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The World Bank

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Report No. 52776-MX

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

FOR

THE UNITED MEXICAN STATES

FOR THE PERIOD OF FY08-FY10

February 26, 2010

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

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**The last Country Partnership Strategy for Mexico was distributed to the Executive Directors in March 2008 (Report 42846-MX dated March 4, 2008)**

**CURRENCY EQUIVALENTS**

(As of February 10, 2010)

Currency Unit = Mexican Peso

US\$ = 13.08 pesos

**FISCAL YEAR**

January 1 to December 31

**WEIGHTS AND MEASURES**

Metric System

**ABBREVIATIONS AND ACRONYMS**

AAA	Analytical and Advisory Activities	LAC / LCR	Latin America and Caribbean Region
ALAS	<i>Asociación Latinoamericana de Agua y Saneamiento</i> (Latin American Water and Sanitation Association)	MECOVI	Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean
ANEAS	<i>Asociación Nacional de Empresas de Agua y Saneamiento de México</i> (Enterprises Water and Sanitation National Association)	MDG	Millennium Development Goals
AF	Additional Financing	MIC	Middle Income Country
APL	Adaptable Program Loan	MOU	Memorandum of Understanding
BANCOMEXT	<i>Banco de Comercio Exterior</i> (Bank for Foreign Trade)	NAFIN	<i>Nacional Financiera</i> (National Development Bank)
BANOBRAS	<i>Banco Nacional de Obras y Servicios Públicos, S.N.C.</i> (National Bank for Public Works and Services)	NDP	National Development Plan
BANSEFI	Banco del Ahorro Nacional y Servicios Financieros (Savings and Financial Services National Bank)	NPL	Non-Performing Loans
BoP	Base of the Pyramid	OECD	Organization for Economic Cooperation and Development
CETES	<i>Certificado de la Tesorería de la Federación</i> (Treasury Bonds)	PPIAF	Public-Private Infrastructure Advisory Facility
CONEVAl	<i>Comisión Nacional de Evaluación</i> (National Evaluation Commission)	PPP	Public-Private Partnership Program
CPAR	Country Performance Assessment Report	PEMEX	<i>Petroleos Mexicanos</i> (Mexico Nacional Oil Company)
CPS	Country Partnership Strategy	PECC	<i>Programa Especial de Cambio Climático</i> (Climate Change Special Program)
CPPR	Country Portfolio Performance Review	PSBR	Public Sector Borrowing Requirements
CTF	Clean Technology Fund	R & D	Research and Development
CY	Calendar Year	SEDESOL	<i>Secretaría de Desarrollo Social</i> (Secretariat of Social Development)
DPL	Development Policy Loan	SEMARNAT	<i>Secretaría de Medio Ambiente y Recursos Naturales</i> (Secretariat of Environment and Natural Resources)
ESMAP	Energy Sector Management Assistance Project	SFP	<i>Secretaría de la Función Pública</i> (Public Administration Secretariat)
ESW	Economic Sector Work	SHF	<i>Sociedad Hipotecaria Federal</i> (Federal Mortgage Company)
FBS	Fee Based Service	SMEs	Small and Medium Size Enterprises
FCL	Flexible Credit Line	TA	Technical Assistance
FY	Fiscal Year	TF	Trust Fund
GDP	Gross Domestic Product	WB	World Bank
GEF	Global Environment Facility	WEF	World Economic Forum
GHG	Greenhouse Gas		
GOM	Government of Mexico		
IADB	Inter-American Development Bank		
IBRD	International Bank for Reconstruction and Development		
ICESI	<i>Instituto Ciudadano de Estudios sobre la Inseguridad, A.C.</i> (Security Studies Institute)		
ICR	Implementation Completion Report		
IDF	Institutional Development Fund		
IEG	Independent Evaluation Group		
IFAI	<i>Instituto Federal de Acceso a la Información</i> (Federal Institute for Access to Information)		
IFC	International Finance Corporation		
IMF	International Monetary Fund		
IP	Investment Plan		

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## I. INTRODUCTION

1. **Mexico has had a longstanding partnership with the World Bank Group encompassing the delivery of the full menu of financial, knowledge, and coordination and convening services.** In addition, there has been an active engagement in sharing with other countries jointly developed areas of best practice and innovation. In the context of a positive global context and improving prospects for Mexico, the FY08-13 Country Partnership Strategy (CPS), discussed in April 2008, represented a watershed in its relationship with the Bank. The CPS provided the framework for a strong and flexible knowledge-focused partnership, while continuing with a more limited financing relationship combined with innovative and tailored financial solutions. Beginning in mid-2008, Mexico faced a deteriorating global environment and the parallel negative impacts of the food crisis and the influenza pandemic, as well as other internal issues related to organized crime. The IBRD, using the flexibility embedded in the CPS, was able to quickly respond to the need for increased financing by the federal government, while continuing to deliver on a broad knowledge agenda, and the IFC, as well, shifted its priorities to respond to the emerging needs of its clients. Going forward, strong demand for financing is likely to continue at least through calendar year 2010. Beyond 2010, a continuation of a strong knowledge and innovation-focused partnership is likely, but with a higher level of base financing as compared to pre-global crisis expectations.

2. **In the FY08-13 CPS flexibility in delivering financial and knowledge services was agreed in order to improve efficiency and impact.** A new business model for IBRD was developed to enhance efficiency in delivery, with financial services to be largely provided through a significant DPL focusing on a selected aspect of the National Development Plan (NDP). Additional investment lending would focus on selected sector-specific operations which, along with the transfer of knowledge, would provide financial value-added in leveraging global funds and promote decentralized participation and resources. IFC's investment operations continue to have a strategic focus contributing to a systemic impact, innovation angle, and with greater impact on the Base of the Pyramid (BoP).

3. **A broad range of knowledge products was agreed to meet growing demand.** With the unbundling of financial and knowledge services, the new CPS foresaw the need to move beyond an ESW-driven AAA program to one that, with a variety of knowledge services to strengthen knowledge transfer heretofore associated with project preparation and implementation, deepens dialogue and meets emerging needs, including in-time TA and fee-based-services. IFC was expected to continue to increase its advisory services as well.

4. Since the CPS was discussed by the Board, **the new Partnership has been characterized by the changing needs of Mexico in the face of a deteriorating international environment**, during which the flexible design of the CPS has facilitated timely and effective Bank response. Crisis support has included higher levels of financing and Bank knowledge support. In responding to the crisis the program has evolved to include a few large DPLs and several quick-disbursing investment loans targeted to the poor. The program of support includes a major effort to alleviate the expected human consequences of the economic downturn, as well as efforts to promote the basis for gradual reactivation of the economy by strengthening the financial sector, supporting investment in infrastructure and climate change, and enhancing governance and counter-cyclical measures. The Bank Group would continue deploying its three business lines, with financing taking on a larger role during this counter-cyclical period.

## II. COUNTRY DEVELOPMENTS AND PROSPECTS

### A. Country Context

5. **At the start of the Government's six-year term in December 2006, the strategic focus was on confronting longstanding challenges to advancing Mexico's economic and social development; however, the deteriorating economic environment and global crisis that emerged in late 2008 threatened the progress that had already been achieved.** The Mexican economy had transformed its export base from a dependence on petroleum products to manufacturing goods; however, the destination of these exports was concentrated on the United States, leaving the economy exposed to the epicenter of the global economic crisis. Furthermore, export goods are largely consumer durables, a segment of aggregate demand that was particularly affected by the downturn in the United States. Investment in dynamic export sectors suffered as a result of the downturn, and job losses would inevitably have an impact on poverty rates. Moreover, remittance flows that are critical to particular regions and vulnerable social groups also declined, as the Mexican immigrant population in the United States suffered job losses in key construction and service sectors. 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 6.5 percent in 2009<sup>1</sup>. In brief, the emerging global crisis threatened to create a downward spiral with dire social consequences. Immediate action was needed to mitigate the impacts of the external shock (Annex H provides more background).

6. **Policy reforms and institution building over the last decade have allowed the government to respond effectively to the downturn.** Fiscal discipline and strong fiscal policy and debt management frameworks, including the establishment of stabilization funds and the acquisition of oil price hedges, enabled the authorities to conduct an adequate countercyclical policy response for 2009. The financial system that had been battered by the 1995 crisis had been rebuilt and a sound prudential and regulatory framework was well established. The authorities also took appropriate actions to maintain order in foreign exchange and domestic financial markets. As pressures mounted on the Mexican peso, the Central Bank intervened in foreign exchange markets providing foreign currency liquidity to the private sector though, eventually, the level of reserves by the end of 2009 slightly exceeded the one observed previous to these currency interventions. Public-sector development banks – that had been reformed over the last decade—were mobilized to limit the contraction in credit to the private sector. Bilateral and multilateral support, through a US\$30 billion currency swap arrangement with the US Federal Reserve and a US\$47 billion Flexible Credit Line (FCL) with the IMF, provided additional precautionary sources of external funds. Announcement of the FCL greatly reduced volatility of the peso.<sup>2</sup>

7. **Social and Poverty.** Poverty levels<sup>3</sup> in Mexico had been steadily declining since the crisis of the mid-1990s when they peaked at 69 percent. The impact of the current crisis on these levels has yet to be rigorously measured but it is particularly worrisome, given that the recent food crisis helped to forge the first increase in poverty since 1996, when the overall level

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<sup>1</sup> Source: INEGI, Press Release February 22, 2010.

<sup>2</sup> The IMF FCL was made available to the Central Bank for “tail risks” and is not a substitute for IBRD and IADB financing.

<sup>3</sup> Moderate Poverty estimates from CONEVAL based on ENIGH from 1992 to 2008.

increased by 4.8 percent between 2006 and 2008. Going into the crisis in 2008, some 50.1 million Mexican were poor, representing 47.4 percent of the population, higher than in 2002.

8. The difficult economic and social situation was exacerbated by the AH1N1 influenza epidemic in Mexico that April, which is estimated to have reduced GDP by 0.3 to 0.5 percent in 2009.<sup>4</sup> Moreover, organized crime involved in drug trafficking, kidnapping and other crimes also dampened growth, promoted corruption and reduced security in various parts of the country.<sup>5</sup>

9. Under these economic and social circumstances, GOM restated its **immediate priorities under the National Development Plan with a Ten Point Program** to confront the crisis:

- Put a halt to growing poverty and protect social spending from budget cuts.
- Achieve universal coverage in healthcare focusing on the poor.
- Provide quality education.
- Reform public finances to do more with less and reduce tax evasion.
- Increase competitiveness by reducing monopolies and increasing transparency.
- Reform the telecommunications sector to increase competitiveness.
- Labor reform and programs to improve productivity.
- Regulatory reform to reduce the burden of red tape.
- Deepen and expand efforts against organized crime.
- Political reform to achieve effective democracy.

### III. IMPLEMENTING THE CPS

#### A. Key Themes and Progress

10. Following the Board discussion in April 2008, the CPS was largely implemented as anticipated, as regards the level of financing services and the thematic areas of support identified jointly with the GOM, including accelerating growth, improving competitiveness, developing infrastructure and assuring energy security, strengthening institutions, and assuring environmental sustainability. However, with the advent of the crisis, financing services took on an increasingly important role and the focus of both financing and knowledge services within the areas of thematic support was adjusted to better help the client meet the evolving challenges as outlined in the **Ten Point Program**. At the same time, the Bank program responded as Mexico began to move aggressively to mainstream climate change considerations in its infrastructure and social programs and to become a model and global champion for the climate change agenda.

#### *Accelerating Growth*

11. At the time of the CPS presentation, this theme of Bank support was originally envisaged as focusing on the agenda of long-term reforms cross-cutting with other areas of support to improve the business climate, regulatory reform, enhanced innovation, investment in infrastructure and human capital, in order to achieve a sustainable level of growth of 5 percent by

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<sup>4</sup> An Emergency Loan for US\$491 million was approved in FY10 to strengthen surveillance and treatment in anticipation of the next wave of the flu in CY10. (See Annex B).

<sup>5</sup> A recent study by the *Instituto Ciudadano de Estudios Sobre la Inseguridad*, A.C estimated that the public and private cost of all crime including security measures in Mexico was equivalent to 7.4 percent of GDP in 2009.

the end of the CPS period. With the advent of the crisis, support has shifted to focus on the immediate challenges of stabilizing the fiscal accounts and reactivating the economy and accelerating longer-term reforms as the political situation provides opportunities.

12. The centerpiece of the Bank response is the recently approved **Economic Response DPL**. The operation builds on knowledge services, including recent Bank studies on competition, access and development banks and capital markets development. In addition, it builds on in-time TA to support policies to mitigate the impact of the crisis and strengthen the framework for economic recovery and growth. The Economic Response DPL supports countercyclical fiscal policies, increased non-oil taxes and improved public expenditure management; regulatory reforms to foster access and consumer protection; short-term employment programs while fostering labor market efficiency and worker productivity; and improved competitiveness by reducing and simplifying tariffs and customs processing. Improved public sector management and trade reforms is being supported as well through previously planned TA operations and AAA, including Fee Based Services (FBS), in **Results Based Management and Budgeting** and **Customs Institutional Strengthening**. Ongoing and proposed support in the financial sector is also expected to support this reform effort (see para.13). While a number of these interventions support medium-term institution building activities, expected results during 2010 include increased share of non-oil revenue, improved access to financing by small and medium-size enterprises, greatly expanded access to temporary employment programs to reach 650,000 unemployed by end 2010, and halving of general tariff rates for manufacturing imports relative to 2008. The Results Matrix (Annex A) provides greater detail on actual and expected results from the Bank program for this and the other thematic areas supporting the NDP.

13. The financial sector, which withstood the global crisis, is also seen as playing an important development role during the recovery. As noted in the CPS, this is identified as a strategic area for IFC/Bank coordination and the Bank Group is expected to continue to partner in this effort. The Bank has a longstanding and productive policy dialogue with Mexico on financial sector development, including an ongoing series of operations with the development bank **BANSEFI** to improve rural savings and finance. Additionally, in FY09 a loan was approved to support mortgage lending, including greater down-market access, via *Sociedad Hipotecaria Federal (SHF)*. Jointly with SHF the IFC is supporting a pilot to allow savings and credit institutions become intermediaries and a new distribution channel for housing finance. For FY11, a proposed operation with development banks to support SMEs and long term financing is being prepared. In response to the crisis, IFC is focused on the implementation of systemic interventions, such as a facility to support housing finance, and in the development of risk-sharing facilities to continue supporting SME lending and Non-Performing Loans (NPL) recoveries by partnering with large banks. It has also committed US\$150 million in equity to a leading locally-owned bank to maintain the provision of credit and expand the bank's reach to more vulnerable sectors of society. During the CPS review period, IFC has committed 13 projects in the financial sector for more than US\$225 million. Through its Advisory Services unit, IFC is implementing projects to support innovative models in microfinance with a portfolio of over 1.1 million loans.

### ***Improving Competitiveness***

14. The profound impact of the global financial crisis on the real economy underscored the findings of AAA that over the past decade Mexico has not kept pace with other countries in

pursuing the reforms required to enhance its competitiveness. Based on the index of the World Economic Forum (WEF), Mexico's ranking has fallen in the past decade from being in the top thirty countries to 60<sup>th</sup> in the most recent survey. While many of the long-term measures needed have been identified with the support of Bank knowledge services, the political economy of reform has made for a slow, incremental approach. With the crisis and its strong negative impact on the real economy, there is renewed urgency, as reconfirmed in the **Ten Point Program**, to accelerate competitiveness measures, including measures to provide quality education, enhance labor productivity, reducing monopolies and increasing transparency to promote competitiveness.

15. Mexico lags behind many of its competitors in the coverage and quality of education and accelerating human capital formation remains a major challenge to increase competitiveness of the economy over the long-term. The Bank remains an important partner in education through programs to promote tertiary education among the poor and community participation in basic education. During FY10, proposed operations to enhance access and the quality of services include a "second phase" APL for **School-Based Management** promoting local community and parental participation in schools and a **Compensatory Education Project** targeting schools and school children in poor rural areas with a focus on early childhood development. These education operations would build on broad, longstanding financial and knowledge services in education, whereby the Bank recently played a role in launching the **Alliance for Quality in Education** by convening in Washington, D.C., an international conference that brought together local stakeholders, including organized labor. Additional financing services during the remaining CPS period is expected to include an **Education Reform DPL** in support of reforms at the upper secondary level developed in partnership with Bank knowledge services over the past several years. Results expected during the CPS period include increased participation among the poor in education at all levels and efforts to improve quality of services.

16. For labor, as noted in para. 14, support includes enhancing short-term employment support programs while developing medium-term reforms for labor market efficiency and labor productivity through the **Economic Response DPL** and associated activities. Moreover, to support improvements in labor productivity among the poor, the Bank is providing knowledge services through a series of fee based services (FBS) with SEDESOL (Secretary for Social Development). Knowledge services on measures to provide incentives for labor productivity in the economy are also being provided.

17. Complementing IFC activities and access to financial markets, particularly among SMEs, noted above, the Bank is also supporting efforts to improve the innovative capacity of the private sector, including R&D and human capital, through the ongoing **Innovation for Competiveness Loan**, as well as sector support under the recently approved **IT Industry Development Loan**. Expected results include increased investment in R&D and an enhanced framework for the IT industry. IFC has already committed one project in the IT sector and is developing a strong pipeline.

18. The IFC is also active improving the business environment through its **Investment Climate** advisory services unit which is currently focused on programs to help reduce transaction costs between the public and the private sector. It is currently engaged in a **Business Regulation Simplification Project** in the State of Mexico to increase competitiveness at the sub-national level, and is also targeting poorer Mexican regions. To promote infrastructure development, IFC is using its transaction and private expertise in partnership with the IBRD's sector expertise to improve Mexico's road concession mechanisms and to provide co-advisory

for infrastructure projects at the sub-national level through BANOBRAS. The Bank is also providing its expertise in PPP, including a rapid response mission of the Global Experts Team to provide advice on structuring PPPs in light of the crisis.

### ***Promoting Social Inclusion and Reducing Poverty***

19. Prior to the crisis, this thematic area was expected to focus financial and knowledge services on longer-term issues in improving public services in health and education for the poor, as well as continuing adjustments in the system for social protection. However, it has been transformed with the onslaught of the crisis: in keeping with the **Ten Point Program, the thrust is now to provide immediate budget support for strengthening the social safety net**, as well as ensuring quality social services and enhancing the human capital of the poor (see para. 15). The *Oportunidades* Loan in FY09 is providing support with a large quick-disbursing component for the conditional cash transfer program and technical assistance for improving its implementation and enhancing longer-term objectives of breaking the cycle of poverty. This builds on the Bank's close collaboration over the years through knowledge services partnering with the IADB, which previously provided financing for the program. Additional support for SEDESOL, which implements *Oportunidades* and other social programs, includes FBS with SEDESOL and CONEVAL (National Council for Evaluating Social Programs) on poverty analysis and mapping, and the evaluation of social programs, following on previous support for reviewing constraints to increasing the productivity of the poor. The mapping better targets social programs while the findings of the productivity study are used to pilot programs in ten cities.

20. Bank financing and knowledge services support an increase by three million in the number of children benefiting from the health, nutrition and education incentives of *Oportunidades* and improvements in the coordination with social services. In particular, the **Compensatory Education Project**, noted above, is expected to increase by 33 percent the number of children attending early childhood development programs in poor municipalities.

21. An approach similar to that for *Oportunidades*, i.e., building on and accompanied by extensive engagement through knowledge services, is expected to be used in FY10 to provide support for the social sectors through a proposed loan for the *Seguro Popular* Program to promote access to healthcare for some 15 million impoverished people and mitigate the impact of health crises on their incomes. Additionally, support to the income generating activities of small farm households would be provided through the proposed *PROCAMPO* Project. IFC is increasingly targeting BoP projects such as the recently investment in a distribution company to help expand its operations in rural areas reaching over 14,000 villages and 4.7 million people and help sustain the livelihoods of over 25,000 retail store owners, mostly women. IFC continues to support private investment to improve social services by providing long-term financing to private hospital operators. IFC's investments currently support access for over 50,000 patients. Moreover, through its **Infrastructure Advisory** services, IFC is supporting two public hospitals to be developed under a PPP mechanism in the State of Mexico. In addition, IFC is considering the development of additional advisory projects in southern Mexico, the poorest region of the country.

### ***Developing Infrastructure and Assuring Energy Security and Environmental Sustainability***

22. Mexico has taken a major leap forward in integrating climate change considerations into its infrastructure and social programs under the *Programa Especial de Cambio Climatico*

(PECC) and the Bank is seen as critical partner in this effort. Along with the financial crisis, this mainstreaming effort has been a major force in defining Bank activities under the CPS. It is expected to accelerate efforts to deal with challenges in a wide variety of sectors, including urban transport, energy, agriculture, water, and natural resource management in general. Given the strong environmental focus of the Bank's work in Mexico on infrastructure and energy, the previously separate theme for environmental sustainability has become an integral part of this effort and the package of knowledge and financing services being provided.

23. As a result, further to the **Climate Change DPL** that accompanied the CPS in April 2008, ESW on reducing carbon emission and three more operations were delivered during FY09 in support of Mexico's Climate Change Agenda and its commitment to reduce GHG emissions. Also, during FY 09, the Bank assisted Mexico in the preparation of the **Clean Technology Fund (CTF) Investment Plan (IP)** that provides support to the national climate change strategy and special climate change program. The IP is a partnership among the GOM, the Bank Group and the Inter-American Development Bank (IADB) and addresses programs in three sectors: urban transport, renewable energy, and energy efficiency. IFC has already committed five climate change related projects in energy efficiency, renewable energy and cleaner production for over US\$115 million. This includes IFC's first direct investment in the region in an energy-services company. In FY10, the Bank helped Mexico to progress in its National Climate Change Strategy with the approval of the **Green Growth DPL** to support environmentally sensitive sector policies, incentives, and regulations. This serves as a policy umbrella operation to be complemented by investment lending, including a proposed **Urban Transport Transformation Project** to support, *inter alia* environmentally-friendly mass transit systems in the major cities, co-financed with the Clean Technology Fund, and a proposed operation (IBRD and CTF) to reduce electricity consumption by introducing more efficient technologies in lighting systems. Further, sector specific support from the Bank includes water and an important portfolio of operations in the energy sector. While the benefits of this evolving program are mostly expected in the longer term, the Results Matrix (Annex A) tracks expected outcomes under the CPS.

24. Moreover, the Bank is supporting increased emphasis on the poverty and social aspects with AAA supporting the development with SEDESOL of a sustainable development framework for evaluating social and infrastructure projects for the poorest states and municipalities, and ESW underway on **Climate Change with a Human Face**. Bank projects in environmental services and community forestry target poor communities to encourage sustainable use of forest and other natural resources. The broad range of Bank financing, including grants, knowledge and convening services is being coordinated through a Memorandum of Understanding.<sup>6</sup> The IFC, having identified climate change as a new priority area of support, collaborated with IBRD in the development of the CTF and already has two renewable energy projects in the pipeline with proposed CTF co-financing.

### ***Strengthening Institutions***

25. A crucial cross-cutting theme in Bank support, institutional strengthening is an important feature of our assistance in most sectors. While Mexico has benefited from an enhanced democratic environment over the past decade, institutional development has lagged and been captured by powerful interest over policy content and implementation remains a strong legacy. Improvements in governance, accountability and transparency remain important challenges in

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<sup>6</sup> See para. 32 and Annex C for a discussion of Memorandum of Understanding (MOU).

both public and private realms. Despite some advances, public perceptions of corruption remain strong. Indeed, the extent of corrupt practices has been revealed by bringing programs under greater scrutiny by civil society, which views such practices as being detrimental to Mexico's economic and social progress.<sup>7</sup> Mexico currently ranks 60th out of 163 countries in the Transparency International survey of public perceptions.

26. Bank support for institutional strengthening is broad based, cuts across other themes and includes efforts to improve service delivery through greater transparency and civil society participation in social protection, education and health. In addition, institutional strengthening is a major component in financial sector reform, infrastructure development and climate change. Moreover, in term of public sector management at the federal level, support is being provided for budgeting (**Results-Based Management Project**, FBS for budget systems and tax service), financial management (**Fiscal Transparency IDF**) and knowledge services for harmonizing federal and state level government accounting, expenditures (AAA on procurement) and customs functions (**Customs Institutional Strengthening Project**). Moreover, the previously mentioned evaluation FBS work with **CONEVAL** would also feed into the next budget process. Other branches, such as the legislature (**IDF Congress**) and the judiciary (**Judicial Modernization Project**) are also benefiting from Bank support, as are subnational governments (**Public Observatory of Municipal Management IDF**, **Jalisco PPIAF**, and FBS with several states in financial management and poverty analysis) and public sector enterprises (PEMEX). Results from these public sector management efforts would be judged by the availability of performance information by selected ministries in the next federal budget, the availability of timely information to the public, and client satisfaction surveys. For the near future, the Bank is also partnering with an **IDF** grant to develop a new internal control framework and strengthen the existing risk management model. IFC continues to support the adoption of best corporate governance practices. It has recently revamped its Senior Advisory Board to enhance its effectiveness by expanding the scope beyond corporate governance to include other related and key areas such as climate change. IFC's Advisory services further supported this knowledge transfer through a Business Process Outsourcing Study, while also engaging in business regulation simplification at the state and municipal level. In December 2008, IFC co-organized the first Latin American **Corporate Governance** roundtable in Mexico City.

## **B. Financial and Knowledge Services: Innovation and Performance**

27. **Financial Services.** During the crisis financing by the Bank significantly exceeded the level anticipated in the CPS of US\$800 million annually, with lending reaching US\$3.4 billion in FY09 and expected to be around US\$6.7 billion in FY10. This level of "rainy day" financing was made possible by a significant prepayment in FY07. As a result, the Bank was largely able to respond to GOM's request for US\$5 billion in disbursements in CY09, with US\$4.9 billion actually achieved. GOM has further requested access to an additional US\$5 billion for CY10.<sup>8</sup> Apart from the benefits and results related to individual operations, as

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<sup>7</sup> Through a recently completed IDF grant, the Bank supported the promotion and implementation of the Federal Freedom of Information Act by strengthening the institutional capacity of the Federal Institute for Access to Public Information and facilitating replication at the sub national level.

<sup>8</sup> While significantly above anticipated levels, Bank exposure at the end of CY10 is expected to reach about 1.5 percent of GDP. Historically, Bank exposure relative to GDP has averaged 2.1 percent since the 1970's, reaching a high of 4.8 percent during the 1995 crisis. Compared to other IBRD borrowers, Mexico is not an outlier during the current crisis in terms of the projected level of borrowing relative to GDP.

outlined above, the overall level of Bank financing has been critical in supporting Mexico's efforts to confront the crisis by providing a strong signal to foreign and domestic investors of confidence in the Mexican economy and the macroeconomic and financial sector policies of the Government, reducing pressure on domestic financing markets by allowing them to meet private sector financing needs and economic recovery efforts, and reducing the need for GOM to go to the tight international financial markets.<sup>9</sup>

**Table 1. IBRD Lending Response to Crisis FY09-FY10**

Approval FY	Support Operations		US\$ Millions
FY09	<i>Investment</i>	<i>DPLs</i>	\$ 3,423
	IT Industry Development Saving & Rural Financing (AF) Private Housing Finance Results Based Management Support to the Oportunidades Program Sustainable Rural Development Customs Institutional Strengthening	ENVDPL III Supplement to ENVDPL III	
FY10 + Planned	Influenza Prevention PROCAMPO ( <i>Proposed</i> ) Urban Transport Transformation Project ( <i>Proposed</i> ) Social Protection ( <i>Seguro Popular</i> ) ( <i>Proposed</i> ) Compensatory Education ( <i>Proposed</i> ) School Based Mgmt II ( <i>Proposed</i> )	Green Growth DPL Economic Policies DPL Education Sector DPL ( <i>Proposed</i> ) Water Sector Adaptation to Climate Change DPL ( <i>Proposed</i> )	\$ 6,700

28. For its part, IFC has supported the private sector as the crisis unfolded with special focus on its portfolio clients. It committed US\$148.9 million in FY08 in nine projects and in FY09, at the height of uncertainty, IFC increased the number of projects committed to 12 for a total of US\$83.5 million. Supporting the fragile recovery IFC has committed US\$166.4 million in four projects in the first half of FY10, and expects to more than double its engagement by the end of the year to support sustainable private sector growth. Finally, Mexico in July 2009 fulfilled all of its membership requirements to become **MIGA's** 175<sup>th</sup> member.

29. As anticipated, **grants** are an important part of the program, particularly for climate change and environment. They are incorporated as an integral part of the strategy and are increasingly combined with IBRD operations. Mexico is currently benefitting from US\$192 million in grant funds, including US\$152 million **GEF** and US\$33 million in **Carbon Credits**.

30. Mexico has been an important driver and pioneer of **innovative Bank financial products**. It benefits from a variety of innovative financing solutions and has taken a leading role in using the Bank's financial products. These are detailed in Annex D and represent efforts to better tailor financing to facilitate loan implementation and to reduce transaction costs.

31. **Innovating Knowledge Services**. Mexico recognizes the value of the broad range of Bank knowledge instruments and the desirability of continued engagement in partnering for development solutions. The Bank is bringing to bear a wide range of instruments to channel knowledge to Mexico. Formal studies for FY10 include support for the social impacts of modernizing the health and education system, strengthening finance and competitiveness, micro-regions, and harmonizing financial management among state governments. This ESW is being

<sup>9</sup> Fiscal savings from the latter are estimated to be in the US\$75 million range annually, an amount equivalent to sufficient to finance some 350,000 additional beneficiaries of the *Oportunidades* program.

augmented with a variety of other knowledge services to deepen dialogue and to meet emerging needs, including in-time TA (energy, social protection, monitoring and evaluation), and fee-based-services (public sector management, tax system strengthening, state results based monitoring systems, and administrative restructuring of the government petroleum enterprise—PEMEX). Demand for fee based services, which can be seen as a measure of what the country is willing to pay beyond the regular program for knowledge services, remains strong in this CPS period with some US\$2.4 million in contracts so far. For its part, IFC's Advisory services approved nine projects in FY08/09 for a total of US\$5.5 million. Advisory Services pipeline for the CPS period consists of four projects supporting the financial sector in providing access to finance, one project to achieve cleaner production and one to strengthen corporate governance.

32. During this CPS period, several **Memoranda of Understanding** (MOU) have been developed for coordinating AAA, loans, and grants around critical development challenges in social protection, education, health, water, energy, public sector management, climate change, and urban transport. MOUs recognize the need to develop and retain long term engagements with our development partners based on agreed objectives and development challenges not subject to the unanticipated changes in financing and knowledge product needs. See Annex C for details.

33. **Giving Back.** As an innovative MIC, Mexico has augmented its engagement in learning with other developing countries. Flagship programs, such as *Oportunidades*, receive numerous delegations from other countries, most of which are organized by the Bank. Such engagement is also facilitated by Mexico's participation in the **CCT Learning Community**, which avails itself of the Bank's **Global Distance Learning Network**. It has also been active in **gender issues** with Bank support and an innovative approach for promoting gender equity in the private sector is now being replicated in Egypt and Argentina<sup>10</sup>. Mexico has taken the climate change agenda to heart and uses advances in local legislation to champion the cause in the global community. Based on recent innovations and experiences, Mexico's disaster risk management is an important area for future South-South engagement. Finally, as noted, its role in innovation of financial products is an important contribution to other Bank clients. More details on Mexico's South-South cooperation are found in Annex E.

34. **Portfolio Performance and Results.** Despite the crisis, Mexico remains an excellent partner in implementing Bank operations and its effective use of Bank support in yielding development impact has improved significantly with 93 percent of operations judged by IEG as satisfactory over the past five years. Detailed indicators are provided in Annexes G and J.

#### IV. MOVING FORWARD

35. Future implementation of the CPS in terms of financing will be determined largely by the evolution of the economic downturn and the prospects for growth, and the IBRD's financial capacity to continue to play an important financing role. Knowledge and coordination services are expected to proceed steadily and flexibly as previously agreed.

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<sup>10</sup> This particular program is discussed in Annex F, as are efforts to mainstream gender equity in Bank operations.

## **A. Macroeconomic Outlook and Debt Sustainability.**

36. **In line with the global economic recovery, economic activity in Mexico is showing a strong rebound.** Recent economic data suggests a recovery of economic activity as of the second half of 2009 in Mexico. Projections of the economic outlook for Mexico should take into account the depth of the recent recession, which means that the economy will operate below potential output for a couple of years, as well as the impact on the Mexican economy of a lower medium-term economic growth in the advanced economies and Mexico's main trading partner. Assumptions regarding the external environment have a major impact on the projection of Mexico's main macroeconomic variables. A base case scenario follows the Bank's Global Economic Prospects and the IMF's World Economic Outlook Update (both of January 2010) for global economic activity.<sup>11</sup> The impact of such an external scenario on the Mexican economy is a rebound of economic activity by 2010 and 2011 and a return to potential output by 2012. There are serious external risks to this scenario. A weaker recovery or a "double dip" recession in the USA would have a significant impact on growth prospects. At the same time, there are also important emerging domestic risks. In particular, there are concerns that political gridlock for the rest of the current administration could continue to hamper needed structural reforms, which would affect competitiveness and hence growth rates.

37. **The 2010 public sector budget includes public revenue enhancing measures and a temporary budget deficit.** The Mexican fiscal responsibility law requires a balanced budget<sup>12</sup> and allows for a budget deficit only under "exceptional circumstances". Lower public sector tax revenue due to the sharp decline and current slack in economic activity is further aggravated by a rapidly falling volume of oil production, leading to a more structural challenge to replace diminishing oil revenue by more permanent sources of revenue. The policy response has been to increase taxation in the income, value added and excise tax regimes largely through an increase in the relevant tax rates and, at the same time, to allow for an additional budget deficit of 0.7 percent of GDP in 2010. The latter is planned to be reduced to 0.4 percent by 2011 and should return to a budget balance by 2012. However doubts about the adequacy of the fiscal response to the structural decline in oil revenues, and the likelihood that structural reform will remain limited led to downgrades in late 2009 of sovereign credit risk by ratings agencies.

38. **To reduce pressures on domestic financial markets and to maintain access to more diversified sources of sovereign financing going forward, the Government is looking to finance a substantial share of its Public Sector Borrowing Requirements (PSBR) externally.** The net public sector financing requirement is 3.5 percent of GDP or about US\$30 billion in 2010. GOM is planning to finance a larger fraction (up to 30 percent) of the PSBR externally and has requested support from the multilateral development banks.<sup>13</sup> Public debt, at just over 40 percent of GDP, remains within manageable proportions despite an increase in the debt-to-GDP ratio projected through 2011. Debt sustainability analysis, based on average levels of

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<sup>11</sup> World output is projected to fall by 2.1 percent in 2009 and experiencing a gradual recovery in 2010 when growth is picking up to 3.0 percent. Similarly output in the United States is projected to contract by 2.5 percent in 2009 before rebounding by 2.7 percent in 2010.

<sup>12</sup> A modification to the law adopted by Congress in 2008 includes all investments by the public sector oil company in the budget but excludes these investments from the budget balance requirement. Those investments are budgeted at an amount of 2.0 percent in 2010. As a result the overall budget deficit for 2010 is estimated at 2.7 percent of GDP (i.e. 2.0 percent oil sector investment and an additional 0.7 percent temporary deficit spending).

<sup>13</sup> The Government also faces foreign currency denominated public debt repayments of about US\$ 12.5 billion in 2010, which it is planning to refinance on global, private markets.

economic growth, the primary balance and the real interest rate on public debt observed over the past decade shows a return to a downward path of the debt-to-GDP as of 2012. (Annex H provides more background)

## **B. CPS Objectives and Strategy**

39. Through at least the FY11 program, the Bank expects to continue to support those aspects of the **Ten Point program** where it has comparative advantage and value-added. Many of these represent a desire to accelerate reforms to meet longer term development challenges where the Bank has been engaged. These should remain as priorities even when the economy rebounds but will require efforts to gain political support. Thus, the focus would continue to be to provide financial and knowledge services for social protection, health, education, water, public sector management and private sector development, including finance and regulatory reforms, and SMEs-related work. The Bank would also remain the primary partner in helping Mexico advance on the climate change agenda, both nationally and as a global champion.

40. The FY11 program is likely to include additional support for strengthening the safety net through *Oportunidades*. Additional DPL lending for reforms and budget support could address a range of areas, including financial sector and water resource management. Additional investment lending would then focus on longer-term development needs in areas such as climate change, particularly at the subnational level, as well as in longer-term poverty alleviation and development of poor regions.

41. In light of the continuing economic fragility, IFC is adapting its strategy to meet Mexico's changing country needs. It will 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 will maintain its pro-active portfolio management, while showing selectivity in its approach to new business to ensure high additionality and development impact. It will continue to cooperate and coordinate closely with IBRD for systemic interventions, such as infrastructure, PPPs, climate change, health, education and IT.

## **C. Financial Services**

42. In the short-term, responding to GOM's request for access to US\$5 billion of disbursements in CY10 would imply an FY11 program in the US\$2.5-3 billion range, following the FY10 proposed program of US\$6.7 billion. Subsequent to FY11, GOM has indicated a preference for a program with financial services of around US\$1.5 billion annually in FY12-13. This higher level than anticipated in the original CPS of \$800 million stems from the Government's desire to diversify its sovereign financing sources and to maintain a strong financing and knowledge partnership with the Bank, as a result continuing development challenges and the positive outcomes achieved. The program would likely focus on IL operations to support the competitiveness agenda, promoting social inclusion and poverty reduction, and climate change. Such lending would be dependent on IBRD's financial capacity, with disbursement profiles that keep exposure within the Single Borrower Limit.

## V. RISKS and MITIGATION

43. Three sets of risks were identified at the time of the preparation of the CPS in the spring of 2008: domestic risks, including reduced social cohesion, sluggish economic performance due to failure to improve competitiveness, and natural calamities; external risks related to the global and US economies; and risks related to the new business model of the CPS itself.

44. At that time a hotly disputed presidential election had called into question the new administration's legitimacy among some groups and raised the specter of continuing social disruption of normal political decision-making processes. However, the decisions of an independent electoral commission were largely accepted by civil society and the focus of opposition returned to the formal political arena. Despite the current economic downturn and, increased levels of unemployment and poverty, social cohesion has proven to be resilient, though a prolonged crisis could test this. On the other hand, organized crime is emerging as a strong element to test social cohesion, as well as governance, particularly in specific locales.<sup>14</sup>

45. An ambitious program of infrastructure development and regulatory actions were expected to enhance competitiveness. But, while there has been some progress on this front, Mexico has not been able to improve its global ranking. The political economy of reducing monopolies and increasing transparency remains difficult and the pursuit of a major program in infrastructure is limited by the fiscal situation, but the President's new **Ten Point Program** seeks to accelerate the process.

46. Mexico remains vulnerable to the natural calamities identified in the CPS, including seismic events and hurricanes. However, it is moving to reduce associated fiscal and financial risks through innovative instruments such as the recently issued **Multicat** bond with Bank support. An unforeseen natural calamity did occur with the AH1N1 influenza epidemic in Mexico last April. In that case, the GOM did not shy away from taking important measures to contain the outbreak and, with Bank support, has prepared to face a possible reoccurrence.

47. The risk of a less favorable international economic environment and, in particular, a "hard landing" of the US economy was identified in the CPS. While, as noted above, order was maintained in foreign exchange and domestic financial markets, and authorities were able to conduct an adequate countercyclical policy response for 2009, the real impact on the economy due to the direct ties was overwhelming. Mitigating such impacts through diversification remains a long-term challenge. At the same time, there are also important emerging domestic risks, including the ability to respond to the structural decline in oil revenues and political gridlock, which could slow structural reforms and reduce growth rates.

48. Finally, the CPS acknowledged the risks associated with the new business model and less than satisfactory implementation of the NDP to warrant DPL support. While the crisis has required some changes in priorities in implementing the NDP, significant reforms in implementing the climate change agenda, the economic response program and the proposed reform in upper secondary education justify continuing DPL lending. At the same time, given the presidential election period and change in administration, DPL lending is likely to be greatly reduced during FY12-13.

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<sup>14</sup> To date, the Bank has provided advisory services on a strategy for promoting safe neighborhoods being piloted in several large cities. The Bank also supports programs such as *Oportunidades* and **Upper Secondary Education** that are now targeting age groups vulnerable to drug abuse and recruitment into gangs and organized crime.

**ANNEX A: MEXICO CPS FY2008-2013 REVISED RESULTS MATRIX AND PROGRESS TO DATE**

Country Development Goals	Issues and Obstacles	Progress To Date	Outcomes that the Bank expects to influence in the remainder of the CAS period	Intermediate Indicators/milestones to track expected CAS outcomes	IBRD/IFC Interventions
<b>Thematic Area: Accelerating Growth</b>					
<p>Accelerating growth in order to increase growth rate to 5 percent towards the end of the current administration, via: Improved business climate, regulatory reform, investment in infrastructure, investment in human capital and improved national innovation system</p>	<p>While the strategy remains valid, the crisis has required policies to regain fiscal sustainability, strengthen the role of the financial sector in recovery, enhancing job schemes and continuing trade liberalization.</p>	<p>Growth Rate 2008:1.35% 2009: -6.5% 2010 Forecast: 3.9% Forecast from SHCP</p>	<ul style="list-style-type: none"> <li>• 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;</li> <li>• Implementation of regulatory reforms to foster financial sector access, consumer protection and stability;</li> <li>• Enhancement of short-term employment support programs while developing medium-term reforms for labor market efficiency and labor productivity;</li> <li>• Improved competitiveness by lowering international trade costs via reduction of Most Favored Nations (MFN) tariffs and simplification of the trade tariff regime and customs processes.</li> </ul>	<ul style="list-style-type: none"> <li>• Non oil tax revenue as a percent of GDP would increase to 10.3 percent in 2010 (Baseline 10.0 percent, 2008)</li> <li>• Number of total outlets to increase by 35 percent (Baseline 2008: 10,354); measured down-market lending by development banks</li> <li>• Beneficiaries hired under the temporary employment program over the 2009-2010 period reaches 600 thousand people annually (Baseline: 365 thousand, 2008)</li> <li>• A reduction in the average tariff for manufactured imports to 5.3 percent (Baseline: 10.4 percent, 2008)</li> </ul>	<p><b>Financial</b></p> <ul style="list-style-type: none"> <li>• TA Loan on Tax Administration</li> <li>• FBS on Financial Management Systems (FY08)</li> <li>• Results Based Budgeting (RBB) (FY09)</li> <li>• Economic Response DPL (FY09)</li> <li>• Finance for Growth DPL (FY06)</li> <li>• Access to Rural Finance Loan (FY08)</li> <li>• IFC operations</li> <li>• Private Housing Markets Development Loan (SHF development bank)</li> <li>• BANCOMEXT/NAFIN (Proposed)</li> <li>• Customs administration TA loan (FY09)</li> </ul> <p><b>Knowledge</b></p> <ul style="list-style-type: none"> <li>• Financial Sector NLTA</li> <li>• Infrastructure PER(FY04)</li> <li>• Public Expenditure Review (PER) (FY04)</li> <li>• Policy Notes ( FY07)</li> <li>• Southern States Sustainable Development (ESW)</li> <li>• Debt management tools and derivative products from WBG Treasury Department</li> </ul>

**MEXICO CPS FY2008-2013 Revised Results Matrix and Progress To Date**

Country Development Goals	Issues and Obstacles	Progress To Date	Outcomes that the Bank expects to influence in the remainder of the CAS period	Intermediate Indicators/milestones to track expected CAS outcomes	IBRD/IFC Interventions
<b>Thematic Area: Improving Competitiveness</b>					
<p>Through policy action, gov't intends to improve Mexico's position in the WEF ranking to the 30 most competitive economies by 2012. The country's ranking in the WEF list has fallen from the low-30s at the end – 1990s to 52 in 2007</p>	<p>Weakening the innovative capacity of the private sector, human capital formation, and integration into the international of the innovation system</p>	<p><b>GFI Index 2007-2008: Rank 52</b>  <b>GFI Index 2008-2009: Rank 60</b>  <b>GFI Index 2009-2010: Rank 60</b></p>	<ul style="list-style-type: none"> <li>• Strengthening and expanding the Government's Quality Schools Program</li> <li>• Greater support for improved coverage and quality of education in poor municipalities</li> <li>• Improved relevance of upper secondary education</li> <li>• Equitable expansion of tertiary education through student assistance</li> <li>• Improved human skills, infrastructure, links between local and global companies, financing and legal and regulatory framework for IT</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of basic education schools participating in PEC from 10.3% to 15.8%</li> <li>• Increase of low income students in tertiary education from 3.4% to 7.5%</li> <li>• Competence based curriculum is implemented in all federal upper secondary schools</li> <li>• 20,000 Jobs created by the IT Industry as a result of training programs</li> <li>• Total private research and development (R&amp;D) as percent of GDP from 0.19% to 0.31%</li> </ul>	<p><b><u>Financial</u></b></p> <ul style="list-style-type: none"> <li>• School Based Mgmt Program, DPL PEC (FY06)</li> <li>• Mexico Upper Secondary Education Development Policy (<i>Proposed</i>, FY10)</li> <li>• Tertiary Education Student Assistance (FY06).</li> <li>• Compensatory Education (<i>Proposed</i>, FY10)</li> <li>• IT Industry Development (FY09)</li> <li>• Competitiveness (FY05)</li> <li>• IFC operations</li> </ul> <p><b><u>Knowledge</u></b></p> <ul style="list-style-type: none"> <li>• AAA on Integration of the North American Market for Sensitive Agricultural commodities</li> <li>• Competitiveness and trade programmatic AAA (FY06)</li> <li>• Mexican Alliance for Education Quality (FY09)</li> <li>• FBS with SEDESOL</li> <li>• IFC advisory services</li> </ul>

**MEXICO CPS FY2008-2013 Revised Results Matrix and Progress To Date**

Country Development Goals	Issues and Obstacles	Progress To Date	Outcomes that the Bank expects to influence in the remainder of the CAS period	Intermediate Indicators/milestones to track expected CAS outcomes	IBRD/IFC Interventions
<b>Thematic Area: Promoting Social Inclusion and Reducing Poverty</b>					
<p>The government's MDG goals remain on track, but the crisis has given particular urgency to strengthening safety net and social services to mitigate deterioration in the indicators for poor people and strengthen the framework for moving forward.</p> <ul style="list-style-type: none"> <li>• <b>Food Poverty.</b> The goal is to reduce to 10.1 million people ( 2006: 14.4 million people)</li> <li>• <b>Malnutrition prevailing in population in extreme poverty.</b> Reduction to 23% by 2012.</li> <li>• <b>Infant Mortality</b> in the 100 poorest municipalities: 32.5 per 1000 live births. Reduce by 40%</li> <li>• <b>Maternal mortality</b> in the 100 poorest municipalities: 187.7 per 100,000 live births. Reduce by half.</li> </ul>	<ul style="list-style-type: none"> <li>• Accountability mechanisms between the federal and state level is weak. In some cases, states may lack the resources to implement programs mandated by the federal level.</li> <li>• Problems in coverage and quality of social services persistent, particularly in localities with a high share of the vulnerable population. During previous crises in Mexico, health and nutrition indicators deteriorated.</li> <li>• Mexico's health system is fragmented with several contributory and non-contributory programs and national health services operating in parallel inequalities in financing and outcomes and inefficiencies due to duplication</li> </ul>	<ul style="list-style-type: none"> <li>• 2008: 19.5 million (ENIGH 2008)</li> <li>• 32.5 per 1000 live births (updated data not available)</li> <li>• 187.7 per 100,000 live births ( updated data not available)</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Preserve and expand the Popular Health Insurance's coverage of poor and informal worker families, and to strengthen its financing and affiliation systems</li> <li>• Improve access to ECD services and learning outcomes of children in the most marginalized municipalities of Mexico</li> <li>• Strengthen the capacity of the Mexican health system to control epidemic waves</li> </ul>	<ul style="list-style-type: none"> <li>• At least maintain the current level of families participating in <i>Oportunidades</i> , 5.2 millions</li> <li>• 3 million increase in the number of children participating in <i>Oportunidades</i></li> <li>• Pilot mid-wife support in poor municipalities (At least 30)</li> <li>• Number of individuals affiliated with the Popular Health Insurance increased from 30.5 million to 45 million</li> <li>• Percentage of population vaccinated against A/H 1 N1</li> <li>• Increase the % of poor schools participating in the School Based Management Program</li> <li>• 35% increase in children from 43,241 to 58,685 attending early childhood development programs in poor municipalities</li> </ul>	<p><b>Financial</b></p> <ul style="list-style-type: none"> <li>• Support to <i>Oportunidades</i> Loan (FY09)</li> <li>• Social Protection in Health Loan ( <i>Proposed</i>, FY10)</li> <li>• Influenza Prevention and Control (FY10) and respective TF Influenza Prevention (FY10)</li> <li>• School Based Mgmt Program (FY06)</li> <li>• Compensatory Education Project (<i>Proposed</i>, FY10)</li> <li>• PROCAMPO (<i>Proposed</i>, FY10)</li> </ul> <p><b>Knowledge</b></p> <ul style="list-style-type: none"> <li>• FBS with CONEVAL on evaluation of social programs</li> <li>• AAA Mexico: Closing the Gap in Upper Secondary Education</li> <li>• Programmatic AAA on health</li> <li>• SEDESOL: Increasing the Productivity of the Poor (FBS)</li> <li>• AAA Mexico Agriculture and Rural Development PER</li> <li>• Balanced Scorecard for the separation of functions in health</li> <li>• Global Expert Team support to the Commission SPSS</li> <li>• Readiness assessment of the IMSS Health Insurance System</li> <li>• Readiness assessment of the ISSSTE Health Insurance System</li> </ul> <p><b>Coordination</b></p> <ul style="list-style-type: none"> <li>• International Seminar on Quality of Education</li> <li>• CCT learning: regional community of practice</li> <li>• Workshop: Regional social protection policies and employment programs</li> </ul>

**MEXICO CPS FY2008-2013 Revised Results Matrix and Progress To Date**

Country Development Goals	Issues and Obstacles	Progress To Date	Outcomes that the Bank expects to influence in the remainder of the CAS period	Intermediate Indicators/milestones to track expected CAS outcomes	IBRD/IFC Interventions
<b>Thematic Area: Promoting Social Inclusion and Reducing Poverty</b>					
					<ul style="list-style-type: none"> <li>• Seminar on social protection strategy and employment policies SEDESOL &amp; Oportunidades</li> <li>• Workshop on separation of functions and functional integration with State Health System authorities</li> <li>• Seminar on issues and options to strengthen Mexico's education system</li> </ul>

**MEXICO CPS FY2008-2013 Revised Results Matrix and Progress To Date**

Country Development Goals	Issues and Obstacles	Progress To Date	Outcomes that the Bank expects to influence in the remainder of the CAS period	Intermediate Indicators/milestones to track expected CAS outcomes	IBRD/IFC Interventions
<b>Thematic Area: Developing Infrastructure and Assuring Energy Security and Environment Sustainability</b>					
<ul style="list-style-type: none"> <li>• Mexico ranked 64 in the WEF Infrastructure Competitiveness Index (2006-07). Goal is to become one of the leaders in coverage and quality of infrastructure in Latin America. Improvement in ranking by ca. 20 positions</li> <li>• Increase to 1,000,000 housing solutions per year (2007-2012)</li> <li>• Increase water service coverage to 95% (with a continuous service)</li> <li>• Reforestation of 3 million ha. by 2012</li> <li>• Increase by 33% the number of hectares of areas under sustainable forest management. Average deforestation (2000-2005) was 314,000 h/yr</li> </ul>	<p>The financial crisis raises the risk that private sector participation in the urban transport and energy sectors will be insufficient in the near future. Private investment in infrastructure over the past decade is 0.8% of GDP and the regional average is 1.8%.</p> <ul style="list-style-type: none"> <li>• The key issues political and institutional risks pertain to the need for a high level of inter-institutional as well as the implementation capacity of each institution individually.</li> <li>• Lack of coordination between government agencies responsible for executing policies and managing instruments for lower income housing</li> <li>• Most water basins in the country are not following a sustainable water resource mgmt.</li> </ul>	<p><b>2007-2008: 61st place</b> <b>2008-2009: 68</b> <b>2009-2010: 69</b></p> <ul style="list-style-type: none"> <li>• 2006-09: MX\$26,503M, i.e. an increase of 2.5 times the amount invested during the first triennium of the past federal administration (SCT, 2009).</li> <li>• During 2009; 720,000 housing credits have been issued (<i>Comisión Nacional de Vivienda</i>)</li> <li>• 1,756,326 hectares financed by existing sources, 26,328 hectares financed by new sources</li> </ul>	<ul style="list-style-type: none"> <li>• Development of massive urban public transport evaluating alternative solutions and proposing frameworks for private sector participation.</li> <li>• Catalytic use of Clean Development Mechanism to foster technology, regulatory and institutional changes in the public transport sector</li> <li>• To improve the federal housing system to facilitate access to housing by low- and moderate-income families.</li> <li>• Tools and instruments to induce local authorities to improve financial sustainability and efficiency of water supply and sanitation service provision in their jurisdiction</li> <li>• Provision of environmental services of national and global significance and secure their long-term sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Improved bus system energy efficiency (in liters of diesel per passenger kilometer);</li> <li>• Improved bus productivity: serving more passengers with lesser number of units and increased modal share for large buses;</li> <li>• MX\$23,000 million on financial support provided by SHF to private sector intermediaries</li> <li>• Replicable models of successful and sustainable provision of water and sanitation services available</li> <li>• Additional hectares under environmental service contracts</li> </ul>	<p><b>Financial</b></p> <ul style="list-style-type: none"> <li>• CN – Mexico City Insurgentes (FY07)</li> <li>• PHRD: Low Carbon Transport Corridor Program for Mexico City (FY09)</li> <li>• Urban Transport (proposed)</li> <li>• Affordable Housing and Urban DPL III (FY08)</li> <li>• Private Housing Finance (FY09)</li> <li>• Water DPL (proposed)</li> <li>• Water Sector Modernization TAL (FY06)</li> <li>• Integrated Energy (FY08)</li> <li>• GEF: Integrated Energy Services (FY08)</li> <li>• GEF Consolidated Protected Areas – SINAP II + Additional Financing (FY02)</li> <li>• GEF Mesoamerican Corridor (FY01)</li> <li>• GEF Environmental Services (FY06)</li> <li>• GEF: Reducing Impacts of ranching on Biodiversity (FY09)</li> <li>• CN – Monterrey II on abatement of Greenhouse in waste mgmt (FY08)</li> <li>• PHRD: Adaptation to Climate Change (FY08)</li> <li>• GEF Hybrid Solar Thermal Project (FY07)</li> <li>• Framework for Green DPL (FY10)</li> <li>• ENV DPL III + Supplemental (FY09)</li> <li>• Sustainable Rural Development (FY09)</li> <li>• Climate Change DPL (FY08)</li> <li>• Environmental Services Project (FY06)</li> <li>• PHRD: Adaptation to Climate Change (FY08)</li> </ul>

**MEXICO CPS FY2008-2013 Revised Results Matrix and Progress To Date**

Country Development Goals	Issues and Obstacles	Progress To Date	Outcomes that the Bank expects to influence in the remainder of the CAS period	Intermediate Indicators/milestones to track expected CAS outcomes	IBRD/IFC Interventions
<b>Thematic Area: Developing Infrastructure and Assuring Energy Security and Environment Sustainability</b>					
<ul style="list-style-type: none"> <li>• Increase energy generation from renewable sources from 23% (2006) to 26% (2012)</li> <li>• Reduce CO2e emissions in Energy, Infrastructure and Industrial Sectors. Mexico emits 643 Mt CO2e (or about 1.5%) of total GHG; it is the 12th GHG emitter in the world and 2nd in LAC</li> </ul>	<ul style="list-style-type: none"> <li>• Climate variability in Latin America, from inter-seasonal to long term, could be associated with extreme weather patterns, producing possibly detrimental agricultural productivity, socioeconomic and environmental consequences, exacerbated by global warming and associated climate change</li> </ul>	<ul style="list-style-type: none"> <li>• 2008: 39.5%; Projection for 2012: 44.2% (3rd Federal Government Report and CONAGUA)</li> <li>• Electric generation: 67,600 t CO2e/year starting 2007 (14 plants in the Valley of Mexico).</li> <li>• National Plan for eliminating the use of fluorocarbons: 16Mt CO2e abated from 2007-09</li> <li>• Energetic Efficiency Program: expected to reduce 20,000 oil barrels equivalent from 2006-2012.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase access to efficient and sustainable integrated energy services in --predominantly indigenous-- rural areas of Mexico</li> <li>• Increase access to efficient and sustainable integrated energy services in rural areas of Mexico.</li> <li>• Regulatory, monitoring and financial framework for low emissions evolution of the transport and energy sectors developed</li> <li>• Reduce GHG (CO2) emission through the adoption of emission-reduction technologies</li> </ul>	<ul style="list-style-type: none"> <li>• 47,080 HH electrified with RET.</li> <li>• Incremental increase in 5,650 MWh/year of electricity consumed for productive uses in targeted communities (MWh/year).</li> <li>• 919 small and medium-sized agri-businesses adopting environmentally sustainable technologies; 770,000 tons of CO2 equivalent avoided</li> <li>• Successful piloting of renewable energy production with GEF/CN financing</li> </ul>	<ul style="list-style-type: none"> <li>• GEF Sustainable Rural Development (FY09)</li> <li>• GEF Hybrid Solar Thermal Project (FY07)</li> <li>• GEF La Venta III (FY06)</li> <li>• CN – La Venta II Wind Farm (FY07)</li> <li>• IFC operations</li> </ul> <p><b><u>Knowledge</u></b></p> <ul style="list-style-type: none"> <li>• FBS with PEMEX</li> <li>• MX Toll Roads - Bank Assistance</li> <li>• PPIAF: State of Jalisco – building technical capacity (FY09)</li> <li>• ESW CCH Low Carbon Study- ( MEDEC) (FY09)</li> <li>• FBS – Massive Transport (FY09)</li> <li>• IFC advisory services</li> </ul>

**MEXICO CPS FY2008-2013 Revised Results Matrix and Progress To Date**

Country Development Goals	Issues and Obstacles	Progress To Date	Outcomes that the Bank expects to influence in the remainder of the CAS period	Intermediate Indicators/milestones to track expected CAS outcomes	IBRD/IFC Interventions
<b>Theme V: Strengthening Institutions</b>					
<ul style="list-style-type: none"> <li>• TI corruption perception index of 3.3, ranked 70th out of 163 countries) and in obtaining public services (<i>Transparencia Mexicana</i> studies 2006)</li> <li>• <b>Improve functioning and perceptions of public sector, through:</b></li> <li>• Implementation of M&amp;E system</li> <li>• Movement towards results based budgeting</li> <li>• Improved impact evaluation of government actions</li> <li>• Implementation of Management and info systems</li> </ul>	<ul style="list-style-type: none"> <li>• Budget process dominated by a strong formalism and defined by rigidities</li> <li>• Lack of institutional capacity and resources, and overly formal and deficient procedures</li> <li>• Lack of transparency in many areas of government and somewhat high perception of corruption in the private sector</li> <li>• Proliferation of reports, with fragmented and duplicated information with multiple IT platforms and databases.</li> <li>• Federal departments and agencies have limited agreed standards that allow benchmarking of agency and program performance</li> <li>• Federal procurement practices, while generally strong, can be improved in terms of efficiency, international bidding and contracting of consultants. Federal accounting practices not harmonized with State and local. Low public confidence in the courts, poorly designed policies, and weak judicial independence</li> </ul>	<ul style="list-style-type: none"> <li>• WBI Control of Corruption has remained pretty constant over the last five years (around 50).</li> <li>• According to Latinobarometro 2009, only 32% of Mexicans are optimistic about the efficiency on fighting against corruption</li> <li>• New accounting law approved in 2008</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Improved administration in selected municipal government</li> <li>• Improved efficiency of Customs processes</li> <li>• Strengthened fiscal transparency, and governance and accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Performance information (PI) presented in budget requests from line secretariats to SHCP and in budget submitted to Congress</li> <li>• Programs with improved strategic design and reporting</li> <li>• Satisfaction of Congress and civil society organizations with the performance information made available via government websites (as measured through user surveys)</li> <li>• Increase in the perception by users of the efficiency of the services offered by Customs</li> <li>• Stakeholder satisfaction on the efficacy of modernization activities</li> </ul>	<p><b><u>Financial</u></b></p> <ul style="list-style-type: none"> <li>• Performance informed budgeting TA loan (FY09)</li> <li>• Customs administration TA loan (FY09)</li> <li>• IDF: Creation of a Public Observatory of Municipal Mgmt (FY09)</li> <li>• IDF: Fiscal Transparency (FY08)</li> <li>• Judicial Modernization Project (FY05)</li> <li>• IDF: Institutional Strengthening of Congress (FY07)</li> <li>• IDF: Building an Integrated Rural Cadastral Information system in MX (FY07)</li> <li>• PPIAF: State of Jalisco – building technical capacity (FY09)</li> <li>• PPIAF: State of Quintana Roo – Pooled Bond Issue (FY09)</li> </ul> <p><b><u>Knowledge</u></b></p> <ul style="list-style-type: none"> <li>• CONEVAL FBS</li> <li>• Fee based services on IFMS</li> <li>• Public Sector Advisory (MOU)</li> <li>• FBS on subnational results based budgeting</li> <li>• FBS with PEMEX</li> <li>• Accounting Harmonization NLTA</li> <li>• FBS Yucatán (under preparation)</li> <li>• FBS SAT (under preparation)</li> <li>• Treasury’s Office Reform (FY09)</li> <li>• FBS SHCP Advisory Services</li> <li>• AAA The Federal Procurement System: Challenges and Opportunities-Update</li> </ul>

**MEXICO CPS FY2008-2013 Revised Results Matrix and Progress To Date**

Country Development Goals	Issues and Obstacles	Progress To Date	Outcomes that the Bank expects to influence in the remainder of the CAS period	Intermediate Indicators/milestones to track expected CAS outcomes	IBRD/IFC Interventions
<b>Theme V: Strengthening Institutions</b>					
<ul style="list-style-type: none"> <li>• Expanded use of COMPRANET procurement system</li> <li>• Judicial Reform</li> </ul>			<ul style="list-style-type: none"> <li>• Support the improvement of institutional performance of judiciaries</li> <li>• Improved capacity building and communication practices</li> </ul>	<ul style="list-style-type: none"> <li>• Improved user confidence</li> <li>• Timely information made available</li> </ul>	<ul style="list-style-type: none"> <li>• Policy Notes (FY07)</li> <li>• MOU on Public Administration Reforms</li> <li>• IFC advisory services</li> <li><u><b>Coordination</b></u></li> <li>• Results Based Budgeting Conference (FY09)</li> </ul>

## ANNEX B: INFLUENZA OUTBREAK AND BANK RESPONSE

**In mid-March of 2009 an influenza pandemic originated in Mexico.** As the country neared the end of the annual influenza season, officials noticed an unusual increase in patients presenting flu-like symptoms. Genomic testing revealed that a new strain of influenza A/H1N1 was responsible for the infections. By the end of September, 2009, health care providers had reported more than 175,000 cases.

**In response to the outbreak of the new virus the Government acted quickly to reduce its spread and minimize morbidity and mortality but the global economic downturn complicated Mexico's response to the A/H1N1 epidemic.** The GOM heightened epidemiological surveillance, upgraded laboratories, executed a massive communications campaign encouraging preventive behaviors, expanded and strengthened the provision of health services and replenished stocks of medicines and vaccines. In an attempt to slow the rate of spread of the virus and thus soften the peak of the epidemic and avoid overwhelming health service capacity, the Government also enforced a temporary closure of schools and businesses. Total Government direct public expenditures on A/H1N1 response measures surpassed the US\$600 million, about 0.3 percent of the annual budget; the Federal Secretariat of Finance also estimated that lost tax revenue from the partial shutdown in late April and early May was approximately US\$750 million. The overall economy was affected primarily through: (1) revenues lost due to reduced demand resulting from social distancing (i.e., closing of businesses and encouraging people to stay at home), particularly in the retail sector and (2) a severe drop in tourism revenue. The Government and the Bank estimated the macroeconomic impact of the A/H1N1 epidemic to range from 0.3 to 0.5 percent of GDP (SHCP 2009; World Bank 2009a).

**For two decades, Mexico and the Bank have been working jointly to strengthen the health system, and improve health, focusing mainly on expanding basic health services for the poor.**

In this context, on April 26, 2009, the Government requested financial support to help close the gap between the costs of controlling the first wave of influenza A/H1N1, improving detection, expanding its response capacity and the budget resources available. In reply, the Bank and the Government agreed to assist the country through three mechanisms:

- a) First, the Government and the Bank negotiated the restructuring of the **Mexico Third Basic Health Care Project** to provide immediate financial assistance of US\$25.7 million for the reimbursement of expenditures incurred in confronting the crisis.
- b) The Government received grant funding of US\$1.7 million under the **Avian and Human Influenza Facility** to support health systems of federal entities in promoting preventive behaviors.
- c) And third, the Government and the Bank prepared a **new loan of US\$491 million** for an influenza prevention and control project to strengthen the National Epidemiological Surveillance System, replenish and maintain emergency stocks of medicines, vaccines and medical supplies, upgrade the associated distribution system and strengthen the treatment capacity of intensive care units. This loan was approved in November 2009 and would

enable the Government to carry out activities it has identified as essential to preparing for a potential second wave of A/H1N1 influenza.

## ANNEX C: COORDINATING COLLABORATION: THE MOU APPROACH

**The Partnership between Mexico and the Bank combines selectivity to ensure value-added and to avoid a dispersion of effort. At the same time, it promotes a customized approach to development solutions using a variety of instruments to help Mexico face its development challenges. To help organize our support around these development challenges, together with our Partner we have promoted the development of Memorandums of Understanding (MOU) that draw on all the various knowledge, financing and grant activities that the Bank is providing.**

During the previous CAS, the recognition for the usefulness of bringing to bear a menu of AAA led to the pioneering of programmatic AAA with long-term objectives, multi-year planning and a healthy mix of instruments (studies, policy notes, TA, in-time high level missions, fee-based services, seminars) and broader dissemination with civil society. Based on this experience and in keeping with the flexible design of the CPS, **Memorandums of Understanding** (MOU) have been developed as an instrument for coordinating AAA, loans, and grants around critical development challenges. MOUs represent a departure from an operational or ESW-centric approach to sector dialogue and development solutions and recognize 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.

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. It is not dictated either, but subject to agreement by the parties involved, though it entails no legal obligations. It serves to deepen dialogue, monitor implementation and assess impact within the framework of a programmatic engagement.

Eight MOUs are now underway for fiduciary strengthening, competitiveness and financing, poverty and social programs, public sector management, integrated water resource management, energy infrastructure financing, urban transport, education, health, and environment and climate change. Box 1 below presents the variety of instruments being coordinated in partnership on Climate Change and Environmental Sustainability:

### **Box 1: Environmental and Climate Change MOU**

To accompany the **Climate Change DPL** and numerous on-going Bank activities directed toward mainstreaming environmental policies, GOM and the Bank agreed to sign a Memorandum of Understanding (MOU) to buttress policy dialogue and further strengthen Mexico's capacity to implement its National Climate Change Strategy and Special Climate Change Program. The main lines of support include:

- Assessment of environmental regulations
- Sub-national climate change action plans
- Social dimensions of climate change
- Vulnerability to climate change in agricultural systems
- Adaptation on the Gulf Coast
- Climate change mitigation in the forestry sector
- Preparation of the Clean Technology Fund Investment Plan
- Low Carbon Economy study (MEDEC)
- Institutional strengthening of SEMARNAT
- Design of the Mexico Cap and Trade system.

The development of the activities coordinated by this MOU are individually financed through a combination of Bank resources, government funds and grants, totaling around US\$9 million.

## ANNEX D: IBRD FINANCIAL INNOVATION WITH MEXICO

Mexico has taken a leading role in the use of innovative financial solutions offered by the Bank, both at the federal level and at the sub-national level.

### Federal Government:

- Mexico has been actively monitoring the risks of its debt portfolio, and, in line with its liability management strategy, took advantage of the embedded flexibility of IBRD loans to **fix the interest rates** on their loans in early 2009. The Bank accessed the swap market to fix the interest rate on a total of 23 loans amounting to US\$4.0 billion. The resulting interest rates ranged from 3.04 percent to 4.17 percent.
- The Federal Government signed a **master derivatives agreement** with the Bank, enabling them to use IBRD hedging products to manage market risks of their overall debt portfolio. Through this facility, Mexico can execute stand-alone swaps with the Bank to hedge liabilities with IBRD or with other creditors.
- The Bank worked in partnership with Mexico on the first multi-peril **catastrophe bond** (MultiCat bond), which was recently issued. The 3-year bond provides Mexico with multiple risk coverage: earthquakes in three regions around Mexico City, Pacific hurricanes in two areas on the west coast, and Atlantic hurricanes around Cancun. The bond of US\$290 million, which was 2.5 times oversubscribed, delivered excellent insurance terms to Mexico. This is the first time a platform has been designed specifically to help developing countries access catastrophe insurance through capital markets. The MultiCat Program will also be offered to other countries exposed to natural catastrophe.
- The Bank is working on other innovative financial solutions in Mexico, for projects involving the blending of resources, including the co-financing of IBRD Loans for the Urban Transport Transformation and Energy Efficiency projects with funds from the Clean Technology Fund. Opportunities also exist for blending IBRD loans with carbon credits.

### Subnationals:

The implementation of customized solutions provided competitive funding for subnationals, allowing the Bank to continue its developmental work with these entities.

- State-owned development bank **BANOBRAS** was the first IBRD borrower to convert a loan into local currency, paving the way for other countries. A total of US\$105 million were disbursed in Mexican Pesos with an interest rate linked to the 180-day CETES (*Certificado de la Tesorería de la Federación*). The last disbursement took place in December 2008.
- In 2008, the Bank granted a 30-year US\$1 billion loan to **Sociedad Hipotecaria Nacional** (SHF). Because SHF's lending to the financial intermediaries is in Pesos, SHF requested the full amount of the loan to be converted into Pesos. The Bank had to access the cross-currency swap market in the midst of very challenging market conditions and was able to execute t30-year Mexican Peso/USD swaps in tranches, by working closely with international dealers and SHF. The transactions resulted in a floating-rate financing in Pesos for SHF at a cost below that of the Federal Government at a similar maturity. After

the currency conversion, SHF fixed a portion of the loan (US\$145 million) as the lending to the intermediaries materializes.

## ANNEX E: MEXICO SOUTH-SOUTH COLLABORATION

**As an innovative MIC, Mexico has augmented its engagement in learning with other developing countries across a wide variety of subject areas and with countries both in the region and outside.** Indeed, Mexico provided South-North collaboration with New York City and its social programs. Below are some of the recent highlights of Mexico's collaboration.

### **Human Development**

Flagship programs, such as *Oportunidades*, receive numerous delegations from other countries, most of which are organized by the Bank. Study tours by the governments of Pakistan, Guatemala and Morocco to learn about experiences of *Oportunidades* help to inform the design, implementation and evaluation of their own respective social protection policies and programs. Such engagement is also facilitated by Mexico's participation in the **CCT Learning Community**, which avails itself of the Bank's **Global Distance Learning Network**. Mexico's experience in reaching poor rural communities with educational service also attracts numerous delegations. Mexico has also been active in **gender issues** with Bank support and an innovative approach for promoting gender equity in the private sector is now being replicated in Egypt and Argentina<sup>15</sup>

### **Climate Change and the Environment**

Mexico has taken the climate change agenda to heart and using advances in local legislation to champion the cause in the global community. As an example, Mexico co-chairs the **Clean Technology Fund Committee** and, in this role, provides continuous advice to other countries.

### **Water and Sanitation**

Mexico's ANEAS (*Asociación Nacional de Empresas de Agua y Saneamiento de México AC.*), together with the Bank, has been fundamental in the formation of ALAS (*Asociación Latinoamericana de Agua y Saneamiento*), which brings together regional water utilities. At the initial meeting in November 2009 in Mexico City, participating water utilities (Mexico City, Naucalpan, Bogotá, Buenos Aires, and Puerto Vallarta, among others) signed an MOU establishing a road map for collaboration. ALAS will allow the member utilities to share experiences and position the water sector issues. One of its main priorities is to develop a program for achieving the Millennium Development Goals and securing the needed resources.

### **Financial Innovation and Disaster Risk Management**

Mexico has been an important driver and pioneer of **innovative Bank financial products**. Mexico benefits from a variety of innovative financing solutions and has taken a leading role in using the Bank's financial products that benefits other Bank clients. These are detailed in Annex D and represent efforts to better tailor financing in line with project design to facilitate loan implementation and to reduce transaction costs. One of these recent innovations, the MultiCat bond, and, given Mexico's other efforts and experiences, places it in a strong position to take a

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<sup>15</sup> This particular program is discussed in Annex F, as are efforts to mainstream gender equity in Bank operations.

leadership role in the important areas of **disaster risk management**. Additional innovations in this area for South-South engagement include setting contingency and preventive funds for natural disaster risk reduction, as well as catastrophic and agricultural risk insurance, and advanced hazard-proofing techniques and standards for schools and hospitals. The South-South Cooperation Program launched in June 2008 under the auspices of the GFDRR would be a natural conduit for such purpose.

## ANNEX F: WORLD BANK PROMOTING GENDER EQUITY IN MEXICO

The Bank's formal support for Gender Equity issues began initially with successful a self-standing operation in 2000. Subsequently, the program has moved into mainstreaming gender equity concerns in the portfolio.

**Gender Equity Learning and Innovation (LIL).** The first ever free-standing gender project in the Bank, the Mexico Gender Equity LIL was approved in 2000 for US\$3.3 million and completed in 2005. Under the project a gender equity certification process called as MEG (*Modelo de Equidad Genero*) 2003 for the private sector was successfully established. By the end of the project, 57 firms (17 more than the initial goal) had satisfactorily completed the certification process, as proved by an independent audit.

In 2005, the MEG was incorporated as a regular federal public sector program yearly executed by INMUJERES (Women National Institute). By December 2008 certified organizations reached 187, the majority in the private sector (115) involving around 300,000 employees. In that period more than 1,200 persons in the organizations had received training to continue good practices and ensure sustainability. Participating firms have organized networks to exchange experiences and extended the process to branches and subsidiaries in other countries.

The Bank has replicated successfully this model in Egypt and Argentina and is currently conducting an impact evaluation of the MEG 2003. Initial results indicate that the MEG continues to be a successful program with a low rate of desertion and continued growth. By 2009, the number of certified firms and institutions reached 259 and expanded from 4 to 23 states and the Federal District.

### **Recent Mainstreaming.**

The Bank has continued promoting gender equity mainstreaming in a number of projects. A few recent examples:

- **Savings and Credit Project**, where a mid-term review showed that efforts to target at least 30 percent of lending for women had been surpassed and were reaching as much as 60 percent. Strategies included home visits and agreements with agencies and/or programs that specialize in assisting women; in the cases of Chiapas, Oaxaca, and Guerrero the state institutes for women played a critical role promoting women's participation.
- **Support for *Oportunidades***, where women are the recipients of conditional cash transfers in a program that benefits 2.5 million families. They also attended meetings on health and nutrition issues. Perhaps more importantly, they are empowered as community organizers and have taken on a participatory role in terms of social services and sever to advocates for better cover and quality in education and health.

- **Judicial Modernization Project**, which seeks to increase accessibility to justice administration by reducing barriers to service, including for women. It also includes community outreach programs seminars on gender-based violence.

## ANNEX G: PORTFOLIO PERFORMANCE

Among Latin American countries, Mexico has the third largest portfolio under supervision in terms of net IBRD commitments with US\$4.03 billion of which US\$1.3 billion remains undisbursed as of mid-January 2010. The active portfolio comprises 19 projects. Additionally, Mexico has eight GEF grants of about US\$133 million and US\$31.7 million in Carbon Fund grants under implementation. In the first half of FY10, the Bank approved three projects for a total amount of approximately US\$3.5 billion. For FY10, new lending is envisaged at US\$6.7 billion..

### Projects at Risk:

- As of January 2009, three projects were designated as problem projects. While these projects-at-risk represent only 4 percent of total commitments, the Bank is providing support to the Government in its efforts to take remedial actions required for those small operations lagging in implementation. It is expected that portfolio performance in FY10 would be of even higher quality than prior to the crisis.

### Disbursement ratio:

- Disbursement ratio increased during FY09 due to the approval of fast disbursing investment lending operations such as the Private Housing Finance Loan and the Support to *Oportunidades* Loan. As of December 31, 2009, the disbursement ratio for Mexico was of 58 percent, as compared to LCR's disbursement ratio of 25 percent. Mexico's average disbursement ratio since FY00 to FY08 is 28 percent.

<i>Portfolio Assessment - Indicator</i>		2007	2008	2009	2010
Number of Projects under Implementation	Mexico	22	19	20	19
Commitments at Risk	Mexico	270.0	154.3	373.6	179.3
Percent of Commitments at Risk (%)	Mexico	11.6	7.1	9.5	4.3
	LCR	21.8	20.5	12.5	14.9
Percent of # Projects at Risk (%)	Mexico	9.1	15.8	25.0	21.1
	LCR	23.5	23.1	24.3	23.8
Disbursement Ratio (%)	Mexico	33.6	40.4	186.1	58.3
	LCR	27.8	24.9	40.1	25.2
Memorandum Item	Since FY 80	Last Five FYs			
Proj Eval by OED by Number	161	15			
% of OED Projects Rated U or HU by Number	24.8	6.7			
% of OED Projects Rated U or HU by Amt	17.9	11.7			

### **IEG's outcome ratings:**

- The effective use of Bank support in yielding development impact has improved significantly, with some 93 percent of operations judged by IEG as satisfactory over the past five years.

### **IFC Portfolio:**

- IFC's committed portfolio amounts to US\$979.4 million of which participants hold US\$ 64.1 million. Given the recent economic downturn and slow recovery, IFC has seen its portfolio quality deteriorate. Loans rated as substandard have risen to over 22.0 percent of the outstanding portfolio.
- Supporting the fragile recovery IFC committed US\$166.4 million in four projects in the first half of FY10. IFC expects to more than double its engagement by the end of the year to support sustainable private sector growth.

### **Financial Management, Procurement and Country Systems:**

The Bank continues to work closely with Mexico in enhancing project implementation in financial management and procurement, as well as on country fiduciary systems, as envisaged in the CPS.

- For financial reporting and auditing of Bank-financed projects, there is a long-standing MOU with the government to harmonize interim and annual project financial statements for both internal government and Bank purposes, and to rely on the existing system used by the Secretariat of Public Administration (SFP) regarding external audit assignments (i.e. selection of auditors as well as harmonized audits TORs). At the country systems level, support has included AAA for harmonizing financial management with the federal and state governments, the **Fiscal Transparency IDF**). For the near future, the Bank is also partnering with an **IDF** grant to develop a new internal control framework and strengthen the existing risk management model.
- In procurement advances include harmonization between the Bank and the IADB, and implementation of advances during the CPS period include implementation of the Procurement Plan Execution System (SEPA), an innovative Internet platform developed in 2006 by the Bank to provide public access to contracts executed in the framework of its investment portfolio. in the region, and collaboration in staging 5th Annual Conference on Government Procurement in the Americas, September, 2009 in Mexico City. In terms of country systems, Findings from the Country Procurement Assessment Review (CPAR) have helped provide the basis for procurement reform in Mexico, and TA was provided in conjunction with the Results Based Management Project for the design and implementation for the electronic government procurement system.
- Finally, under the recently completed **Decentralized Infrastructure Project**, country systems in financial management, procurement and safeguards were piloted at the subnational level and the upcoming ICR is expected provide lessons learned for working with subnational governments.

## ANNEX H: RECENT ECONOMIC DEVELOPMENTS

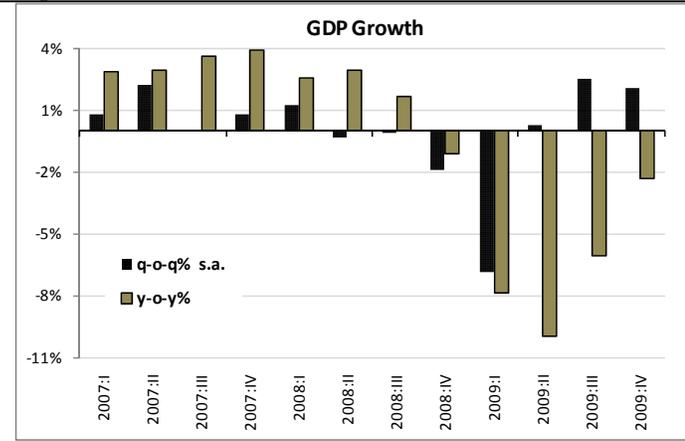
1. **The Mexican economy is starting to recover from a deep contraction of economic activity following the global economic and financial crisis.** As a relatively open economy, Mexico was hard hit by the collapse of international trade during the last quarter of 2008 and the first quarter of 2009. As a result, annual economic growth in 2008 was down to a meager 1.3 percent and GDP actually fell by 6.5 percent in 2009. In line with a global recovery in production and trade, economic activity in Mexico picked up in the second half of 2009 and is off to a strong start this year.
2. **The recovery is led by resurgence in the demand for exports.** Manufactured exports were down by 25 percent during the first half of 2009 compared to the same period of the previous year. In the second half of the year the decrease in manufactured exports moderated and exports started to increase again (on a year-on-year basis) during the last two months of the year.
3. Prior to the onset of the global economic downturn, **Mexico experienced moderate growth within a framework of enhanced macroeconomic stability.** GDP growth averaged 3.8 percent annually between 2004 and 2007; fiscal policy successfully focused on a reduction of the public sector deficit and a decline in the public sector debt-to-GDP ratio, and enhanced price stability contributed to a healthy domestic credit expansion and growth of domestic demand.
4. **Counter-cyclical fiscal stimulus policies have been implemented during 2009 to mitigate the impact of the external demand shock on the domestic economy.** The fiscal stimulus policies included additional public investment in infrastructure, temporary employment programs, a reduction and freeze of public sector administrated prices in the energy sector and an expansion of development banks' credit programs.
5. **The contraction of economic activity led to a sharp decline in tax revenue that was partially compensated by non-recurrent revenue in 2009.** Non-oil tax revenue dropped by 11.5 percent in real terms in 2009 while Value Added Tax revenue fell by 15 percent. The Government compensated lower oil and non-oil budget revenue with resources from a successful oil price hedge, an extraordinary transfer of profits from the central bank and drawing resources from the Government's revenue stabilization funds. These non-recurrent revenues amounted to 2.8 percent of GDP and to maintain the Public Sector Borrowing Requirements at a modest 3.2 percent of GDP.
6. **Public revenue enhancing measures and a temporary budget deficit are part of the 2010 public sector budget.** The Mexican fiscal responsibility law requires a balanced budget<sup>16</sup> and allows for a budget deficit only under "exceptional circumstances"

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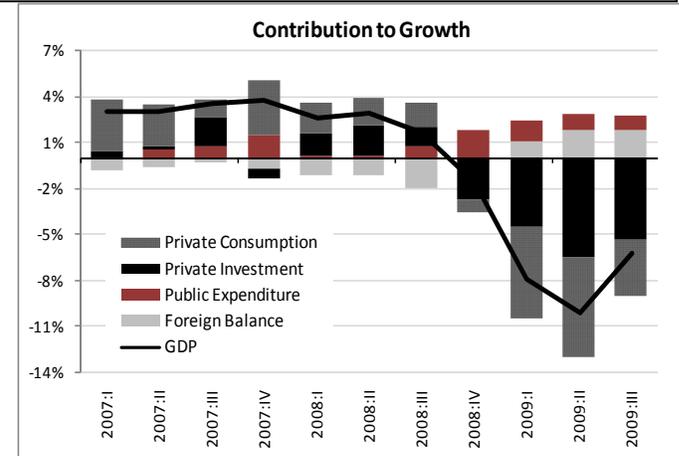
<sup>16</sup> A modification to the law adopted by Congress in 2008 includes all investments by the public sector oil company in the budget but excludes these investments from the budget balance requirement. Those investments are budgeted at an amount of 2.0 percent in 2010. As a result the overall budget deficit for 2010 is estimated at 2.7 percent of GDP (i.e. 2.0 percent oil sector investment and an additional 0.7 percent temporary deficit spending).

Figure 1 a-f: Real Economy Indicators

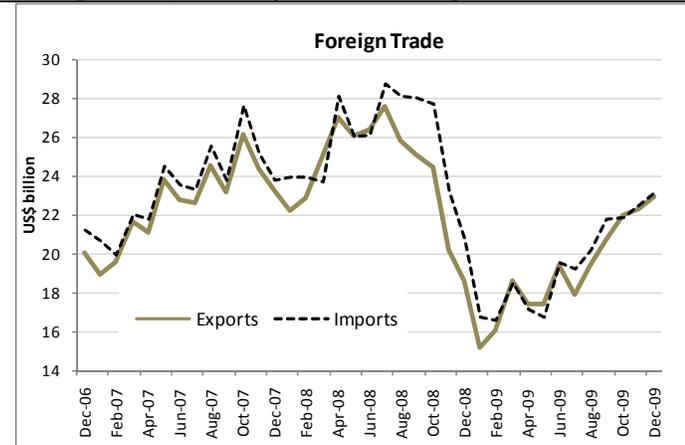
a) The Mexican economy faces the worst recession since the Tequila crisis...



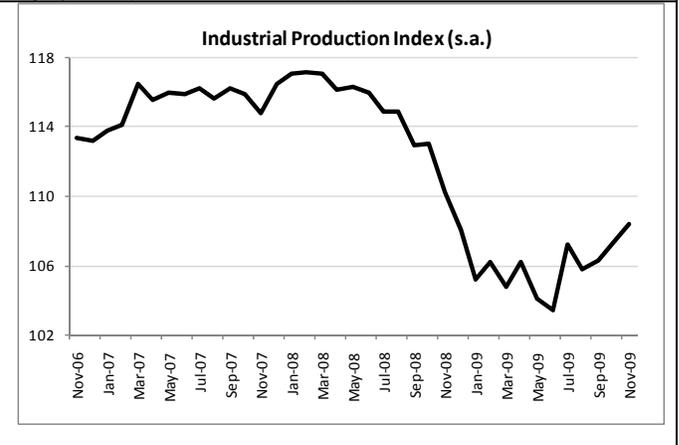
b)... the result of a sharp aggregate demand contraction



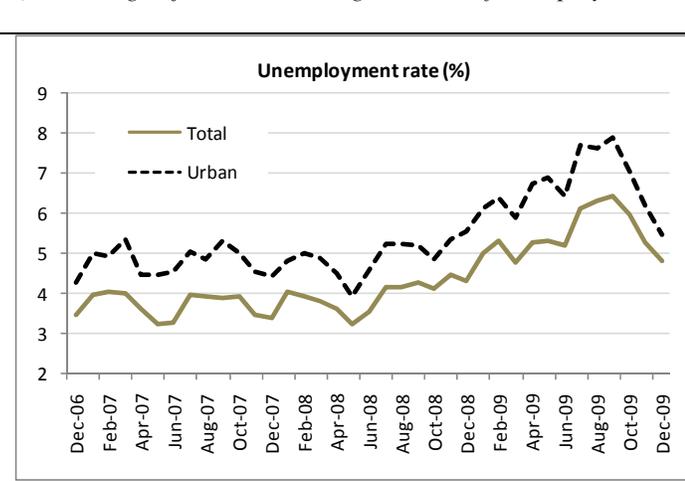
c) Fall in exports, due to a weaker external demand, has been accompanied by a strong reduction in imports



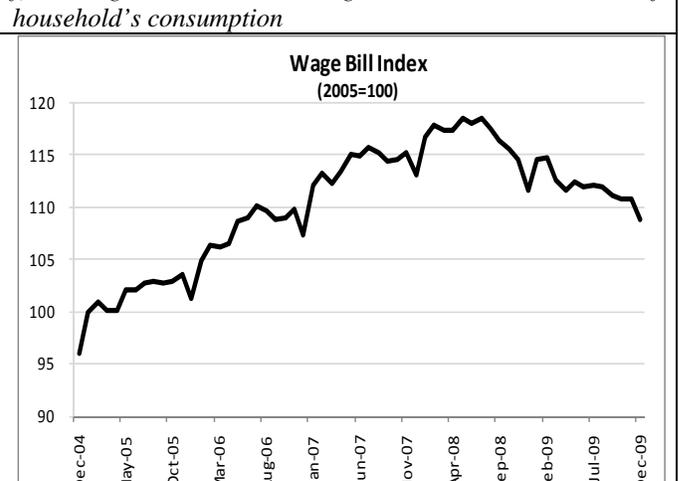
d) Manufacturing industry is closely correlated to a significantly weaker US industry....



e) ...leading to job losses and higher levels of unemployment.



f) which generates a lower wage bill and the contraction of household's consumption



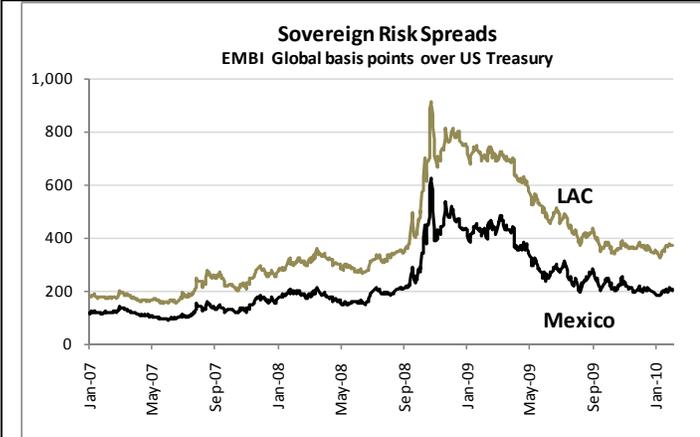
and conditioned on the adoption of a medium term fiscal framework to return to a balanced budget. Lower public sector tax revenue due to the sharp decline and current slack in economic activity is further aggravated by a rapidly falling volume of oil production leading to a more structural challenge to replace diminishing oil revenue by more permanent sources of revenue. The policy response to this outlook has been to increase taxation in the income, value added and excise tax regimes largely through an increase in the relevant tax rates and, at the same time, to allow for an additional budget deficit of 0.7 percent of GDP in 2010. The latter is planned to be reduced to 0.4 percent by 2011 and should return to a budget balance by 2012.

7. **Monetary policy has been eased to support efforts to reduce the downturn in economic activity.** The severity of the economic downturn led the authorities to reduce its target for the overnight interbank interest rate by an accumulated 375 basis points between January and July of 2009, from 8.25 to 4.50 percent. The economic recession has had an impact on inflation as headline inflation was down to 3.6 percent by the end of 2009. The central bank is projecting a temporary, one-time increase in consumer price inflation in 2010, to a range of 4.75-5.25 percent by year-end, due to tax and public sector price increases included in the 2010 budget. The monetary authorities have left the policy intervention rate unchanged as yet in view of the perceived temporary nature of the price increases as well as the continued substantial slack in economic activity. The central bank currently projects to reach its medium-term inflation target of 3 percent by the end of 2011.

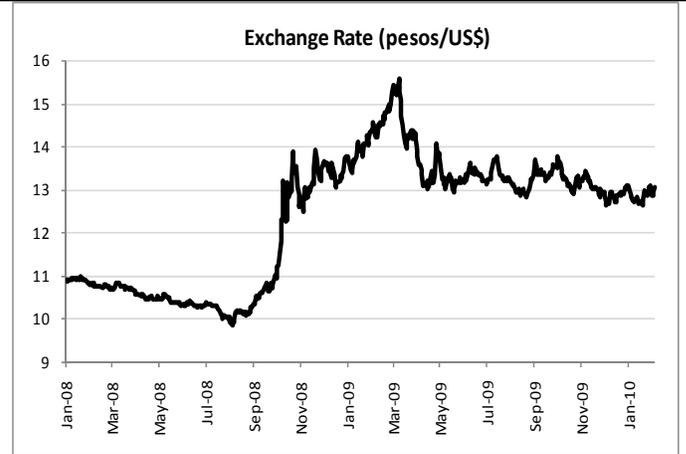
8. **The monetary authorities have expressed their intention to increase the level of international reserves to mitigate the impact of any financial shock.** The global financial crisis led to an important sell-off of emerging market assets in the last quarter of 2008 and early 2009. In order to maintain and restore liquidity on the foreign exchange and domestic financial markets, the authorities employed several policy actions including extensive foreign exchange interventions, the provision of loans and loan guarantees to domestic firms by government owned development banks and the repurchase and reduced issue of longer-term government bonds. Interventions on the foreign exchange market between October 2008 and the end of 2009 implied the sale of almost US\$35 billion of international reserves. In addition, the authorities aligned bilateral and multilateral support through a US\$30 billion currency swap arrangement with the US Federal Reserve and a US\$47 billion Flexible Credit Line (FCL) with the IMF. Announcement of the FCL in April 2009 greatly reduced volatility of the peso that nevertheless observed a substantial depreciation. With international reserves at US\$91 billion by the end of 2009 compared to US\$85 billion in September 2008, reserves have been more than replenished from the recent currency interventions. Even though the authorities remain committed to a flexible exchange rate as the key instrument for adjustment to external shocks, a higher level of international reserves is deemed appropriate to avoid excessive exchange rate volatility and enable a gradual reduction of the FCL.

**Figure 2 a-f: Financial Indicators**

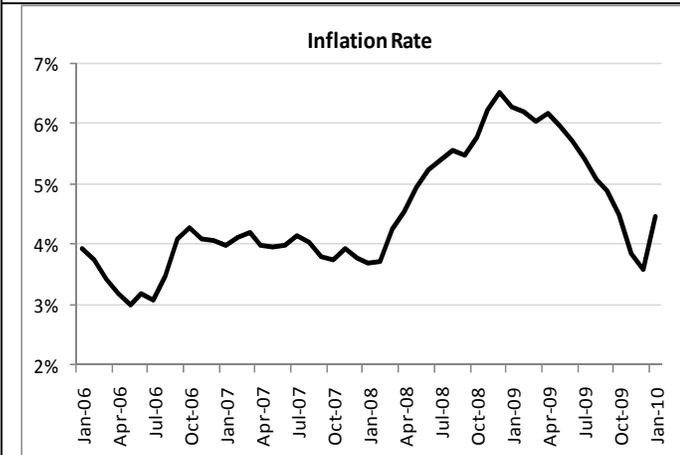
a) Increased risk pricing was reflected in significantly higher sovereign risk spreads...



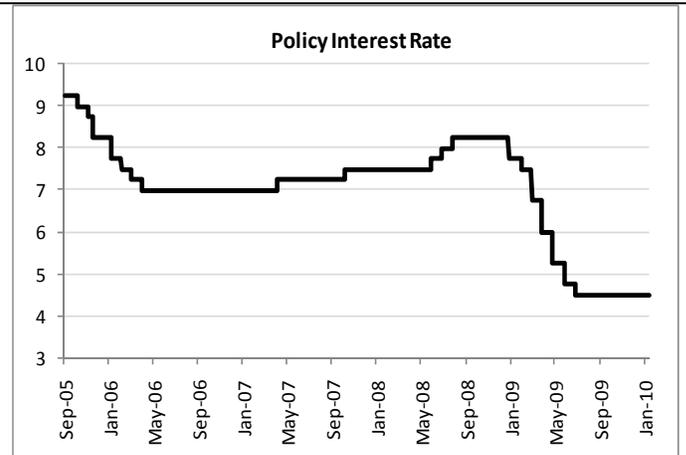
b)...and in a sharp depreciation and volatile exchange rate



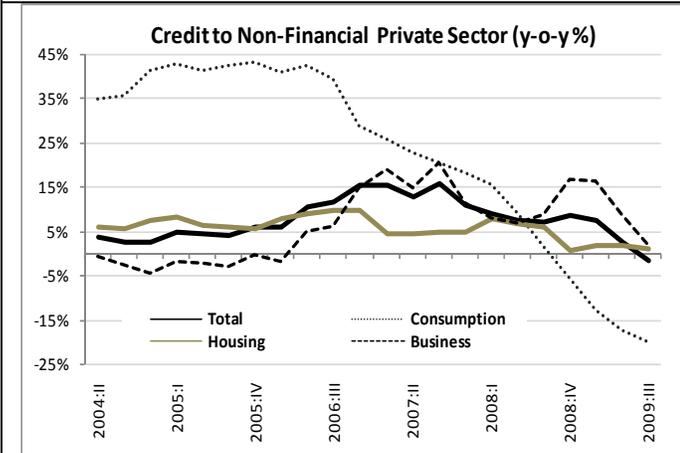
c) Lower economic activity generates that Inflation rate presents a downward trend ...



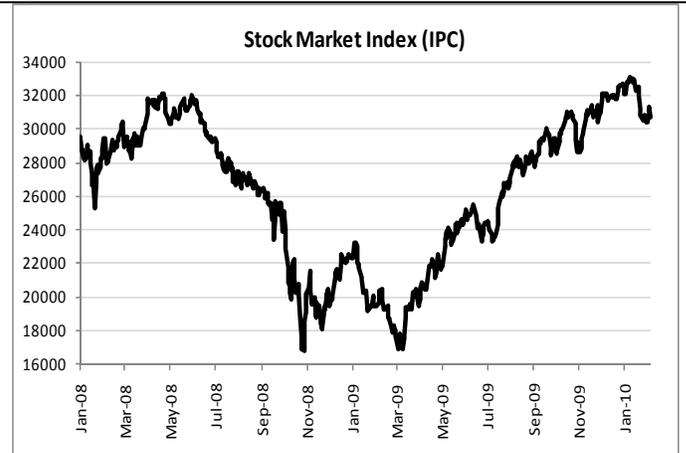
d).. while monetary has been eased since January 2009



e) Credit to private sector contracted after a period of sustained growth..



f)..as well as the stock market, which recently presented a significant rebound



9. **Credit to the non-financial private sector has started to contract.** Despite a brief period of double digit growth over the past few years, the level of credit to the private sector in Mexico remains, at about 30 percent of GDP, low compared to other countries in the region or at comparable levels of economic development. Growth of credit slowed down last year and has actually started to contract in real domestic currency terms. As can be observed from figure ..., the growth of credit dropped sharply over the past three quarters to a contraction by the third quarter of 2009 of 1.6 percent.

10. **The most affected sector for this slowdown trend in credit is the household sector.** After a six-year period of high, double digit growth of consumer credit, led by the credit card business, a significantly increasing non-performing consumer credit loan portfolio led financial intermediaries to cut back on the expansion of consumer credit already before the impact of the global financial crisis was felt in Mexico. Consumer credit started to decline in real terms since the last quarter of 2008 and data for December 2009 show an annual contraction by 20 percent. In addition, credit growth to non-financial private sector firms and for housing finance, accounting for some 58 and 29 percent of total credit to the non-financial private sector, is rapidly leveling off. Total housing loans outstanding barely expanded by the end of 2009 and credit growth to private sector firms is down to a 2 percent.

### **Macroeconomic Outlook and Debt Sustainability**

11. **In line with the global economic recovery, economic activity in Mexico is showing a strong rebound.** Recent economic data suggest a recovery of economic activity as of the second half of 2009 in Mexico. Projections of the economic outlook for Mexico should take into account the depth of the recent recession, which means that the economy will operate below potential output for a couple of years, as well as the impact on the Mexican economy of a lower medium-term economic growth in the advanced economies and Mexico's main trading partner. Assumptions regarding the external environment have a major impact on the projection of Mexico's main macroeconomic variables. A base case scenario (Table 1) follows the Bank's Global Economic Prospects and the IMF's World Economic Outlook Update (both of January 2010) for global economic activity.<sup>17</sup> The impact of such an external scenario on the Mexican economy is a modest rebound of economic activity by 2010 and 2011 and a return to potential output by 2012.

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<sup>17</sup> World output is projected to fall by 2.1 percent in 2009 and experiencing a gradual recovery in 2010 when growth is picking up by 3.0 percent. Similarly output in the United States is projected to contract by 2.5 percent in 2009 before rebounding by 2.7 percent in 2010.

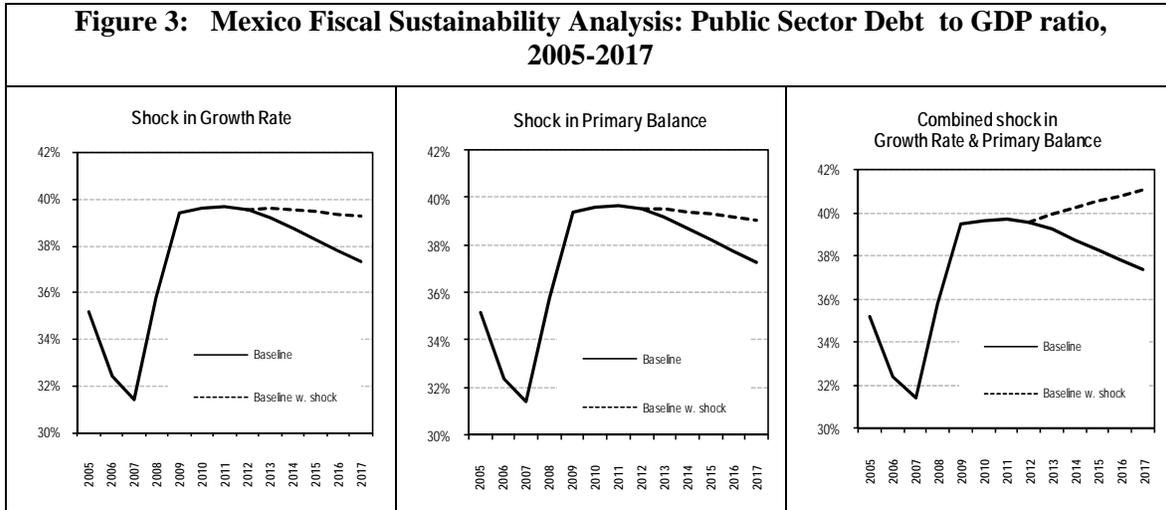
**Table 1. Macroeconomic scenarios**

Indicator	Observed	Estimated	Projected		
	2008	2009	2010	2011	2012
Real GDP (%)	1.4%	-6.5%	4.0%	4.0%	4.2%
Consumption (%)	1.4%	-5.8%	3.6%	4.3%	4.2%
Investment (%)	5.3%	-17.0%	10.1%	5.4%	4.4%
<b>External Accounts</b>					
Merchandise Exports Current (US\$ billion)	291.3	229.7	263.0	295.6	320.8
Oil Exports (US\$ billion)	50.7	30.9	37.3	37.7	38.0
Non Oil Exports (US\$ billion)	240.7	198.8	225.7	257.9	282.9
Merchandise Imports Current (US\$ billion)	308.6	234.4	272.4	311.9	337.7
Remittances (US\$ billion)	25.1	21.2	23.3	25.6	27.1
Current Account Balance (US\$ billion)	-15.8	-8.0	-11.7	-15.6	-16.5
Current Account Balance (% of GDP)	-1.5%	-0.9%	-1.2%	-1.5%	-1.4%
FDI (US\$ billion)	22.48	15.50	19.50	22.00	25.00
Gross Reserves (US\$ billion)	95.6	99.8	109.6	117.0	122.8
External Debt (% of GDP)	18.7%	24.6%	23.6%	23.9%	23.5%
<b>Public Sector</b>					
Public Expenditure (%)	4.2%	2.3%	1.0%	3.8%	3.3%
PSBR (% GDP)	-2.1%	-3.2%	-3.5%	-3.1%	-2.8%
Public Debt -PSBR Historical Balance (% GDP)	35.8%	39.4%	39.6%	39.7%	39.5%
<b>Prices</b>					
Inflation (e.o.p.) (%)	6.5%	3.6%	5.3%	3.8%	3.3%
Nominal Exchange Rate (pesos/dll)	11.1	13.5	13.0	13.2	13.3
Oil Price (US\$ per barrel)	86.3	57.5	70.2	70.9	71.5

Source: Bank staff estimates

12. **Mexico faces rising fiscal pressures in view of a deteriorating outlook for public sector revenue and increasing public debt-to-GDP ratios.** Fiscal discipline and strong fiscal policy frameworks, including the establishment of stabilization funds and the acquisition of oil price hedges, enabled a countercyclical policy response for 2009. The public debt-to-GDP ratio posted an important increase end-2008 that can be attributed in part to the issue of a recognition bond to public sector workers that opted for the individual savings account in the public sector pension reform. The sharp economic contraction, the depreciation of the currency and a higher fiscal deficit (PSBR) contributed to a further increase of the public debt-to-GDP ratio in 2009. Even though there has been some room for an increase of public debt and the public debt-to-GDP ratio, the rapid increase and level to be attained by the latter by 2010 and 2011 suggests limits to possibilities of fiscal stimulus. In this regard, policymakers faced a difficult trade-off between early fiscal consolidation that may aggravate the contraction of the domestic economy and a clear and credible medium-term fiscal strategy of revenue-enhancing measures or sustainable spending cuts to compensate for the lower public sector revenue.

13. **Public debt remains within manageable proportions despite a significant increase in the debt-to-GDP ratio until 2011.** Debt sustainability analysis based on average levels of economic growth, the primary balance and the real interest rate on public debt observed over the decade previous to the current economic crisis and applied to the debt-to-GDP ratios observed by 2011, shows a return to a downward path of the debt-to-GDP as of 2012<sup>18</sup> (figure 3). Bound tests<sup>19</sup> with respect to the key growth and primary balance variables show that only in the case of a combined growth and primary balance shock the debt-to-GDP ratio will continue on an upward path and additional corrective policy actions will be needed.



14. **The external current account deficit is not a cause of concern.** The rapid deterioration of the external financing and economic conditions to the Mexican economy has been rapidly reflected in the country's exchange rate which led to a rapid adjustment of consumption and investment plans by Mexican households and businesses. This in turn has led to a sharp contraction of imports, in line with or even more pronounced to the fall in exports. The economic recovery projected for the next three years will lead to an slight increase in the current account deficit

<sup>18</sup> Values for the variables used in this exercise include: growth average 3.1 percent, standard deviation 2.07 percent; primary balance (adjusted for off-balance expenditure and excluding non-recurrent revenue) average 0.55 percent, standard deviation 0.69 percent; and real interest rate 3.3 percent.

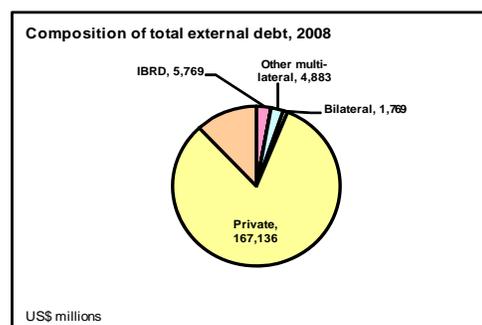
<sup>19</sup> Shocks are permanent one-half standard deviation shocks.



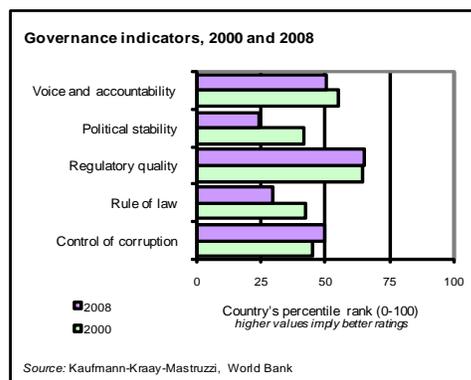
Balance of Payments and Trade	2000	2008
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	166,121	291,343
Total merchandise imports (cif)	174,458	308,603
Net trade in goods and services	-10,661	-24,340
Current account balance	-18,684	-15,806
as a % of GDP	-3.2	-1.5
Workers' remittances and compensation of employees (receipts)	6,573	25,137
Reserves, including gold	35,577	95,298

Central Government Finance		
<i>(% of GDP)</i>		
Current revenue (including grants)	214	23.7
Tax revenue	10.6	8.2
Current expenditure	214	19.8
Overall surplus/deficit	-3.4	-2.1
Highest marginal tax rate (%)		
Individual	40	28
Corporate	35	28

External Debt and Resource Flows		
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	150,901	203,984
Total debt service	58,509	41,332
Debt relief (HIPC, MDR)	-	-
Total debt (% of GDP)	26.0	18.7
Total debt service (% of exports)	30.4	12.1
Foreign direct investment (net inflows)	18,466	18,978
Portfolio equity (net inflows)	447	-3,503



Private Sector Development	2000	2010
Time required to start a business (days)	-	13
Cost to start a business (% of GNI per capita)	-	11.7
Time required to register property (days)	-	74
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2007
Anticompetitive or informal practices	..	19.0
Corruption	..	17.8
Stock market capitalization (% of GDP)	21.5	38.8
Bank capital to asset ratio (%)	9.6	14.4



Technology and Infrastructure	2000	2007
Paved roads (% of total)	32.8	50.0
Fixed line and mobile phone subscribers (per 100 people)	27	82
High technology exports (% of manufactured exports)	22.4	17.1

Environment		
Agricultural land (% of land area)	55	55
Forest area (% of land area)	33.7	33.0
Nationally protected areas (% of land area)	..	5.3
Freshwater resources per capita (cu. meters)	4,090	3,885
Freshwater withdrawal (billion cubic meters)	78.2	..
CO2 emissions per capita (mt)	3.9	4.1
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	7.9	7.7
Energy use per capita (kg of oil equivalent)	1,533	1,702

World Bank Group portfolio	2000	2009
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	11,444	10,142
Disbursements	1,748	4,882
Principal repayments	1,330	654
Interest payments	892	204

<b>IDA</b>		
Total debt outstanding and disbursed	-	-
Disbursements	-	-
Total debt service	-	-

	2000	2007
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	1,234	1,184
Disbursements for IFC own account	723	798
Portfolio sales, prepayments and repayments for IFC own account	179	209
	66	134

<b>MIGA</b>		
Gross exposure	-	-
New guarantees	-	-

Note: Figures in italics are for years other than those specified. 2008 data are preliminary.  
.. indicates data are not available. - indicates observation is not applicable.

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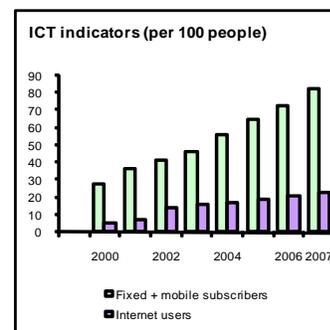
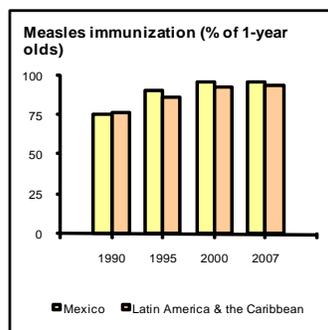
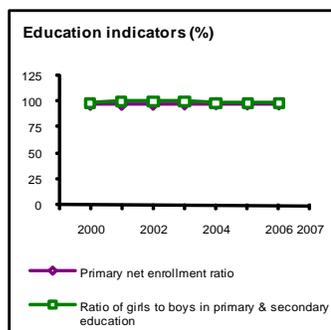
Development Economics, Development Data Group (DECDG).

# Millennium Development Goals

Mexico

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Mexico			
	1990	1995	2000	2007
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$ 125 a day (PPP, % of population)	7.7	7.0	4.8	<2
Poverty headcount ratio at national poverty line (% of population)	..	..	24.2	17.6
Share of income or consumption to the poorest quintile (%)	3.2	4.3	3.9	4.6
Prevalence of malnutrition (% of children under 5)	13.9	..	6.0	3.4
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	98	..	97	98
Primary completion rate (% of relevant age group)	88	96	99	104
Secondary school enrollment (gross, %)	55	58	72	87
Youth literacy rate (% of people ages 15-24)	95	96	97	98
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	97	..	99	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	37	36	37	39
Proportion of seats held by women in national parliament (%)	12	14	18	23
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	52	45	38	35
Infant mortality rate (per 1,000 live births)	42	36	32	29
Measles immunization (proportion of one-year olds immunized, %)	75	90	96	96
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	60
Births attended by skilled health staff (% of total)	..	86	..	93
Contraceptive prevalence (% of women ages 15-49)	..	67	70	71
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	0.2	0.3	0.3	0.3
Incidence of tuberculosis (per 100,000 people)	61	44	32	20
Tuberculosis cases detected under DOTS (%)	..	13	64	99
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	88	90	93	95
Access to improved sanitation facilities (% of population)	56	66	76	81
Forest area (% of total land area)	35.5	34.6	33.7	33.0
Nationally protected areas (% of total land area)	..	..	..	5.3
CO2 emissions (metric tons per capita)	4.5	4.0	3.9	4.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	6.8	6.9	7.9	7.7
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	6.4	9.7	12.6	18.8
Mobile phone subscribers (per 100 people)	0.1	0.8	14.4	63.2
Internet users (per 100 people)	0.0	0.1	5.2	22.7
Personal computers (per 100 people)	0.8	2.6	5.8	14.4



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

1/25/10

Development Economics, Development Data Group (DECDG).

## ANNEX J: MEXICO SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE & MANAGEMENT

As of January 30, 2010

Indicator	2007	2008	2009	2010
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <i>a</i>	22	19	20	19
Average Implementation Period (years) <i>b</i>	3.4	4.0	3.7	3.7
Percent of Problem Projects by Number <i>a, c</i>	9.1	15.8	25.0	21.1
Percent of Problem Projects by Amount <i>a, c</i>	11.6	7.1	9.5	4.3
Percent of Projects at Risk by Number <i>a, d</i>	9.1	15.8	25.0	21.1
Percent of Projects at Risk by Amount <i>a, d</i>	11.6	7.1	9.5	4.3
Disbursement Ratio (%) <i>e</i>	33.6	40.4	186.1	58.3
<b>Portfolio Management</b>				
CPPR during the year (yes/no)	YES	YES	YES	Planned
Supervision Resources (total US\$)F	2,990.0	2,568.0	2,724.0	1,360.0
Average Supervision (US\$/project)	125.0	95.0	97.0	54.0

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	161	15
Proj Eval by OED by Amt (US\$ millions)	29,946.1	2,575.1
% of OED Projects Rated U or HU by Number	24.8	6.7
% of OED Projects Rated U or HU by Amt	17.9	11.7

- 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 K: MEXICO SOCIAL INDICATORS

	Latest single year			Same region/income group	
	1980-85	1990-95	2002-08	Latin America & Carib.	Upper-middle-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	75.5	91.1	106.4	560.6	823.7
Growth rate ( <i>% annual average for period</i> )	2.2	1.8	1.0	1.3	0.7
Urban population ( <i>% of population</i> )	69.0	73.4	76.9	78.3	75.2
Total fertility rate ( <i>births per woman</i> )	4.0	3.0	2.1	2.4	2.0
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	17.6	..	..
Urban headcount index	..	..	11.3	..	..
Rural headcount index	..	..	27.9	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	2,180	3,810	9,990	5,801	7,107
Consumer price index ( <i>2000=100</i> )	1	42	144	158	143
Food price index ( <i>2000=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	46.3	51.9	48.1	..	..
Low est quintile ( <i>% of income or consumption</i> )	4.7	4.0	4.6	..	..
Highest quintile ( <i>% of income or consumption</i> )	51.7	56.5	53.3	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	..	2.9	3.4	3.4
Education ( <i>% of GNI</i> )	..	..	..	3.5	3.8
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	98	98	94	94
Male	..	100	98	94	94
Female	..	97	97	94	94
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	90	95	91	95
Urban	..	95	98	97	98
Rural	..	76	85	73	83
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	64	90	96	93	94
DPT	40	91	98	92	96
Child malnutrition ( <i>% under 5 years</i> )	..	..	3	4	..
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	69	72	75	73	71
Male	66	70	73	70	68
Female	72	75	77	76	75
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	44	36	29	22	21
Under 5 ( <i>per 1,000</i> )	56	45	35	26	24
Adult (15-59)					
Male ( <i>per 1,000 population</i> )	216	187	142	196	225
Female ( <i>per 1,000 population</i> )	135	117	79	107	138
Maternal ( <i>per 100,000 live births</i> )	..	..	60	130	97
Births attended by skilled health staff ( <i>%</i> )	..	..	93	89	95

CAS Annex B5. This table was produced from the CMU LDB system.

12/04/09

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: 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 L: MEXICO KEY ECONOMIC INDICATORS

Indicator	Actual			Estimate			Projected	
	2005	2006	2007	2008	2009	2010	2011	2012
<b>National accounts (as % of GDP)</b>								
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100
Agriculture	4	4	4	4	4	4	4	4
Industry	34	36	36	37	37	37	37	37
Services	62	61	61	59	59	59	59	59
Total Consumption	77	75	76	76	78	77	77	77
Gross domestic fixed investment	20	21	21	22	21	22	22	22
Government investment	5	4	5	5	5	5	5	5
Private investment	16	17	17	18	16	17	17	17
Exports (GNFS) <sup>b</sup>	27	28	28	28	28	28	29	30
Imports (GNFS)	29	29	30	31	29	30	32	32
Gross domestic savings	23	25	24	24	22	23	23	23
Gross national savings <sup>c</sup>	24	26	25	25	23	24	24	24
<i>Memorandum items</i>								
Gross domestic product (US\$ million at current prices)	849030	952340	1025428	1088128	882569	1001575	1067679	1143672
GNI per capita (US\$, Atlas method)	8090	8740	9400	10020	8930	9120	9330	10090
Real annual growth rates (% , calculated from 03 prices)								
Gross domestic product at market prices	3.2	5.1	3.3	1.3	-6.5	4.0	4.0	4.2
Gross Domestic Income	4.0	5.9	3.4	1.5	-8.1	4.8	4.2	4.3
Real annual per capita growth rates (% , calculated from 03 prices)								
Gross domestic product at market prices	2.2	4.0	2.3	0.3	-7.4	3.0	3.0	3.2
Total consumption	3.4	4.0	2.6	0.4	-6.7	2.6	3.4	3.2
Private consumption	3.7	4.5	2.8	0.5	-8.0	2.8	3.8	3.5
<b>Balance of Payments (US\$ millions)</b>								
Exports (GNFS) <sup>b</sup>	230299	266146	289365	309383	243769	278837	313880	340643
Merchandise FOB	214233	249925	271875	291343	229705	262995	295550	320847
Imports (GNFS) <sup>b</sup>	242599	278015	305743	333723	256826	297379	338418	366356
Merchandise FOB	221820	256058	281949	308603	234400	272440	311859	337722
Resource balance	-12300	-11869	-16379	-24340	-13057	-18541	-24538	-25713
Net current transfers	22138	25949	26415	25137	21181	23299	25629	27116
Current account balance	-4385	-4378	-8335	-15806	-7983	-11730	-15626	-16531
Net private foreign direct investment	21977	19428	27528	22481	15500	19500	22000	25000
Long-term loans (net)	14365	13234	22558	34166	13707	21320	20881	15557
Official	-218	-8583	628	1304	6717	5919	445	386
Private	14582	21817	21930	32862	6990	15401	20436	15171
Other capital (net, incl. errors & omissions)	-24976	-29573	-31487	-33096	-16502	-19296	-19889	-18232
Change in reserves <sup>d</sup>	-6980	1288	-10265	-7745	-4722	-9794	-7367	-5795
<i>Memorandum items</i>								
Resource balance (% of GDP)	-1.4	-1.2	-1.6	-2.2	-1.5	-1.9	-2.3	-2.2
Real annual growth rates ( YR03 prices)								
Merchandise exports (FOB)	5.3	8.5	3.5	-2.4	-11.9	9.7	11.2	8.0
Primary	19.3	12.3	5.2	5.5	-5.2	0.7	1.4	1.2
Manufactures	2.6	7.6	3.1	-4.3	-13.6	12.3	13.8	9.5
Merchandise imports (CIF)	7.3	10.4	4.4	1.0	-20.1	14.4	13.7	8.0

(Continued)

## ANNEX L: MEXICO KEY ECONOMIC INDICATORS (CONTINUED)

Indicator	Actual			Estimate			Projected	
	2005	2006	2007	2008	2009	2010	2011	2012
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>								
Current revenues	21.1	21.8	22.2	23.7	22.7	22.2	22.6	22.8
Current expenditures	18.7	19.0	18.9	19.8	20.5	20.6	20.5	20.4
Current account surplus (+) or deficit (-)	2.4	2.9	3.3	3.8	2.2	1.5	2.1	2.4
Capital expenditure	3.7	3.6	4.5	5.9	5.3	5.0	5.2	5.2
Foreign financing	-0.5	-2.3	-1.7	0.0	2.1	1.8	1.3	1.2
<b>Monetary indicators</b>								
M2/GDP	25.3	25.0	26.4	26.8	28.4	27.6	27.6	27.6
Growth of M2 (%)	10.0	11.1	13.8	9.8	4.4	6.2	8.3	8.1
Private sector credit growth / total credit growth (%)	179.3	90.0	82.4	42.3	83.5	76.3	73.2	73.7
<b>Price indices (YR03 =100)</b>								
Merchandise export price index	120.9	130.1	136.7	150.1	134.3	140.1	141.6	142.3
Merchandise import price index	111.0	116.0	122.3	132.6	126.1	128.0	128.9	129.3
Merchandise terms of trade index	109.0	112.1	111.7	113.2	106.5	109.4	109.8	110.1
Real exchange rate (US\$/LCU) <sup>f</sup>	73.9	73.0	75.2	78.6	90.2	84.2	84.2	84.2
<b>Real interest rates</b>								
Consumer price index (% change)	4.0	3.6	4.0	5.1	5.4	5.0	4.2	3.8
GDP deflator (% change)	4.6	6.7	4.5	6.6	5.3	5.0	4.2	3.8

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

## ANNEX M: MEXICO KEY EXPOSURE INDICATORS

Indicator	Actual			Estimated			Projected	
	2005	2006	2007	2008	2009	2010	2011	2012
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	167942	162497	192764	203984	216691	236505	254784	268377
Net disbursements (US\$m) <sup>a</sup>	-899	-12568	9426	13367	11392	16619	19194	18872
Total debt service (TDS) (US\$m) <sup>a</sup>	44489	55560	39094	40551	40531	39079	41154	48592
Debt and debt service indicators (%)								
TDO/XGS <sup>b</sup>	65.2	54.5	59.6	59.6	80.1	76.6	73.3	71.3
TDO/GDP	19.8	17.1	18.8	18.7	24.7	24.5	23.8	23.2
TDS/XGS	17.3	18.6	12.1	11.8	15.0	12.7	11.8	12.9
Concessional/TDO	0.9	0.9	0.5	0.5	0.4	0.4	0.4	0.4
IBRD exposure indicators (%)								
IBRD DS/public DS	8.1	17.3	2.9	4.1	4.8	2.3	5.6	3.2
Preferred creditor DS/public	12.3	29.6	6.7	7.7	8.5	6.0	9.5	6.3
IBRD DS/XGS	0.7	2.2	0.2	0.2	0.3	0.2	0.4	0.2
IBRD TDO (US\$m) <sup>d</sup>	8881	4211	4540	5867	10143	15179	15582	15896
Share of IBRD portfolio (%)	7	3.5	3.9	5.3	9.8	14.4	15.6	15.7

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

b. "XGS" denotes exports of goods and services, including workers' remittances.

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

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

## ANNEX N: MEXICO STATEMENT OF LOANS AND CREDITS

Project ID	FY	Project Name	Original Amount in US\$ Millions					Difference between Expected and Actual Disbursements	
			IBRD	IDA	Grants	Cancel	Undisb.	Orig.	Frm Rev'd
P085593	2006	MX (APL I) Tertiary Educ Student Ass	180.00	0.00	0.00	0.00	60.35	52.72	0.00
P087152	2004	MX (CRL1)Savings & Rurl Finance(BANSEFI)	154.50	0.00	0.00	0.38	36.82	-41.81	30.53
P088996	2008	MX (CRL2) Integrated Energy Services	15.00	0.00	0.00	0.00	14.96	7.63	0.00
P114271	2009	MX Customs Institutional Strengthening	10.03	0.00	0.00	0.00	10.03	0.25	0.00
P087038	2006	MX Environmental Services Project	45.00	0.00	0.00	0.00	10.23	4.56	0.00
P106589	2009	MX IT Industry Development Project	80.00	0.00	0.00	0.00	80.00	29.82	0.00
P116965	2010	MX Influenza Prevention and Control	491.00	0.00	0.00	0.00	491.00	8.33	0.00
P091695	2006	MX Modernization Water & Sanit Sector TA	25.00	0.00	0.00	0.19	5.33	5.52	3.75
P112258	2009	MX Priv Housing Finance Markets Strngth	1,010.00	0.00	0.00	0.00	7.48	0.50	0.00
P106528	2009	MX Results-based Mgmt. and Bugdeting	17.24	0.00	0.00	0.00	17.24	7.54	0.00
P070108	2003	MX Savings & Credit Sector Strengthening	85.60	0.00	0.00	0.00	14.44	-6.56	6.77
P074755	2005	MX State Judicial Modernization Project	30.00	0.00	0.00	16.50	13.50	30.00	0.00
P115067	2009	MX Support to Oportunidades Project	1,503.76	0.00	0.00	0.00	66.67	-1437.1	0.00
P106261	2009	MX Sustainable Rural Development	50.00	0.00	0.00	0.00	49.9	0.00	0.00
P089865	2005	MX-(APL1) Innov. for Competitiveness	250.00	0.00	0.00	0.00	39.91	28.15	0.00
<b>Overall Result</b>			<b>3,947.13</b>	<b>0.00</b>	<b>0.00</b>	<b>17.07</b>	<b>917.86</b>	<b>-1310.45</b>	<b>41.06</b>

## ANNEX O: MEXICO STATEMENT OF IFC'S HELD AND DISBURSED PORTFOLIO

In Millions of US Dollars

FY Approval	Company	<u>Committed IFC</u>				<u>Disbursed IFC</u>			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2008	Agrofinanzas	0.00	1.70	0.00	0.00	0.00	0.00	0.00	0.00
2008	Alta Growth Fund	0.00	20.00	0.00	0.00	0.00	2.53	0.00	0.00
2007/ 2008	Banco Amigo	0.00	2.22	0.00	0.00	0.00	2.22	0.00	0.00
2006/ 2008/ 2009	Banco del Bajio	0.00	49.96	0.00	0.00	0.00	49.47	0.00	0.00
2003/ 2005/ 2010	Banorte (Mex)	0.00	217.70	0.00	0.00	0.00	150.00	0.00	0.00
1995-96/ 1998-99	Baring MexFnd	0.00	1.70	0.00	0.00	0.00	1.70	0.00	0.00
2008	Bioparques	7.00	0.00	5.00	0.00	7.00	0.00	5.00	0.00
2005/ 2008/ 2009	CMPDH	34.71	0.00	4.08	0.00	28.71	0.00	4.08	0.00
2006	Carlyle Mexico	0.00	3.83	0.00	0.00	0.00	3.46	0.00	0.00
2009	City Express Hol	12.85	0.00	5.14	0.00	0.00	0.00	0.00	0.00
2004	DTM	2.13	0.00	0.00	0.00	2.13	0.00	0.00	0.00
2002	Ecomex	2.40	0.10	0.08	0.00	2.40	0.10	0.08	0.00
2005/ 2007	FINEM	23.18	0.76	0.00	0.00	13.71	0.76	0.00	0.00
2010	Finterra	1.15	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2005-06/ 2009-10	GMAC Financiera	0.60	0.00	0.00	0.00	0.60	0.00	0.00	0.00
1998/ 2004/ 2008/ 2010	Grupo Calidra	54.23	0.00	0.00	0.00	49.23	0.00	0.00	0.00
1992/ 1993/ 1996/ 2000	Grupo Posadas	0.00	0.00	8.00	0.00	0.00	0.00	8.00	0.00
2006/ 2009	Grupo Su Casita	0.00	10.16	0.00	0.00	0.00	10.16	0.00	0.00
2008-09	Hipotec Vertice	21.44	6.53	0.00	0.00	14.20	6.26	0.00	0.00
2007	Infrainvest	0.00	50.00	0.00	0.00	0.00	0.00	0.00	0.00
2007	Interoyal	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00
2007	Irapuato	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998/ 1999	Merida III	19.96	0.00	0.00	31.64	19.96	0.00	0.00	31.64
1995/ 1997/ 1999	Mexplus Puertos	0.00	0.80	0.00	0.00	0.00	0.80	0.00	0.00
2007/ 2009	MicroCred Mexico	0.00	0.59	0.00	0.00	0.00	0.59	0.00	0.00
2009	Nasoft	0.00	8.00	0.00	0.00	0.00	0.00	0.00	0.00
2007	Nexus III Fund	0.00	20.00	0.00	0.00	0.00	10.56	0.00	0.00
2003	Occidental Mex	15.00	0.00	0.00	20.00	15.00	0.00	0.00	20.00
	Occihol	0.00	7.50	0.00	0.00	0.00	7.50	0.00	0.00
2010	Optima Energia	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000/ 2004/ 2008	PanAmericanSilv	0.00	2.18	0.00	0.00	0.00	2.18	0.00	0.00
2007	Petstar	7.23	0.00	5.56	10.40	7.23	0.00	5.56	10.40
2009	Progresemos	3.06	0.00	0.00	0.00	2.29	0.00	0.00	0.00

2002	Puertas Finas	4.88	0.00	0.00	0.00	4.88	0.00	0.00	0.00
	Savoy	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Sierra Nevada	6.56	0.00	0.00	0.00	6.56	0.00	0.00	0.00
2001/ 2002/ 2004-2007	Su Casita	163.77	0.00	0.00	0.00	143.94	0.00	0.00	0.00
1997	TMA	0.59	0.00	3.92	2.06	0.59	0.00	3.92	2.06
2008	Vinte	10.36	7.06	0.00	0.00	8.61	7.06	0.00	0.00
2006	Vuela	40.00	0.00	0.00	0.00	25.82	0.00	0.00	0.00
2002	ZN Mexico II	0.00	0.10	0.00	0.00	0.00	0.00	0.00	0.00
1999/ 2000	ZN Mxc Eqty Fund	0.00	0.80	0.00	0.00	0.00	0.80	0.00	0.00
<b>Total Portfolio:</b>		<b>441.08</b>	<b>411.70</b>	<b>31.78</b>	<b>64.10</b>	<b>352.86</b>	<b>256.17</b>	<b>26.64</b>	<b>64 353</b>