

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

COUNTRY STRATEGY UPDATE

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This document was prepared by Tomás Campero (VPC/FMP), David Salazar (VPC/FMP), and Edwin Tachlian (VPC/FMP) in coordination with the Bank's Country Office in Mexico and the Country Department Central America, Mexico, Panama and the Dominican Republic (CID/CID). The team received valuable input and comments from Víctor Escala (FMP/CME), Rafael Lima (VPC/VPC), Andrés Consuegra (LEG/SGO), and Viviana Maya (LEG/SGO).

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ELECTRONIC LINK

1. [Report for Acceptance of the Use of Mexico’s Country Procurement System](#)

ABBREVIATIONS

BCS-ME	The Bank's country strategy with Mexico
CSU	Country Strategy Update
IDB	Inter-American Development Bank
MSME	Micro, small, and medium-sized enterprise
SFAM	Mexico's Federal Procurement System
SFP	Secretaría de la Función Pública [Civil Service Department]

I. BACKGROUND

A. Introduction

- 1.1 The Bank's country strategy with Mexico 2010-2012 (BCS-ME) (document GN-2595-1),¹ approved by the Bank's Board of Executive Directors on 9 December 2010, identifies the priority sectors agreed upon between the Government of Mexico and the Bank, and establishes four areas of major focus encompassing 10 priority sectors in which the Bank has broad experience and can add value to the government's program: (1) in the social area, the strategy supports improvements in the design and efficiency of social protection programs targeting the poor population; improved quality of, and access to, education and more years of schooling; and improved placement in labor markets; (2) in the productive area, it targets sectors with great impact on the real economy, through investments in water and sanitation and transportation infrastructure; access to financing in the housing and MSME sectors; and greater productivity in the agriculture sector; (3) strengthening of public finance at the federal, state, and municipal levels; and (4) support for the climate change adaptation and mitigation agenda at both the federal and subnational levels.
- 1.2 The BCS-ME also establishes increased use of the country systems for both financial management and procurement as an important outcome. Specifically, paragraph 5.3 of the BCS-ME states that the Bank will continue the process of identifying systems and subsystems that may be used, in accordance with the Strategy for Strengthening and Use of Country Systems (document GN-2538).
- 1.3 Accordingly, the Bank, in collaboration with the Civil Service Department (SFP), conducted an analysis of application of the Guide for Acceptance of the Use of Country Procurement Systems (the "Guide") (document GN-2538-6) that looked at Mexico's Federal Procurement System (SFAM) to determine the procurement and contracting modalities that might be used in Bank-financed operations in the country. The findings of that analysis, described in the Report for Acceptance of the Use of Mexico's Country Procurement System (the "Report") (see electronic link), approved by the Operations Policy Committee of Management (document OP-983), shows that Mexico has instituted very substantial reforms in recent years enabling the SFAM to achieve high standards of transparency and efficiency. Particularly notable are its new regulations and electronic system, CompraNet. Thus, Bank-financed procurements can reasonably be expected to be conducted properly under this system.
- 1.4 The purpose of this Country Strategy Update (CSU), therefore, is to present the conclusions resulting from application of the Guide to the SFAM, and to recommend that the Bank's Board of Executive Directors approve advanced use of the SFAM as an exception to the methods provided in the policies for the procurement of goods and works financed by the Bank (document GN-2349-9), as

¹ The transition period of the Bank's country strategy with Mexico 2010-2012 begins on 30 December 2012 and ends on 30 December 2013.

described in document OP-983. This CSU entails no change to the content of the rest of the BCS-ME, including the Results Matrix and Development Effectiveness Matrix.

B. Strategy for strengthening and use of country systems

- 1.5 The analysis and recommendation procedure described in paragraph 1.4 follows the basic principles of the Strategy for Strengthening and Use of Country Systems (“Country Systems Strategy”) (document GN-2538), inasmuch as the process of validating country fiduciary systems and determining whether to use them is an integral part of the country strategy formulation cycle. In addition, the Country Systems Strategy stipulates that all new Bank operations will follow the recommendations of the country strategies and country programming documents with respect to partial or full use of country fiduciary systems.
- 1.6 Paragraph 2.22 of the Guide establishes that “[t]he Management decisions on use of Procurement Systems will be included in the Country Strategy, or in its updates, for approval by the Bank’s Board of Executive Directors. In such case, the Board will be requested to approve the use of a System or Subsystem through a waiver to the methods set forth in the Bank’s Procurement Policies.”

**II. REQUEST FOR APPROVAL OF ADVANCED USE OF THE
COUNTRY PROCUREMENT SYSTEM**

- 2.1 Based on the foregoing, and as a result of the process indicated in the Guide and the technical analysis described in the Bank’s Report, Management recommends that the Board of Executive Directors approve, pursuant to this CSU, as an exception to the methods provided in the policies for the procurement of goods and works financed by the Bank, advanced use² of the SFAM for Bank-financed operations negotiated subsequent to the entry into effect of this CSU, as well as for projects in execution when so requested by the Government of Mexico, under the terms described below and detailed in the Report.

² According to the Guide approved by the Board of Executive Directors, advanced use of a country procurement system corresponds to its full use, or use of the vast majority of all its components and methods, in contracts for amounts up to the threshold set by the Bank for the use of international competitive bidding in the respective country in procurements of works (for reference, US\$15 million in Mexico) and goods and services (for reference, US\$3 million in Mexico). Bank policy GN-2349-9 will apply for amounts exceeding these thresholds. The country system for contracting of consultants will not be used in Mexico.

- 2.2 As established in the “Scope” section of the Report, advanced use of the SFAM will apply to all contracts for operations executed by the agencies included in it³ and for amounts up to the limit set by the Bank⁴ for the use of international competitive bidding in Mexico in the procurement of works and of goods and services. The Bank policies apply above these amounts. Certain very specific aspects will remain outside the scope of use of the SFAM.⁵ Furthermore, Section 1 of the Bank policies (documents GN-2349-9 and GN-2350-9) and the appendices thereto, as well as the Bank policies for consulting (document GN-2350-9) will continue apply in any case.
- 2.3 The entry into effect of use of the SFAM in Bank-financed operations will be subject to: (i) formal signature of an agreement between the Bank and the government under the terms described in this document and detailed in the Report; and (ii) verification by the Bank that the strengthening initiatives agreed upon with the Government, as described in Section 5 of the Report and summarized in the following section, have been implemented. The measures to be adopted in compliance with the implementation and monitoring provisions of the Guide are described in Section 6 of the Report.

III. RISKS AND STRENGTHENING INITIATIVES

- 3.1 The risks of using the SFAM are not high, since it complies with the vast majority of international practices and meets the specific requirements established in the Guide. Nevertheless, in those very specific cases where partial compliance with best practices was identified, the Bank has agreed with the Government of Mexico on the scope of use of the system described in the previous section, as well as on the following strengthening initiatives, to be implemented prior to initiating use of the SFAM in Bank-financed operations: (i) update policies to specify that the bid selection method known as “points and percentages” should

³ All Mexican federal government agencies and entities falling within the scope of application of the Public-sector Procurement, Leasing, and Services Law (LAASSP) and the Public Works and Related Services Law (LOPSRM). This encompasses all federal government departments and their respective bodies, including institutes, committees, councils, centers, agencies, etc., as well as the Office of Legal Counsel of the Federal Executive, the Office of the Attorney General of Mexico, majority State-owned enterprises, and trusts in which the trustor is the federal government or a quasigovernment entity. Article 1 of these laws exempts a series of autonomous entities as well as interadministrative contracts. Also excluded are Petróleos Mexicanos (PEMEX), state governments, and municipios, since the government did not request their validation. In turn, these entities have specific systems for most of their procurement, and are only to a lesser extent subject to those provided by federal procurement laws. If required by such entities, the Bank could perform a specific analysis to recommend their use in the event that the Bank finances one of their projects.

⁴ See footnote 2.

⁵ Two aspects will remain outside the scope of use of the SFAM: (i) direct contracting between public entities, for which the Bank procedure for direct contracting will be continue to be used; and (ii) the use of provisions that exclude foreign nationals and those relating to the degree of national content.

be used, as described in Section 5 of the Report; (ii) complete implementation of a series of improvements now under way to the CompraNet 5.0 system.

- 3.2 In the event of a material change in the parameters under which use of the SFAM in Bank-financed operations has been approved, such use will be suspended until Bank determines whether or not such changes entail a modification to the system's consistency with international best practices, in accordance with Section 2.14 of the Guide.