions from deforestation and degradation (REDD+).	(i) Consolidation of Priority Community-Based Programs in Oaxaca.	***IBRD Lending****:* Mexico Forests and Climate Change Project (P123760)
Outcome 7: To increase access to efficient and sustainable integrated energy services in predominantly indigenous rural areas of Mexico.	(i) Rural Energy Subprojects implemented (i.e.12 solar farms in rural areas in Oaxaca serving 500 homes and 2,000 people). (ii) Technical Assistance delivered to increase productive uses of electricity.	***IBRD Lending****:* Integrated Energy Services (P088996)
Outcome 8: To reduce greenhouse gas emissions (GHGs) and remove barriers to the development of renewable energy technologies and markets, per the GEF Operation Program.	(i) Assistance in developing initial experience in commercially-based grid-connected renewable energy applications by supporting construction of an approximately 101 MW IPP wind farm and providing an electricity tariff subsidy. (ii) The Strategic Environmental Assessment of the Tehuantepec Isthmus: a key study for this Project and the development of wind energy in Mexico delivered.	***IBRD Lending****:* Large-scale Renewable Energy Development Project - La Venta III (P077717)
Outcome 9: To conserve and protect nationally and globally significant biodiversity in Oaxaca through mainstreaming biodiversity-friendly management practices in productive landscapes in priority biological corridors.	(i) Sustainable Production Systems and Biodiversity Mainstreaming. (ii) Producer Associations and Biodiversity-Friendly Market Initiatives implemented.	***IBRD Lending****:* Sustainable Production Systems and Biodiversity (P121116)
Theme III: Democratizing Productivity and Promoting Financial Inclusion		
III.1 Fostering Sound Financial Development		

World Bank Group Strategy FY14-15		
Long-term Outcome	***Outcome Indicator***	***WBG Intervention part of Development Solutions***
Outcome 10: To support an orderly consolidation of cooperative financial institutions (CFIs) in the State of Oaxaca and advice authorities to mitigate the risks of a potential crisis after the March 31, 2014, deadline.	(i) Preparation of guidelines and procedures to merge or liquidate CFIs that are not in compliance with applicable standards in order to help re-establish the soundness of a sector that caters in particular to the lower income population in rural areas. (ii) Government policy/strategy informed. (iii) Design capacity strengthened. (iv) Implementation capacity strengthened.	***IBRD AAA****:* Contingency plan for Cooperatives Financial Institutions (P144364)
III.2 Toward a more competitive business environment		
Outcome 11: To foster enterprise creation and growth through reforms of the legal and regulatory framework by allowing firms to easily enter markets, access credit, register property, build premises, compete, and exit business. To facilitate integration of foreign markets and investments by improving key procedures and regulations covered in the Doing Business Report, strengthen the competition policy framework and improve tax policies.	(i) Government policy/strategy informed. (ii) Design capacity strengthened. (iii) Implementation capacity strengthened.	***IBRD AAA****:* Strengthening Investment Climate in Oaxaca (BB). ***IBRD AAA****:* Reforms of the legal and regulatory framework to promote competitiveness in key sectors in Oaxaca (BB).
Outcome 12: To revise and finalize the strategy to develop 10 touristic routes in the state.	(i) Strategy of at least three tourist routes developed.	***IBRD RAS****:* Strategy to develop touristic routes in Oaxaca (BB).
Theme IV: Increasing Social Prosperity		
IV.1 Promoting an integrated social protection system		
Outcome 13: To provide technical assistance to *Secretaría de Desarrollo Social y Humano* (SEDESOH) for the increase of social well-being and the reduction of multidimensional poverty within the *Bienestar* micro-regional development model. To facilitate of exchanges between SEDESOH and successful models of local governance for the reduction of poverty in Latin America (through the knowledge community generated at the end of FY 2013).	(i) Operational assessment of Oaxaca's micro-regional management model *Bienestar*, focusing on the reduction of multidimensional poverty. (ii) Improvement of micro-regional management model *Bienestar*. (iii) Knowledge exchanges in Mexico and Latin America through a knowledge community.	***IBRD AAA****:* Improved model of *Bienestar* based on the evaluation and exchange of experiences in Mexico and Latin America through a knowledge community (BB).

World Bank Group Strategy FY14-15		
Long-term Outcome	***Outcome Indicator***	***WBG Intervention part of Development Solutions***
Outcome 14: To raise awareness among health officials about the design, implementation and monitoring of integrated approaches for improving maternal and neonatal health To promote awareness among health professionals of the micro-region of Valle Nacional on women's rights, gender equality and intercultural issues.	(i) Acceleration of the reduction of maternal and neonatal mortality. (ii) Activation of support networks in communities and training of health personnel in the micro-region of Valle Nacional.	***IBRD AAA:*** Support to Health Sector in the State of Oaxaca (BB).
Outcome 15: To assess the Oaxaca Health Services (SSO) current policies and practices, reform plans and future needs for performance improvement. To identify obstacles for improving the performance of SSO and detail options on how to achieve better health outputs and outcomes and to prepare SSO for the integration of the Oaxaca State Health System.	(i) Review of health service outputs, and information on health outcomes in Oaxaca provided: • Quality of health care provided supported. • Efficiency of the service delivery supported. • Equity in access and utilization of health services analyzed. • Main causes of burden of disease in Oaxaca analyzed. • Information on trends in maternal and child health mortality and morbidity data provided. • Equity in health outcomes supported.	***IBRD AAA:*** Assessment of Oaxaca Health Services (BB).
IV.2 Promoting labor markets for inclusive growth		
Outcome 16: To improve coverage of school education system in rural areas. To improve the guidance and information to students of secondary education.	(i) Discussion with international experts about the aspects of School Education in Oaxaca delivered. (ii) Analysis of the factors affecting student achievement and dropout in Upper Secondary Education in Oaxaca conducted. (iii) Analysis item by item and by area of study (Spanish and Math) for each of the 638 high schools participating in ENLACE conducted.	***IBRD AAA:*** Workshops with international experts to discuss the status of Higher Secondary Education in Oaxaca and disseminate good practices in other countries (BB).

*BB = Bank Budget

ANNEX 8. SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

As of Date 09/30/2013

Indicator	2011	2012	2013	2014
Portfolio Assessment				
Number of Projects Under Implementation [a]	22	23	18	17
Average Implementation Period (years) [b]	3.2	3.0	4.1	4.6
Percent of Problem Projects by Number [a, c]	13.6	8.7	38.9	41.2
Percent of Problem Projects by Amount [a, c]	1.9	0.6	8.0	8.5
Percent of Projects at Risk by Number [a, d]	22.7	8.7	38.9	41.2
Percent of Projects at Risk by Amount [a, d]	3.8	0.6	8.0	8.5
Disbursement Ratio (%) [e]	47.4	30.8	46.3	1.1
Portfolio Management				
CPPR during the year (yes/no)	Yes	Yes	Yes	
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	181	12
Proj Eval by OED by Amt (US$ millions)	34,875.7	3,060.5
% of OED Projects Rated U or HU by Number	26.9	30.0
% of OED Projects Rated U or HU by Amt	17.0	2.2

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX 9. MEXICO IFC COMMITTED AND DISBURSED OUTSTANDING INVESTMENT PORTFOLIO

As of 9/30/2013

(In USD Millions)

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
2008/12	Agrofinanzas	0	3.01	0	0	0	0	3.01	0	0	0
2008	Alta growth fund	0	18.54	0	0	0	0	16.75	0	0	0
2012	Alta growth ii	0	15	0	0	0	0	0.22	0	0	0
2011	Alta ventures	0	9.92	0	0	0	0	1.69	0	0	0
0	Artha fund	0	25	0	0	0	0	13.33	0	0	0
2013	Aura solar	14.31	0	9.81	0	0	11.26	0	7.68	0	0
8/9/2006/10/11	Banco del bajio	0	58.43	0	0	0	0	57.95	0	0	0
1995/99	Baring mexfnd	0	1.7	0	0	0	0	1.7	0	0	0
2008/11	Bioparques	6.25	0	7	0	0	6.25	0	7	0	0
2012	Braskem idesa	285	0	0	0	350	152.99	0	0	0	187.88
2006	Carlyle mexico	0	5.23	0	0	0	0	3.53	0	0	0
2010	City express hol	0	14.05	0	0	0	0	14.05	0	0	0
38573	Cmpdh	22.19	0	4.04	1.1	0	22.19	0	4.04	0	0
7/3/1905	Comemsa	19.65	0	0	0	0	19.65	0	0	0	0
2011	Compartamos	7.57	0	0	0	0	7.57	0	0	0	0
2013	Cs mexco	0	0	50	0	0	0	0	50	0	0
0	Darp banorte	45.36	25	0	0	0	0	0	0	0	0
2013	Edilar	0	0	14.39	0	0	0	0	5.3	0	0
2010	Eurus	31.69	0	30.81	0	24.26	31.69	0	30.81	0	24.26
2011	Evm	18.51	0	0	2.4	0	18.51	0	0	0.88	0
0	Fide santa fe	14.46	0	0	0	0	14.46	0	0	0	0
7/7/2005/11	Finem	17.04	2.62	0	0	0	11.73	2.62	0	0	0
7/4/1905	Geo alpha	0	25	0	0	0	0	25	0	0	0
2005	Gmac trusts	5.71	0	1.24	2.81	0	5.71	0	1.24	1.96	0
9/13/2008	Grupo calidra	73.18	0	0	0.74	40	45.4	0	0	0.74	17.78
0	Gtsf urbi	47.27	0	0	0	0	47.27	0	0	0	0
2011	Harmon hall	0	3.15	0	0	0	0	3.15	0	0	0
2008	Hipotec vertice	0	0.27	0	0	0	0	0	0	0	0
0	Homex	69.81	0	0	0	0	69.81	0	0	0	0
2012	Hospitaria	3.41	0	6.83	0	0	3.41	0	6.83	0	0
0	Hsc trust	0	0	32.99	0	0	0	0	32.99	0	0
1998	Merida iii	12.3	0	0	0	0.73	12.3	0	0	0	0.73
2010	Metronet	0	5	0	0	0	0	0	0	0	0
2011	Mifel	0	23.63	0	0	0	0	23.63	0	0	0
2009/12	Nasoft	0	8.39	0	0	0	0	8.39	0	0	0
0	Nemak	13.16	0	0	0	0	13.14	0	0	0	0
2007	Nexxus iii fund	0	14.87	0	0	0	0	14.82	0	0	0
2013	Norson	38.32	0	0	0	0	23.32	0	0	0	0
0/03	Occidental mex	12.28	0	18.5	0	0	12.28	0	18.5	0	0
2010	Optima energia	4.2	0	0	0	0	4.2	0	0	0	0
2012	Progresemos	2.27	1.92	0	0	0	2.27	1.92	0	0	0
2012	Proteak	10	0	0	0	0	5	0	0	0	0
2002/14	Puertas finas	13.61	0	0	0	0	0.61	0	0	0	0
0	Sierra nevada	3.28	0	0	0	0	3.28	0	0	0	0
2010	Solida mt	0	48.83	0	0	0	0	15.01	0	0	0
0	Tcm retail	23.19	0	0	0	0	23.16	0	0	0	0
2012	Uag, a.c.	44.3	0	0	0	0	17.42	0	0	0	0
2013	Urbi desarrollos	50	0	0	0	0	50	0	0	0	0
0	Vertice trust	0	0	6.27	0	0	0	0	6.27	0	0
2008	Vinte	10.27	7.06	0	0	0	10.27	7.06	0	0	0
2010	Wcap finance	15.14	0	0	0	0	1.88	0	0	0	0
2010/14	Wcap holdings	0	18.14	0	0	0	0	17.23	0	0	0
0	Zn mexico ii	0	0.1	0	0	0	0	0	0	0	0
Total Portfolio:		**933.73**	**334.9**	**181.88**	**7.05**	**414.99**	**647**	**231.06**	**170.66**	**3.58**	**230.65**

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

ANNEX 10. MEXICO OPERATIONS PORTFOLIO (IBRD/IDA AND GRANTS)

As of September 30, 2013

Closed Proiects	235

IBRD/IDA *

Total Disbursed (Active)	2,885.41
of which has been repaid	0.00
Total Disbursed (Closed)	16,103.80
of which has been repaid	14,889.45
Total Disbursed (Active + Closed)	18,989.21
of which has been repaid	14,889.46
Total Undisbursed (Active)	1,493.85
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	1,493.85

Active Projects

		Last ISR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements [a/]	
Project ID	**Project Name**	**DO**	**IP**	**FY**	**IBRD**	**IDA**	**GRANT**	**Cancel.**	**Undisb.**	**Orig.**	**Frm Rev'd**
P115347	MX (APL2)School Based Management	S	S	2010	220				31.5	31.49	
P088996	MX (CRL2) Integrated Energy Services	U	MU	2008	15				15.0	14.96	
P101369	MX Compensatory Education	S	MS	2010	100				17.4	7.39	
P121195	MX Efficiency Improvement Program	MS	MU	2011	100				87.8		
P123760	MX Forests and Climate Change (SIL)	S	S	2012	350.0				302.2		
P100438	MX GEF Adaptation to Climate Change	MU	MU	2011			4.5		4.4		
P120654	MX GEF Efficient lighting and appliances	S	S	2011			57.1186		2.1		
P077717	MX GEF LargeScale RE Dev (La Venta 3)	MS	MU	2006			25.00		24.6	22.92	
P108766	MX GEF Sustain. Rural Dev	MS	MS	2009			10.5		9.1		
P066426	MX Hybrid Solar Thermal (Agua Prieta)	MU	MU	2007			49.395	0.045	10.0		
P106589	MX IT Industry Development Project	MS	MS	2009	80.0				54.5	54.53	
P126487	MX MOMET for Improved Climate Adaptation	S	MS	2012	105.3				105.0		
P106528	MX Results-based Mgmt. and Bugdeting	MS	MU	2009	17.2			12.76	4.3	17.00	
P123367	MX Savings and Credit Sector Loan	S	S	2012	100.0				79.7	-20.28	
P115067	MX Support to Oportunidades Project	S	S	2009	2753.8				286.6	-963.37	
P121116	MX Sust Production Systs & Biodiversity	S	S	2013			11.69		11.2		
P106261	MX Sustainable Rural Development	MS	MS	2009	100				62.8	8.14	
P107159	MX Urban Transport Transformation Progr	S	MU	2010	150				138.3		
P095038	MX-GEF Integrated Energy Services	U	MU	2008			15		14.8		
P114012	MX-GEF Sust. Transp & Air Quality	S	MS	2010			5.378		3.3	3.26	
Overall Result					**4091.27**		**178.58**	**12.80**	**1264.66**	**-992.38**	

ANNEX 11. MEXICO TRUST FUND PORTFOLIO

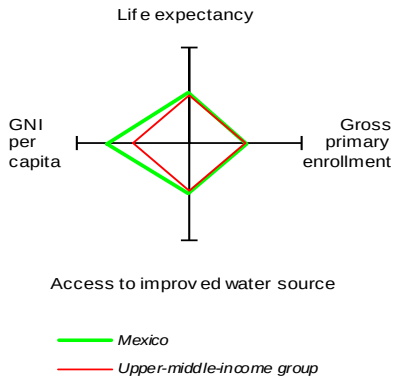
MEXICO ACTIVE GRANTS AS OF AUGUST 31, 2013

Sector	Fund	Trust Fund Name	Source	Usage Type	Exec.By	Grant Amount (000)	Disbursed (000)	Available (000)	Effective	Closing
FM	TF010934	Mexico: Development of Profess	IDF	TA	Recipient	345.0	76.7	268.4	04/12/2012	03/01/2015
	TF097295	IDF : Mexico - Strengthening a	IDF	TA	Recipient	306.0	267.6	38.4	02/16/2011	12/21/2013
	TF099123	Development of an Internal Con	SFLAC	TA	Recipient	122.0	23.8	98.2	12/08/2011	06/30/2014
	TF099882	Supervision of SFLAC Developme	SFLAC		Bank	8.5	2.7	5.9	06/30/2011	06/30/2014
		FM Total				**781.5**	**370.7**	**410.9**		
FPD	TF013928	Mexico #10288 Contingency plan	FIRST		Bank	124.5	46.2	47.7	01/07/2013	12/31/2013
		FPD Total				**124.5**	**46.2**	**47.7**		
HD	TF012562	Supporting Economic Analysis o	GAIDS	TA	Bank	100.0	11.2	3.7	06/01/2012	12/31/2013
	TF012229	Seguro Popular - Fiscal Federa	HRBF		Bank	50.0	0.0	37.5	04/02/2012	05/01/2014
	TF011538	Support for Improving Equity i	PSIA		Bank	65.0	49.2	0.7	01/09/2012	09/30/2013
	TF012231	Reforming the national targeti	PSIA		Bank	30.0	7.1	22.9	03/19/2012	08/31/2014
	TF013486	Impact Evaluation of a Low Cos	SIEF		Bank	177.7	9.1	168.6	10/28/2012	12/31/2016
		HD Total				**422.7**	**76.6**	**233.3**		
PREM	TF012026	Mexico Institutional Strengthe	IDF	TA	Recipient	350.0	12.4	337.6	05/25/2012	05/25/2015
	TF012320	Oaxaca: Strengthening the Stat	IDF	TA	Recipient	300.0	36.0	264.0	02/20/2013	02/20/2016
	TF012498	The Distributional Effects of	PSIA	TA	Bank	75.0	33.5	34.4	05/23/2012	11/15/2013
		PREM Total				**725.0**	**81.9**	**636.0**		
SD	TF011024	Mexico Monterrey I LFG to Ener	CARBON		Recipient	2,348.4	0.0	0.0	11/08/2011	12/31/2014
	TF056112	MEXICO CITY INSURGENTES BRT	CARBON	CF	Recipient	1,962.4	1,170.9	14.7	11/19/2006	12/31/2015
	TF056319	SCF -LA VENTA II WIND FARM	CARBON	CF	Recipient	11,927.5	6,748.8	1.2	12/12/2006	12/31/2016
	TF090169	MEXICO MONTERREY II PROJECT ON	CARBON	CF	Recipient	12,184.8	6,785.4	0.0	05/17/2007	06/30/2015
	TF014853	Development of Carbon Capture,	CCS		Bank	1,300.0	8.7	1,291.3	05/24/2013	12/19/2014
	TF096291	CTF-MX Urban Transport Transfo	CCTFIA	CO	Recipient	200,000.0	15,467.8	39,883.5	08/24/2009	06/30/2017
	TF097572	MX Efficient Lighting and Appl	CCTFIA		Bank	107.0	15.7	91.3	07/01/2010	06/30/2014
	TF097689	Mexico Urban Transport Transfo	CCTFIA	TA	Bank	125.0	105.6	19.5	07/01/2010	06/30/2017
	TF098062	Mexico Efficient Lighting and	CCTFIA	CO	Recipient	50,000.0	50,058.9	180.2	11/15/2011	06/30/2014
	TF011570	Mexico: Forests and Climate Ch	CSCFIA		Recipient	16,340.0	1,321.1	4,879.7	12/01/2011	02/28/2017
	TF011648	Mexico: Forests and Climate Ch	CSCFIA		Recipient	25,660.0	506.8	113.3	12/01/2011	02/28/2017
	TF011959	Mexico: Forests and Climate Ch	CSCFIA		Bank	800.0	184.5	5.5	03/29/2012	06/30/2017
	TF098684	Mexico Forest Investment Progr	CSCFIA	TA	Bank	153.9	138.7	15.3	12/15/2010	06/30/2014
	TF013425	Greening Mexico's Electricity	ESMAP		Bank	38.0	33.2	4.8	10/02/2012	11/30/2013
	TF012908	Sustainable Production Systems	GEFIA		Recipient	11,688.2	492.6	81.4	07/01/2012	08/31/2017
	TF056781	GEF FSP-MEXICO: LARGE-SCALE RE	GEFIA	TA	Recipient	25,000.0	411.5	24,588.5	05/15/2006	06/30/2014
	TF057033	GEF FSP-MEXICO: SOLAR THERMAL	GEFIA	TA	Recipient	49,350.0	38,986.9	10,363.1	07/01/2008	01/31/2014
	TF091733	GEF FSP-MEXICO INTEGRATED ENER	GEFIA	TA	Recipient	15,000.0	199.4	14,800.6	12/05/2007	06/30/2014
	TF093134	GEF FSP - MEXICO: SUSTAINABLE	GEFIA	CO	Recipient	10,500.0	1,369.1	9,131.0	09/01/2008	12/31/2016
	TF095695	Mexico GEF Sustainable Transpo	GEFIA	TA	Recipient	5,378.0	2,113.7	3,264.3	01/31/2008	12/31/2013
	TF098465	Mexico Efficient Lighting and	GEFIA	TA	Recipient	7,118.6	5,019.2	2,099.4	01/01/2010	06/30/2014
	TF015160	GPOBA (W1): Mexico - TA for th	GPOBA		Bank	215.5	5.8	154.3	07/22/2013	08/31/2014
	TF098944	GPOBA (W1): Mexico PROME / sup	GPOBA	TA	Bank	91.0	12.7	78.4	02/02/2011	03/31/2014
	TF096681	Mexico: Adaptation to Climate	SCCFIA	RE	Recipient	4,500.0	126.6	4,373.5	05/11/2010	10/31/2015
	TF098962	Mexico State Climate Change In	SFLAC		Bank	500.0	237.2	224.8	02/01/2011	02/28/2014
	TF099325	Mexico Policy Framework Develo	SFLAC		Bank	413.0	131.7	172.6	03/01/2011	07/28/2014
	TF099439	Strengthening of the Financial	SFLAC	TA	Bank	98.0	92.6	2.7	03/24/2011	05/31/2013
		SD Total				**452,799.3**	**131,744.7**	**115,834.6**		
		Grand Total				**454,853.0**	**132,320.2**	**117,162.5**		

ANNEX 12. MEXICO AT GLANCE

POVERTY and SOCIAL	Mexico	Latin America & Carib.	Upper-middle-income
2011			
Population, mid-year *(millions)*	114.8	589	2,490
GNI per capita *(Atlas method, US$)*	9,420	8,574	6,563
GNI *(Atlas method, US$ billions)*	1,081.8	5,050	16,341
Average annual growth, 2005-11			
Population *(%)*	1.3	1.2	0.7
Labor force *(%)*	2.2	2.0	1.1
Most recent estimate (latest year available, 2005-11)			
Poverty *(% of population below national poverty line)*	51	..	..
Urban population *(% of total population)*	78	79	61
Life expectancy at birth *(years)*	77	74	73
Infant mortality *(per 1,000 live births)*	13	16	16
Child malnutrition *(% of children under 5)*	3	3	3
Access to an improved water source *(% of population)*	96	94	93
Literacy *(% of population age 15+)*	93	91	94
Gross primary enrollment *(% of school-age population)*	113	116	111
Male	113	118	111
Female	112	114	111

Development diamond*

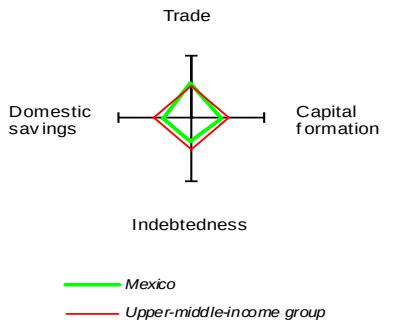


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1991	2001	2010	2011
GDP *(US$ billions)*	314.5	622.1	1,035.3	1,153.3
Gross capital formation/GDP	23.3	20.9	24.0	25.1
Exports of goods and services/GDP	16.4	27.6	30.3	31.7
Gross domestic savings/GDP	20.4	18.6	22.8	23.8
Gross national savings/GDP	18.6	17.9	23.6	26.6
Current account balance/GDP	-4.7	-2.8	-0.4	-1.0
Interest payments/GDP	2.6	2.1	1.0	1.2
Total debt/GDP	36.3	26.7	23.6	24.9
Total debt service/exports	24.6	26.9	10.1	11.2
Present value of debt/GDP	..	..	..	17.7
Present value of debt/exports	..	..	..	54.5

	1991-01	2001-11	2010	2011	2011-15
(average annual growth)					
GDP	3.1	2.2	5.5	3.9	3.4
GDP per capita	1.4	1.0	4.2	2.7	2.3
Exports of goods and services	14.4	5.0	21.7	6.7	3.8

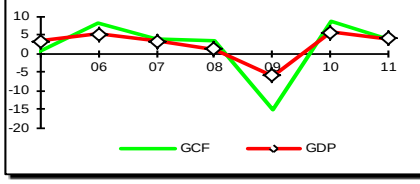
Economic ratios*



STRUCTURE of the ECONOMY

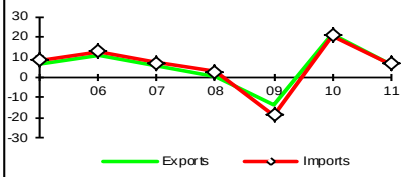
(% of GDP)	1991	2001	2010	2011
Agriculture	7.5	4.2	3.9	3.8
Industry	28.0	27.3	34.7	36.5
Manufacturing	20.6	19.6	18.1	18.3
Services	64.4	68.6	61.4	59.7
Household final consumption expenditure	70.5	69.6	65.4	64.3
General gov't final consumption expenditure	9.1	11.8	11.8	11.9
Imports of goods and services	19.3	29.8	31.5	33.0

Growth of capital and GDP (%)



(average annual growth)	1991-01	2001-11	2010	2011
Agriculture	1.6	1.2	2.9	-3.0
Industry	3.9	1.6	6.2	4.0
Manufacturing	4.4	1.5	9.9	5.2
Services	3.0	2.6	5.4	4.3
Household final consumption expenditure	2.6	2.8	5.0	4.5
General gov't final consumption expenditure	1.6	1.4	2.4	0.6
Gross capital formation	4.8	1.0	8.6	4.0
Imports of goods and services	12.2	4.9	20.5	6.7

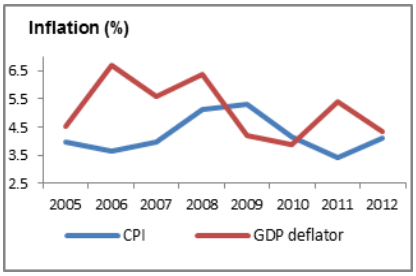
Growth of exports and imports (%)



Note: 2011 data are preliminary estimates.
This table was produced from the DEC LDB database and could differ from poverty offical data.
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

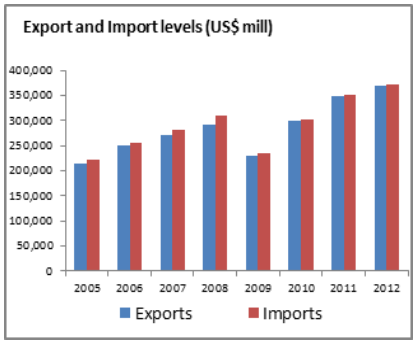
PRICES and GOVERNMENT FINANCE

	1991	2001	2010	2011	2012
Domestic prices					
(% change)					
Consumer prices	22.7	6.4	4.2	3.8	3.6
Implicit GDP deflator	23.3	5.9	4.2	5.4	4.6
Government finance					
(% of GDP, includes current grants)					
Current revenue	26.7	21.8	22.6	22.7	22.7
Current budget balance	6.3	0.4	2.4	2.1	2.1
Overall surplus/deficit	1.7	-3.2	-3.5	-2.7	-2.6



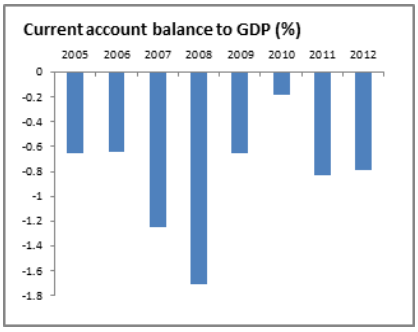
TRADE

	1991	2001	2010	2011	2012
(US$ millions)					
Total exports (fob)	42,688	158,443	298,860	349,946	370,706
Oil	8,166	12,799	41,693	56,385	52,892
Agriculture	2,373	3,903	8,610	10,309	10,914
Manufactures	31,602	141,353	245,745	278,617	301,993
Total imports (cif)	49,967	168,396	301,744	350,843	370,752
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	8,588	22,496	30,247	35,032	38,568
Export price index *(2000=100)*	86	98	153	173	169
Import price index *(2000=100)*	88	101	137	146	148
Terms of trade *(2000=100)*	97	97	111	118	114



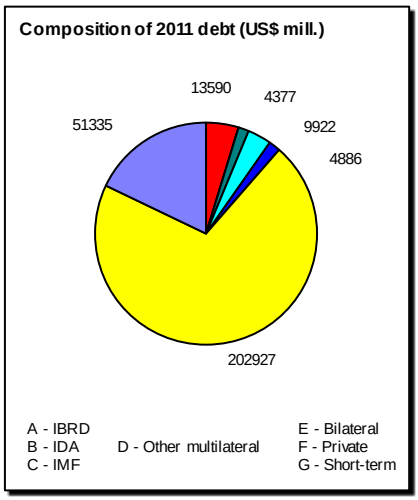
BALANCE of PAYMENTS

	1991	2001	2010	2011	2012
(US$ millions)					
Exports of goods and services	51,478	171,440	314,115	365,340	387,291
Imports of goods and services	60,508	184,614	327,720	381,418	401,362
Resource balance	-9,030	-13,174	-13,605	-16,078	-14,071
Net income	-8,608	-13,861	-10,999	-17,694	-20,174
Net current transfers	2,991	9,338	21,537	22,974	30,128
Current account balance	-14,647	-17,697	-2,519	-10,347	-11,410
Financing items (net)	22,640	25,035	-18,303	-17,548	...
Changes in net reserves	-7,993	-7,338	22,759	28,621	17,841
Memo:					
Reserves including gold *(US$ millions)*	17,772	44,814	120,587	149,208	149,208
Conversion rate *(DEC, local/US$)*	3.0	9.3	12.6	12.4	12.4



EXTERNAL DEBT and RESOURCE FLOWS

	1991	2001	2010	2011	2012
(US$ millions)					
Total debt outstanding and disbursed	114,220	165,914	243,824	287,037	257,399
IBRD	11,928	10,883	12,462	13,590	14,001
IDA	0	0	0	0	0
Total debt service	13,567	47,512	32,489	42,090	41,061
IBRD	1,815	2,173	440	1,056	592
IDA	0	0	0	0	0
Composition of net resource flows					
Official grants	46	65	286	..	..
Official creditors	1,327	-652	4,542	2,674	83
Private creditors	2,984	10,543	23,713	19,118	..
Foreign direct investment (net inflows)	4,761	25,523	6,819	9,465	-11,872
Portfolio equity (net inflows)	6,331	5,010	31,432	45,946	73,173
World Bank program					
Commitments	2,532	508	4,772	952	..
Disbursements	1,581	749	2,449	2,072	..
Principal repayments	954	1,309	194	809	..
Net flows	628	-561	2,256	1,264	..
Interest payments	861	864	246	247	..
Net transfers	-234	-1,425	2,010	1,017	..



Note: This table was produced from the Development Economics LDB database.

ANNEX 13. MEXICO – SOCIAL INDICATORS

	Latest single year				Same region/income group	
	1980-85	1990-95	1999-05	2006-11	Latin America & Caribbean	Upper-middle income
Population						
Total population, mid-year (millions)	72.5	88.3	102.6	111.3	585.0	2327.9
Growth rate (%annual average for period)	2.1	1.8	1.3	1.3	1.2	0.8
Urban population (% of population)	67.6	72.4	75.4	77.4	34.6	23.6
Total fertility rate	4.3	3.2	2.5	2.4	2.3	1.9
Poverty						
National headcount index	53.0	52.8	49.5	47.2		
Urban headcount index		42.8	41.1	40.4		
Rural headcount index		67.9	63.2	58.4		
Income						
GNI per capita (constant 2005 US$)	6,248.7	6,323.8	7,237.3	7,880.8	5305.3	
Consumer price index (2000=100)	0.5	28.2	94.6	101.8		
Food price index (2000=100)						
INCOME/CONSUMPTION DISTRIBUTION						
Gini Index	46.3	51.5	49.2	48.2		
Lowest quintile (% of income or consumption)	51.7	56.5	54.2	53.7		
Highest quintile (% of income or consumption	4.7	4.1	4.3	4.8		
SOCIAL INDICATORS						
Public expenditure						
Health (% of GDP)		2.2	2.5	2.8	7.4	5.9
Education (% of GDP)		3.4	5.0	4.9	4.4	4.7
Net primary school enrollment rate (% of age group)						
Total	98.8	99.5	97.5	98.0	95.6	95.6
Male			97.3	97.9	95.9	95.5
Female			97.7	98.1	95.2	95.8
Access to an improved water source (% of age group)						
Total		86.2	91.4	94.6	93.2	91.2
Urban		93.5	95.3	96.2	79.6	83.0
Rural		67.0	80.0	88.4	97.1	97.4
Immunization rate						
(% of children ages 12-23 months)						
Measles	35.5	85.2	95.6	95.8	93.9	94.2
DPT	43.3	82.5	97.3	96.4	92.1	93.5
Child malnutrition (% under 5 years)			6.0	3.4		
Life expectancy at birth (years)						
Total	67.7	71.8	74.8	76.2	73.8	72.4
Male	64.4	69.1	72.4	73.8	70.7	70.3
Female	71.1	74.6	77.3	78.7	77.0	74.7
Mortality						
Infant (per 1,000 live births)	49.8	34.7	21.7	15.3	18.4	19.5
Under 5 (per 1,000 live births)	64.5	43.9	26.1	18.2	22.1	24.2
Adult (15-59)						
Male (per 1,000 live births)	216.0	187.0	152.4	137.6	185.9	166.8
Female (per 1,000 live births)	135.0	117.0	85.5	76.1	100.6	104.0
Maternal (per 100,000 live births)		88.5	68.0	50.0	80.0	64.0
Births attended by skilled health staff (%)		83.8	95.0	94.1	85.8	95.9

This table was produced from the CMU LDB system. Due to methodological differences and time lags, data may differ from official estimates.
Note: 0 or 0.0 means zero or less than half the units shown. Net enrollment: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97.
Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

ANNEX 14. MEXICO KEY ECONOMIC INDICATORS

Indicator	2010	2011	2012	2013*	2014*
National Accounts	annual real percent change, unless noted				
GDP	5.1	4.0	3.8	1.5	3.5
Consumption	4.6	4.0	3.1	2.0	3.3
Investment	0.3	8.1	5.9	0.6	5.9
Exports	21.6	7.5	4.6	2.6	4.8
Imports	19.6	7.1	4.1	3.1	5.8
External Accounts	in US$ billions, unless noted				
Exports	298.5	349.4	370.7	380.4	402.4
Oil	41.7	56.4	52.9	49.7	46.5
Non-Oil	256.8	293.0	317.8	330.7	355.9
Imports	301.5	350.8	370.8	386.0	410.3
Worker Remittances	21.3	22.8	22.4	21.5	22.0
Current Account	-3.2	-11.8	-14.2	-19.1	-21.5
Current Account (as % of GDP)	-0.3	-1.0	-1.2	-1.5	-1.5
Direct Investment (liabilities)	21.9	21.6	13.4	29.1	22.3
Portfolio Investment (liabilities)	37.3	40.6	81.3	24.2	17.5
Gross Reserves (year-end)	113.6	142.5	163.6	174.2	185.8
Public Finance	as a percentage of GDP, unless noted				
Total Revenues	22.6	22.7	22.7	21.6	21.8
Oil	7.4	7.7	7.6	7.3	7.0
Non-Oil	15.2	15.1	15.0	14.3	14.8
Tax	10.1	10.0	9.8	9.9	10.3
Non Tax	1.4	1.2	1.4	0.7	0.9
Public Enterprises	3.8	3.9	3.9	3.7	3.7
Public Expenditure	25.5	25.2	25.3	24.0	25.3
Current Expenditure	20.4	20.3	20.5	19.4	20.7
Capital Expenditure	5.1	4.9	4.9	4.6	4.6
PSBR	3.5	2.7	3.2	2.9	4.1
Net Public Sector Debt	32.2	33.7	34.5	39.0	40.5
Prices					
Inflation (e.o.p) %	4.4	3.8	3.6	3.5	3.5
Oil price (Mexican mix, US$ per barrel)	72.1	100.9	102.1	98.0	96.8

ANNEX 15. MEXICO KEY EXPOSURE INDICATORS

Indicator	2008	2009	2010	2011	2012
Total debt outstanding and disbursed (TDO) (US$m)[a]	206,738.6	199,944.3	243,823.6	287,037.3	257,398.5
Net disbursements (US$m)[a]	9,138.2	14,524.3	33,358.1	31,115.4	(29,638.7)
Total debt service (TDS) (US$m)[a]	35,450.9	31,846.3	32,489.0	42,089.5	41,061.4
Debt and debt service indicators (%)					
TDO/XGS[b]	65.0	79.4	75.0	76.4	64.6
TDO/GDP	18.9	22.6	23.6	24.8	21.9
TDS/XGS	11.1	12.6	10.0	11.2	10.3
IBRD exposure indicators (%)					
IBRD DS/public DS	3.6	5.1	2.2	5.4	2.2
Preferred creditor DS/public DS (%) [c]	6.9	8.8	6.1	9.8	4.3
IBRD DS/XGS	0.3	0.4	0.1	0.3	0.1
IBRD TDO (US$m) [d]	5,566.6	10,142.6	12,461.6	13,590.4	14,706.2
Share of IBRD portfolio (%)	5.7	9.3	9.5	10.2	10.4

[a] Includes public and publicly guaranteed debt, private non-guaranteed, use of IMF credits and net short-term capital.

[b] XGS denotes exports of goods and services, including worker's remittances.

[c] Preferred creditors are defines as IBRD, IDA, regional multilateral development banks, IMF and the Bank for International Settlements.

[d] Includes present value of guarantees.

[e] Includes equity and quasi equity types of both and equity instruments.

MAP OF MEXICO

ENDNOTES

[1] Annex 5 provides a detailed description of both Mexican and World Bank's methodologies for measuring poverty, as well as detailed data tables with poverty rates by state and by method.

[2] One limitation of analyzing the official Multi-dimensional Poverty Index is that there are only three years with available data: 2008, 2010, and 2012. Thus, in order to study long-term poverty trends it is necessary to use a monetary poverty indicator, which was the previous official poverty measure in Mexico and which is still produced by CONEVAL

[3] Analysis about mobility and middle class in Mexico and the region can be found in "Economic Mobility and the Rise of the Latin American Middle Class" at http://www.worldbank.org/en/news/feature/2012/11/13/crecimiento-clase-media-america-latina.

[4] Annex 4 includes the overview chapter of the policy notes prepared in 2011-12 by World Bank staff. The complete set is accessible at http://www.worldbank.org/en/country/mexico/research/all.

[5] Annex 3 contains a section on recent economic events and the macroeconomic outlook.

[6] Refer to "Fostering sound financial sector development", Policy Note No.1; "Toward a more competitive business environment", Policy Note No. 2; "Fostering innovation for productivity and competitiveness", Policy Note, No.3.

[7] Refer to "Labor Markets for Inclusive Growth", Mexico Policy Note No.4.

[8] The OECD launched the Programme for International Student Assessment (1997) to evaluate education systems.

[9] The largest insurance programs in Mexico are the Instituto Mexicano de los Seguros Sociales (IMSS), the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSTE) and Régimen Estatal de Protección Social en Salud (Seguro Popular). Refer to "Social Protection", Mexico Policy Note No.5.

[10] Gender differences in poverty, as well as additional information about gender as entry points to the CPS can be found in Annex 5 and 6.

[11] Refer to "Managing medium term fiscal challenges", Mexico Policy Note No. 8; "Strengthening public revenue and expenditure management to enhance service delivery", Mexico Policy Note No. 9; and "Strengthening sub-national public finance", Mexico Policy Note No.10.

[12] Refer to "Reducing the footprint of growth", Mexico Policy Note No. 6; and "Using natural resources in an optimal way", Mexico Policy Note No. 7.

[13] *Banco de información Económica* (INEGI, 2012).

[14] World Bank estimate, forthcoming, *Análisis de Equilibrio Económico General de la Reducción de los Subsidios a los combustibles en México*.

[15] OP/BP 10.00 retired the use of Adaptable Program Loans in April 2013.

[16] Following Mexico's Multi-dimensional Poverty Index, the assessment identifies whether WBG interventions have a high, average or low expected impact on income poverty or on the access to any of the basic needs that are reflected in the multi-dimensional index (i.e., housing, infrastructure, education, health, social security and food security). A high value represents areas where the initial expected direct impact could be on both the income side and the access to basic needs consistent with the Mexico multi-dimensional index. In other words, this refers to strategic areas on which WBG interventions could have a direct impact on "extreme poverty", defined as population with monetary income below the 'minimum welfare' line and with at least three deprivations. An average value reflects areas where the initial impact could be either on the income side or on the access to basic needs. Finally, a low value refers to areas that may not necessarily have an expected direct impact on the income or the basic needs sides (i.e. a direct impact on the extreme poor).

[17] Shared prosperity focuses on income growth of the bottom 40 % of the population; 'average' or 'low' indicates the WBG's impact on economic growth in general. 'High' indicates impact on specific target groups within the bottom 40%.

[18] A sharp GDP contraction was largely the result of a collapse in external demand and international trade. Exports and imports fell 13.7 percent and 18.6 percent, respectively, in 2009. Between October 2008 and June 2009, Mexico lost almost a million jobs.

[19] Between 2006 and 2010, the moderate poverty rate increased from 42.7 percent to 51.3 percent (to 57.7 million people) and the extreme poverty rate increased from 13.8 percent to 19.8 percent (to 21.2 million people).

[20] When considering economic losses due to crime, victimization surveys estimate that in 2010 alone, crime costs victims losses of US$12.9 billion, and additional health expenses of US$619 million (INEGI *Encuesta Nacional de Victimización y Percepción sobre Seguridad Pública* (ENVIPE), INEGI, Mexico (2011a, 2012b). Moreover, empirical evidence also suggests that municipalities with higher levels of drug-related crimes in 2007 have grown at

a slower pace between 2005 and 2010 than municipalities less affected by this shock (Lopez-Calva, L. F, Rodriguez-Castelan, C., and K. Scott (2012). *Brief Cost and Impacts of Crime and Violence in Mexico*. Washington, D.C.: The World Bank -- Mimeo).

[21] OP/BP 10.00 retired the use of Adaptable program Loans in April 2013

[22] The Second Programmatic Upper Secondary Education Development Policy Loan (P126297) and the Upper Secondary Education Development Policy Loan (P112262).

[23] OP/BP 10.00 retired the use of Adaptable program Loans in April 2013

[24] OP/BP 10.00 retired the use of Adaptable program Loans in April 2013

[25] A comparative analysis of childcare programs was conducted seeking to compare international standards in the provision of childcare services to the Mexican model. Preliminary findings highlighted the fact that *Programa de Estancias Infantiles* was focused on female labor force participation rather than in ECD. Recommendations to the client were provided in order to increase the impact of the country's program.

[26] Refer to Note on Cancelled Operation (World Bank Report Number NCO 00001902).

[27] Against a baseline stockpile of 1.2 million in October 2009 and equal to a target of 2.1 million by June 30, 2012.

[28] Baja California Sur, Chiapas, Chihuahua, Estado de México, Guerrero, Hidalgo, Tabasco, Veracruz and Yucatán.

[29] Several factors have contributed to this situation. For instance, the increase in urbanization in Mexico places a tremendous strain on urban services, such as the urban transport and electricity networks. Water and sanitation services are subject to the capacity of state and municipal operators and thus vary greatly in quality and coverage across regions in Mexico.

[30]Report from PROTRAM received by the World Bank on July 22, 2011.

[31]Proof of this was the approval and publication of the PECC (Special Program for Climate Change) in Mexico's official Gazette in August 2009, which was fundamental to creating a comprehensive policy framework for reduction of emissions across sectors.

[32] Key changes in government policy include (a) delays in subsidies payments and in decision-making processes in the funding and operation of the government-sponsored mortgage agencies; (b) shift from horizontal to vertical housing, which requires more working capital for homebuilders; and (c) additional government requirements for homebuilders to offer sustainable housing.

[33] The sector strategy goal is to achieve 12 GW of wind generation by the year 2020.

[34] The package of advisory and analytical work included (a) just-in-time advice to SEDESOL on the strategy to promote local and regional socio-economic development in the southern states of Mexico, enhancing the capacity of the poorest states and municipalities to pursue green growth; (b) an SFLAC fund to design municipal indices and a sustainable local development guide that enhanced policy dialogue and included policy actions targeting sustainable territorial development at the municipal level; and (c) a Poverty and Social Impact Analysis (PSIA) exercise that helped enhance the quality of the DPL operation by providing critical analysis and a strong foundation for a more effective and informed engagement on climate change adaptation for poverty reduction.

[35] The SINAVE index comprises measures for three of its four sub-systems, including nine different elements, as follows: (1) the system for the weekly notification of reportable diseases; (2) the sentinel health facility surveillance system; (3) the surveillance system for acute flaccid paralysis; (4) the surveillance system for acute febrile illness; (5) the surveillance system for HIV/AIDS; (6) the surveillance system for diabetes; (7) the surveillance system for neural tube defects; (8) the registry system for malignant neoplasms, and (9) the surveillance system for addictions. Examples of indicators for these elements include: the percentage of medical centers reporting cases in a timely manner, the number of consecutive weeks of reporting, the number of notified cases of specific diseases among children, the percentage of samples drawn according to standards and percentage of probable cases tested in a timely manner. Data for these indicators is provided by health facilities, sentinel sites and laboratories across the country and consolidated by the SINAVE at the federal level.

[36] This compendium does not discuss economic and social challenges related to citizen security. Parallel research efforts are being launched to shed light on trends of citizen insecurity and their implications for inclusive and sustainable growth in Mexico.

[37] In terms of purchasing power parity (PPP) adjusted GDP per capita.

[38] Evidence based on the US manufacturing sector shows that increasing an industry's intensity in R&D by 1 percentage point increases the growth rate of output per worker in that industry by between 0.08-0.16 percentage points (Zachariadis, 2003).

[39] The middle class headcount is the number of individuals with daily incomes between 10 and 50 dollars (in 2005 US dollar, PPP terms). They fall approximately between the 66th percentile to 98th percentile in the household survey (World Bank, 2012b).

[40] *Environmental Indicators* (UNEP 2007).
[41] There are a number of measures that identify and emphasize different aspects of the environment such as resource exhaustion, pollution, or impacts on health and economic activity
[42] For example, *Ley General para la Prevención y Gestión Integral de los Residuos y su Reglamento y sus Normas Oficiales Mexicanos; Programa Nacional para la Prevención y Gestión Integral de los Residuos* 2009-2012. *Secretaría de Medio Ambiente y Recursos Naturales* (SEMARNAT).
[43] Examples are Federal Law to Prevent and Eliminate Discrimination (LGPED-2003), the General Law on Equality between Men and Women (LGIMH-2006), and the General Law on Women's Access to a Life Free of Violence (LGAMVLV-2007)
[44] Chávez, M., A. Ortega, and A.G. Santana. Pobreza multidimensional con perspectiva de género. Versión electrónica. (2010)

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