



USAID
DEL PUEBLO DE LOS ESTADOS
UNIDOS DE AMÉRICA

MEXICO

QUARTERLY REPORT: APRIL – JUNE 2013

USAID/MEXICO ECONOMIC POLICY PROGRAM

CONTRACT: AID-523-C-13-00001

10 July 2013

This report was produced by Abt Associates Inc. for the United States Agency for International Development.

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A. Program Start-Up

In April 2013 USAID selected Abt Associates as the prime contractor for the project Supporting Improved Economic Governance in Mexico (AID-523-C-13-00001). The effective contract start date is April 18, 2013. As discussed below, in May 2013, USAID renamed the project Mexico Economic Policy Program (MEPP) in English, and Programa de Política Económica de México (PROPEM) in Spanish. This document is the first quarterly report for MEPP, covering the period from the contract start date through June 30, 2013. While the report covers the first three months of the project's operation, it should be noted that April-June 2013 corresponds to the Third Quarter of FY 2013 in USAID's administrative calendar.

On May 9, USAID held a post-award orientation briefing led by Regional Contracts Office director Joseph Terrazas via video conference from San Salvador. Also participating from San Salvador by video conference were Juan Alas, Beatriz Chinchilla and Maritza Sarmiento. Participating USAID officers in Mexico included Deputy Chief of Mission Sean Jones, Program Director Kim Delaney, Economic Growth Team Leader Kevin McGlothlin, Contract Office Representative (COR) Mark Gizzi (who will supervise MEPP), Alternate COR Elizabeth Bauch, Economic Growth Advisor Raul Esparza, Contracts Officer Cheryl Hodge-Snead and Acquisition Assistance Specialist Rodrigo Diaz. Participating Abt Associates staff included Project Director Michèle Laird, Chief of Party Tim Kessler, Operations Manager Miguel Contreras, Contracts Coordinator Nancy Cuenca, Senior Economic Governance Advisor Narciso Suarez, and Government and Partner Alignment Director Ramiro Nava.

The objectives of the briefings were to clarify formal and informal procedures to implement award requirements, clarify roles of USAID and Contractor personnel, clarify more complex and critical Contractor requirements, and respond to questions from Contractor personnel. The briefing began with a general overview (award type, performance period and budget), and covered functions and authority of USAID and Contractor personnel, an OAA briefing (contract schedule and CO approvals), and financial management (payment, invoicing, reporting and audits). Program Director Kim Delaney addressed Program office issues, including participant training (TraiNet), branding and events reporting. COR Mark Gizzi gave a technical briefing covering upcoming milestones (work plan, PMP, reporting and DEC) and approval procedures. USAID informed Abt that the *effective date of mobilization was May 8*. Days allowed for completion of all milestones specified in the contract will therefore be counted from that date.

B. Stakeholder Consultations to Define the Work Plan

Working closely with our consortium partners, Abt Associates organized or participated in numerous meetings with leaders from the principle economic governance organizations of the Mexican government. The purpose of the meetings was to introduce MEPP to the new administration and gain insight into the government's economic governance priorities that can be promoted through foreign technical assistance.

- April 23: Sergio Saldaña, Chief of Staff to the Undersecretary of Labor, Ministry of Labor (STPS). This meeting was organized by USAID and included our COR. Part of the meeting addressed possible short-term assistance that could be provided through the Mexico Competitiveness Program (MCP), which closes out in August. Most of the discussion focused on longer-term support from MEPP. Saldaña expressed interest in building on previous work carried out by MCP proposing a new youth employment program that involves private sector employers in capacity-building and linking individuals to job opportunities. He was also interested in the related issue of orienting part of the public education curriculum to strengthen practical skills sought by many employers.
- May 2: Adriana Tortejada, Director General for Entrepreneurship Programs and SME Financing, National Entrepreneurship Institute (INADIM). Tortejada was enthusiastic about USAID support and described the broad goal of elevating SME promotion by developing an integrated public policy to support SME growth and innovation, rather than a fragmented series of funding mechanisms subject to frequent change. She was also interested in the idea of distinguishing among types of SMEs and entrepreneurs, since high-impact and innovative firms have greater needs and require deeper assistance than traditional SMEs.
- May 7: Jose Guadalupe Sainz, Chief of Staff of the Secretary of Economy (SE) and Mario Rodríguez, an SE advisor. This meeting was organized by USAID and included our COR and USAID staff. Sainz emphasized the importance of determining priorities through the National Development Plan (PND), which was formalized on May 20, two weeks after this meeting. He indicated general areas of opportunities for USAID support, such as increasing national content in globalized production and strengthening domestic market competition. Sainz suggested that MEPP might consult directly with a working group of ministry leaders following the adoption of the National Development Plan, in addition to carrying out individual consultations. USAID and SE staff discussed the possibility of formalizing cooperation through an MOU.
- May 10: Abraham Zamora and Jose Ernesto Lopez, General Director and Research Director of the new Economic Productivity unit of the Ministry of Finance (SHCP). The mission of the new unit is to ensure that major economic governance actions taken by the Mexican government are coherent and aligned. Specific goals include: efficient use of government resources, strengthened program evaluation, coherent and rational business regulation, curbing monopolies, increasing value added in domestic production (e.g., through supply chains), and “democratizing” productivity by creating opportunities

for marginalized social groups and regions. The unit will produce a Productivity Program following release of the PND, and will preside over the Consultative Council on Productivity, which brings together key public sector leaders. Zamora and Lopez expressed their strong interest in working with MEPP to develop and disseminate the unit's priorities to other parts of the Mexican government. In the short-term, they proposed work on developing guidelines that describe basic principles of productivity promotion. Collaboration on this product and recognition of USAID support would be a major early step in ensuring the effectiveness of MEPP resources.

- May 15: Abt staff met with Paolo Benedetti, General Director of Institutional Relations and International Affairs, Ernesto Estrada, General Director for Private Sector Processes and Bids, and Fernando Miño, Director of Regulatory Assessment, from the Federal Competition Commission (CFC). The officials described four priority areas for technical assistance to explore with USAID: natural gas, financial services (focus on retail banking), transportation and telecommunications. Given the political dynamic and influence of the Secretariat of Transportation and Communication and the recent creation of a new telecom regulator, CFC plans to focus on energy and financial services in the near-term.
- May 21: Jose Ernesto Lopez, Research Director from the new Economic Productivity Unit of the Ministry of Finance (SHCP). Following up on the May 10 meeting (see above) SHCP staff demonstrated an analytical tool – primarily a questionnaire -- that is being developed to determine the level of alignment of government programs with basic productivity parameters. A potential area of short-term collaboration is helping SHCP apply the tool for programs within INADEM (National Entrepreneurship Institute). In the longer term, SHCP indicated interest in rolling out and mainstreaming the process to the government's major programs.
- May 27: MEPP partners met with SE Undersecretary of Commerce and Industry Ignacio Navarro to discuss options and priorities for USAID technical assistance to develop and improve transparency standards for economic governance programs. We will follow up with Navarro's chief of staff to identify specific activities, deliverables and goals.
- May 28: MEPP partners participated in a meeting with Yolanda Martínez, who leads the Digital Government Unit of the Secretaria de la Función Pública (SFP). SFP operates numerous government programs designed to cut red tape, streamline administrative processes and enhance the use of IT within government agencies and between citizens and government. The meeting was useful in setting the agenda for the following day's meeting with Presidencia's head of digital government (see below), as SFP is largely responsible for implementing policy produced at Presidencia. Martinez identified the short-term goal of identifying the most problematic administrative procedures routinely faced by citizens at the national, state and municipal level. The ambitious longer term goal is to consolidate necessary and reasonable procedures within an internal portal that provides citizens with required information and efficiently guides them through administrative steps.
- May 29: Abt staff, all consortium partners and our COR met with Alejandra Lagunes, Coordinator for Digital Strategy at the Office of the President (*Presidencia*). This meeting was a direct follow up to the previous day's meeting with Yolanda Martinez at SFP.

Lagunes works closely with other ministries to digitalize documents and processes that citizens deal with, as well as to expand and improve access to governmental information. Examples related to economic governance include public resource monitoring, business transactions and payments (at national and local level), and expansion of electronic commerce. Lagunes also identified two cross-cutting priorities drawn from the President's agenda: inclusion of marginalized citizens (e.g. women, indigenous, handicapped), and the development of a legal framework (*marco juridico*) to govern access, availability and protection of personal and business data. Lagunes was enthusiastic about the prospect of USAID technical assistance and indicated that her staff and officials from cooperating agencies (e.g., SFP) would meet with MEPP partners over the next few weeks to specify activities and deliverables for inclusion in our work plan. She also expressed interest at the proposal to formalize cooperation with *Presidencia* in the near future.

- June 4: Miguel Chavez, director of the Innovation Stimulus Program (PEI) at the National Council for Science and Technology (CONACYT). Priority areas included establishing selection criteria for SMEs that address economic and commercial viability as well as innovation.
- June 5: Ignacio Rubi, Undersecretary for Labor Inclusion at the Ministry of Labor (STPS). The meeting included USAID staff and a MEPP team member. The Undersecretary expressed his interest in implementing a youth employment program (see above meeting on April 23) for young people who neither work nor study (NiNis) which was designed last year with USAID funding under the Mexico Competitiveness Program, and proposed to pilot the program in Monterey. A MEPP team member traveled to Monterey on June 14 and met with the Secretary of Labor of the State of Nuevo Leon and the Director for Social and Business Development of the Universidad Autónoma de Nuevo León (UANL) to explore potential partners for the implementation of the model. The State Secretary committed to explore state budget funds in order to fund partial implementation of the model. As per USAID request, MEPP expressed USAID's interest in supporting the implementation of the model but did not commit MEPP's funds to it.
- June 11. José Ernesto Lopez Cordoba, Analytical Director of the Economic Productivity Unit of the Ministry of Finance (SHCP). This meeting included key MEPP team members and USAID staff. Participants provided feedback to strengthen SHCP's productivity evaluation tool, which measures the alignment of federal programs with the government Productivity Democratization Special Program. SHCP also requested assistance to institutionalize the process through which GOM organizations provide relevant information to SHCP.
- June 12. Salomon Chertorivski, Secretary of Economic Development for the Mexico City government. Priority areas included transformation of a current social fund (FONDESA), which makes micro-loans and has a huge default rate, into a strategic credit guarantee fund that makes capital available to high growth potential enterprises.
- June 19: Jose Ernesto Lopez Cordoba, head of analysis of the SHCP Economic Productivity Unit. The meeting included the MEPP team, CONEVAL representatives (Consejo Nacional de Evaluación de la Política Social) and SHCP staff. Participants

provided feedback on SHCP's productivity evaluation tool (described earlier), which measures the alignment of federal programs with the government's Special Program on Democratization of Productivity. MEPP staff committed to refine the questionnaire (appropriate questions and supporting analysis/documents) and to design an implementation model. The MEPP team drafted proposed refinements for the analytical tool and submitted the proposal to SHCP on June 28.

- June 24: Enrique Jacob, President of the National Entrepreneurship Institute (INADEM). Jacob confirmed INADEM's interest in activities MEPP has been discussing with his General Directors, such as promoting the participation of high technology SMEs in public procurement and promotion of entrepreneurship. He also proposed assistance to support the design of an impact evaluation for INADEM programs.
- June 27: Rocio Ruiz, Undersecretary of Competitiveness, Ministry of Economy. Ruiz expressed interest in improving the effectiveness and accountability of the process for setting technical norms and standards. She also suggested that her organization had inadequate communication channels with stakeholders, and suggested support for a strategic public outreach plan. Other areas of potential collaboration discussed included widening the scope and use of the Unique Registry Warranty Office, contract enforcement and a plan to streamline processes involving the Public Registry of Property and Commerce. The latter could be a joint activity with the Mexico City government.

C. Defining the Work Plan and Identifying Priority Institutional Partners

On May 8, Chief of Party Tim Kessler gave a presentation on the objectives and general technical area of the new project at a USAID meeting of implementing partners. On the following day, the COP, Project Director and Economic Governance Advisor met with staff from the U.S. Embassy Economic Section to share information about Mexican economic governance reform priorities and opportunities for U.S. Government support.

On May 20, COR Mark Gizzi and USAID Economic Growth officer Raúl Esparza met with COP Tim Kessler, Senior Economic Governance Advisor Narciso Suárez and Director of Government and Partner Alignment Ramiro Nava. The objective of the meeting was to update USAID on the individual meetings that Abt has had with consortium partners and government counterparts and to discuss next steps. On June 13, MEPP COP Tim Kessler and Economic Governance Advisor Suarez gave a presentation to Mission Director Tom Delaney, Economic Growth Team Leader Kevin McGlothlin and COR Mark Gizzi on proposed priority policy areas for MEPP. The recommendations are summarized in the Graphic 1.

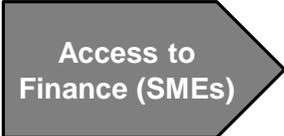
Based on the consultations outlined above, the MEPP team identified four core policy areas: transparency of economic institutions, market regulation, SME access to capital and

commercial law. As discussed with USAID, labor reform implementation is not likely to become a Work Plan pillar. Pending USAID guidance, MEPP may carry out technical assistance on employment promotion for the Ministry of Labor (STPS), in coordination with USAID’s upcoming Workforce Development program.

Graph 1: Proposed technical areas for MEPP



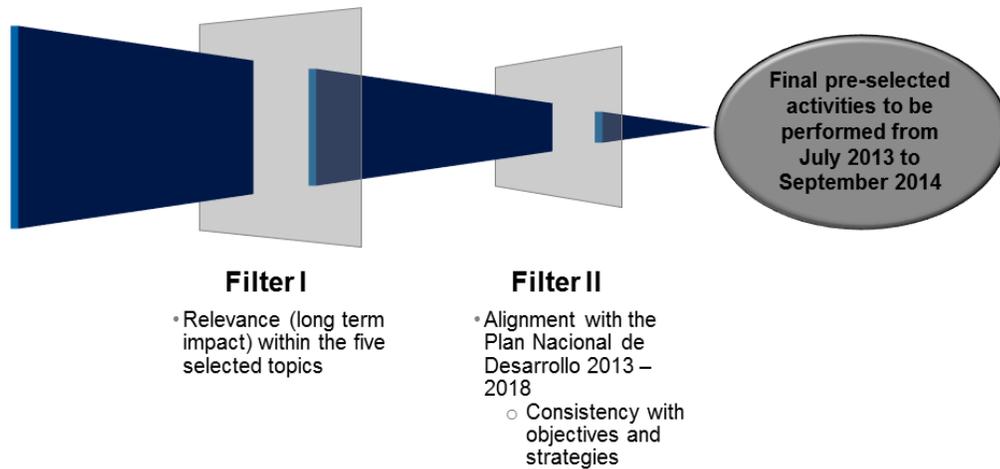
Main technical areas for focus in the first year

Technical area	Potential Activities	Institutions
 <p>Transparency in Processes</p>	<ul style="list-style-type: none"> Productivity evaluations for budgeted programs in the federal government (better visibility and accountability) Internet site with consolidated procedures for federal / state / local governments (less time, less procedures for citizens) Implementation and evaluation of first stage of Federal / State / Local procedures to be performed in Colima and Jalisco 	<ul style="list-style-type: none"> Min. Finance Office Presidency Min. Public Administration
 <p>Market Regulation</p>	<ul style="list-style-type: none"> Model law for public works in state and local governments that consolidates best practices (potential savings, decrease in corruption, more accountability) Improved investigative capacities of regulator 	<ul style="list-style-type: none"> Min. Public Administration COFECO
 <p>Access to Finance (SMEs)</p>	<ul style="list-style-type: none"> Carve out high impact SME programs for INADEM Redesign CONACYT’s Innovation Stimulus Program to include commercial and economic feasibility of projects Design and implementation of GDF guarantee fund for high impact SMEs 	<ul style="list-style-type: none"> INADEM CONACYT GDF - SEDECO

On June 28 MEPP submitted a report on recommendations for institutional relationships that will best leverage USAID resources and promote improved economic governance. The most important GOM institutions identified in the report include: (1) Ministry of Finance (SHCP), based on its cross-cutting influence over spending decisions among almost all federal programs; (b) Office of the President (*Presidencia*) based on its direct accountability to the country’s chief executive, unique agenda-setting power, and commitment to transparency through electronic government; and (c) National Entrepreneurship Institute (INADEM), based on its large budget to support SME development and commitment to promote high growth and innovative firms. The recommended institutional relationship report is a required deliverable under the MEPP contract.

A total of 23 potential activities that could be performed during the first year of the MEPP were pre-selected based on GOM stakeholder input, feasibility and the filter displayed in Graphic 2.

Graph 2: Filter mechanism to pre-select activities



It is important to note that the pre-selected activities are tentative and will be discussed during a joint meeting with the MEPP team and USAID on July 2. The proposed Work Plan will be submitted in July.

D. Proposed Performance Indicators

On June 26, the COP, Senior Economic Governance Advisor and Director of Government and Partner Relations met with the COR and Alternate COR to propose MEPP indicators. The COP presented a proposal for four indicators that address the two central goals identified in the RFP -- improving policy and strengthening institutional capacity:

IMPROVING POLICY

1. Transforming governance: Number of
 - new or modified laws (approved by legislature);
 - new or modified regulations (authorized by executive order or internal organizational procedures);
 - new or re-designed programs (funding mechanisms, private sector promotion).
2. Improving governance: Number of

- programmatic rules of operation (created or modified): examples: eligibility and selection criteria, application rules;
- impact evaluation design or modification (typically applied to funded programs);
- Open data
 1. number of informational mechanisms created or modified: websites, web-pages, apps, publications for public use
 2. number of interactive mechanisms: e.g., websites or applications that allow user to carry out transaction.

CAPACITY BUILDING

3. Organizational: Number of mechanisms adopted to improve institutional or organizational capacity:
 - technical manuals
 - formal guidelines or standard operating procedures
 - internal procedural web-pages
 - internal adoption of improved organizational practice within a GOM or subnational government organization.
4. Human capital: Number of GOM or local government officials trained
 - Disaggregated by gender
 - Person-hours counted.

E. Conclusion

The Mexico Economic Policy Program is well situated to begin providing technical assistance to Mexican government partners in July and achieve significant results in its first year of operation. In the 37 working days following mobilization, the MEPP team established constructive relationships with key counterpart institutions, and identified specific high-impact policy and capacity-building priorities that will inform the annual Work Plan. An important reason for our rapid start-up is administrative efficiency: all team partners received sub-contracts and were quickly authorized to work. In addition to the COP, key technical staff and the finance/operations manager were hired. Finally, because Abt is still operating the Mexico Competitiveness Program, office space was immediately available (costs are being shared accordingly). As a result of effective planning and favorable circumstances, MEPP will become fully operational at the beginning of its second quarter, ensuring that USAID resources are used to support improved economic governance as soon as possible.