



USAID
DEL PUEBLO DE LOS ESTADOS
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MEXICO

QUARTERLY REPORT: OCTOBER – DECEMBER 2015

MEXICO ECONOMIC POLICY PROGRAM



(top left) *Atrévete a Emprender* winner team - Nimble Innovation -which uses neem tree to produce a natural pesticide; (top center) Emotion Box, winner team from *Atrévete a Emprender*: delivering live butterflies in flower arrangements; (top right) Students participating in *Creación Puebla*; (bottom left) Innovative and sustainable solution to water plants from competitor in Hackaton, Xalapa; (bottom center) Happy student in *Creación*, Puebla; (bottom left) Municipal president receiving a recognition for collaborating and joining the platform *Mi Negocio*.

Photos by Natalia Jardon, Abt Associates Inc.

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OVERVIEW OF PROGRAM

The mission of USAID's Mexico Economic Policy Program (MEPP), which began in May 2013, is to improve Mexican private sector productivity and competitiveness by supporting the country's efforts to strengthen public sector economic governance. MEPP does this through *policy change* (laws, regulations, program rules and design, and transparency) and *organizational capacity-building* (promoting best practices in operating procedures, information access, and human capital development).

The Mexico Economic Policy Program supports six over-arching policy outcomes. Though economic outcomes depend on numerous exogenous factors that foreign technical assistance cannot change, key Mexican institutions have a major impact on those outcomes, and can themselves be strengthened by technical assistance. MEPP promotes implementation of substantive reforms and improved practices within governmental institutions and organizations that most directly affect these economic outcomes:



Outcome 1: Government funds promote private sector development and productivity. MEPP supports reform of rules and regulations that govern public sector spending programs, especially those that promote business start-up, growth and innovation, to improve transparency and effectiveness of government investments.



Outcome 2: Businesses face fewer obstacles to growth. MEPP produces specific proposals that make regulations affecting business start-up and operation more transparent and less costly. These proposals focus on governance change at the national, state, and municipal level.



Outcome 3: Competition is improved. MEPP supports public sector actions that level the playing field in a given market. This work strengthens regulations and institutional capacity to improve accountability of corporations that engage in rent-seeking behavior, and to reduce barriers to entry for new competitors, especially in markets in which collusion is common.



Outcome 4: SMEs have greater access to private capital. MEPP produces proposals to modify rules and regulations of key financial sector institutions to improve the incentives and ability of small and medium-sized enterprises to attract private investment.



Outcome 5: Business transactions are more efficient and reliable. MEPP proposals seek to modify regulations and judicial processes that impose costs on businesses pursuing larger economic transactions, as well as those trying to resolve claims and disputes with other firms or organizations. Reforms will increase the transparency and reliability of government institutions, while reducing the time and expenditure of business transactions.



Outcome 6: (Cross-cutting): Citizens have greater access to public information. MEPP works with the Office of the Presidency and other government and civil society stakeholders to develop and launch mobile applications that increase the quality and volume of governmental information available to individuals, NGOs and the private sector. These apps support the federal government's commitment to improve public sector transparency and transactions between government agencies and citizens.

LIST OF ABBREVIATIONS

AMSDE	Mexican Association of State Government Development Secretaries
BANCOMEXT	Mexican Export Bank
BANXICO	Mexican Central Bank
BMV	Bolsa Mexicana de Valores (Mexican Stock Market)
CIDAC	Center of Research for Development
CIDE	Center for Research and Teaching in Economics
COFECE	Federal Economic Competition Commission
COFEMER	Federal Commission for Regulatory Improvement
CNA	National Water Commission
CNBV	National Securities and Banking Commission
CONACYT	National Science and Technology Council
CONAFOR	National Forestry Commission of Mexico
COP	Chief of Party
COR	Contracting Office Representative
CRE	Energy Regulatory Commission
EPU	Economic Productivity Unit (Ministry of Finance)
FAA	Foreign Assistance Act (United States)
FLACSO	Latin American School of Social Sciences
FONDESOL	Social Development Fund (of Mexico City)
FY	Fiscal Year
GDF	Mexico City Government
GDP	Gross Domestic Product
GoM	Government of Mexico
IDB	Inter-American Development Bank
IFECOM	Federal Institute of Bankruptcy Specialists
IFT	Federal Telecommunications Institute
IJF	Institute of the Federal Judiciary
IMCO	Mexican Institute for Competitiveness
IMPI	Mexican Institute for Industrial Property
IMSS	Mexican Social Security Institute
INADEM	National Entrepreneurship Institute
INECC	National Institute of Ecology and Climate Change
INEGI	National Institute of Statistics and Geography
ITAM	National Autonomous Technological Institute
MFI	Microfinance Institution
NAFIN	Mexican National Development Bank
NGO	Non-Governmental Organization
NOM	Official Mexican Standard
PEI	Innovation Stimulus Program (under CONACYT)
PMP	Performance Monitoring Plan
PROMEXICO	Investment and Export Promotion Agency
RUG	Registro Único de Garantías Mobiliarias (Non-real estate guarantee registry)
SAGARPA	Ministry of Agriculture, Cattle, Rural Development and Fisheries
SBA	Small Business Administration (United States)
SCT	Ministry of Communications and Transportation
SE	Ministry of Economy
SEDATU	Ministry of Agrarian, Territorial and Urban Development
SEDECO	Mexico City Secretariat of Economic Development
SEDESOL	Ministry of Social Development

SEMARNAT	Ministry of Environment and Natural Resources
SENER	Ministry of Energy
SFP	Ministry of Public Administration
SHCP	Ministry of Finance
SME	Small and Medium Enterprise
SRE	Ministry of Foreign Affairs
UAM	Metropolitan Autonomous University
UNAM	National Autonomous University of Mexico
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USG	United States Government
WB	World Bank
WEF	World Economic Forum

TECHNICAL PROGRESS TOWARD POLICY OUTCOMES

During the first quarter of FY 2016 (October-December 2015), MEPP made significant progress on key activities and deepened its impact on Mexican public sector economic governance. Major achievements include the completion of the first cycle of *Atrévete a Emprender*, Mexico City's path-breaking youth entrepreneurship program, the institutionalization of a productivity evaluation (designed by MEPP) for federal spending programs by Mexico's Ministry of Finance, a major conference that identified international best practices as policy recommendations to ensure the competitiveness of Mexico City's new airport, and a global forum to present civil society and private sector perspectives on corruption. During this quarter, MEPP completed five technical deliverables.

This report presents technical progress and governance achievements resulting from MEPP activities. Please see **Annex 2** for a list of achievements towards indicator targets as defined under our Performance Management Plan and **Annex 4** for descriptions of all final deliverables completed during the quarter. As of December 31, 2015, the Program had achieved a total of 12 policy proposals endorsed or adopted to improve economic governance, as well as six institutional capacity mechanisms adopted by counterparts. MEPP trained a total of 519 people during the quarter, resulting in a cumulative total of 3,486 over the life of the project. **Annex 3** displays all training this quarter by event.



I. Government funds promote private sector development and productivity

A. Supporting state programs for SMEs

Atrévete a Emprender

MEPP supports Mexico City's Social Development Fund (FONDES) in implementing *Atrévete a Emprender* (Dare to Start Up), a program that encourages young people from four public universities to develop business proposals with high-growth potential. The program drew 400 proposals from 1,100 applicants. On October 8, MEPP invited 12 of *Atrévete's* most promising teams to the *Semana del Emprendedor* DF Tech Tour—organized by the Mexico Entrepreneurship Institute and the private investment firm Angel Ventures—to meet with experienced entrepreneurs and U.S. investors. From October 12-15, the remaining 25 *Atrévete* teams received personalized sessions on validating proposals through the Business Canvas Model with mentors from the Arrowhead Center of New Mexico State University. In November, semi-finalists presented findings to determine potential market viability of proposals and received feedback and additional guidance from Arrowhead to refine business models.

On December 11, the 10 *Atrévete* finalist teams were announced at a major public event organized by the Mexico City government and MEPP. Winning projects included: Nimble Innovation, which extracts active ingredients from the neem tree to produce a natural pesticide and a tea that reduces insulin dependence of diabetes patients; EmotionBox, which takes flower arrangements to the next level with surprises such as live butterflies; and Merca WiFi, which gives free internet to on-the-go customers in exchange for viewing commercials or participating in surveys. At the closing ceremony—attended by National Entrepreneurship President Enrique Jacob and USAID's Transparency and Anti-Corruption Chief Elizabeth Ramirez—Mexico City Secretary of Economic Development Salomon Chertorivski said, "Thanks to USAID, we were able to launch this program, and we are very proud to announce that we will establish *Atrévete* as a yearly FONDES program from now on."

In a related development, Fundación Aeromexico—the charitable organization affiliated with Mexico’s largest airline—agreed to cover airfare for up to 20 *Atrévete* finalists – members of the 10 finalist teams - who will travel to New Mexico in early 2016 to begin the incubation process at Arrowhead Center.

B. Federal government SME support

Re-designed Rules of Operation for INADEM

In October, *Gestión Social y Cooperación* (GESOC), an NGO that evaluates social and economic development programs, published its annual Public Federal Programs Index (INDEP), which measures the quality of 161 selected federal programs and activities subject to evaluation. The best federal program, and first place on this index, was the National Entrepreneur Fund, managed by the National Entrepreneurship Institute (INADEM). In December 2014, INADEM modified rules of operation proposed through MEPP technical assistance to improve the consistency, coherence and objectivity of the selection process, contributing to the fund’s effectiveness. In an October 2015 letter to the USAID Mission Director, INADEM President Enrique Jacob thanked USAID for MEPP technical assistance, which enabled the Institute to “make the National Entrepreneurship Fund a national example of effectiveness and efficiency in public sector program operation.” The GESOC index underscores INADEM’s improvement as a result of USAID MEPP assistance.

C. Public sector promotes productivity

Value Chains

Energy Sector Trust Fund

On November 23, MEPP staff attended a discussion on general operating strategy with the Technical Committee for the Energy Suppliers Development Fund. Many of MEPP’s recommendations were included in a proposal for operation, including distinguishing three types of support: strategic projects, industry certifications, and territorial projects. The meeting was led by the Undersecretary for Industry and Trade, Rodolfo Garza, and attended by representatives from the Ministry of Finance, Nafin (national development bank), INADEM and Ministry of Energy.

Textile Platform

Last quarter, we reported the September 2015 launch of ProMexico’s electronic platform, developed with MEPP technical assistance, to promote business match-making between large international manufacturers in the fashion industry and domestic suppliers. By the end of November, the platform had registered 1,029 meetings between 41 U.S. and Latin American manufacturers and 308 Mexican suppliers mainly from the states of Hidalgo, Jalisco and Mexico City. These results greatly exceeded ProMexico managers’ expectations.

Aligning Federal Spending Programs with Productivity

The Ministry of Finance Economic Productivity Unit (UPE) took a major step toward institutionalizing a diagnostic tool, developed through MEPP technical assistance, which helps align federal spending programs with national productivity priorities. At an October 20 workshop for managers from 88 federal spending programs, UPE and MEPP presented the national Democratization of Productivity Program (PDP) and explained how the self-assessment instrument can improve design of subsidy mechanisms.

Key participants at the workshop included representatives of the Ministries of Economy, Education, Agriculture, Communications and Transportation, Social Development and Energy, as well as the National Commission on Science and Technology. The 88 programs included represent almost 14 percent of projected programmable expenditure for 2016—or nearly US\$50 billion. Given that the first cycle of institutional participants included 36 organizations, the size and scope of the new “class”

demonstrates that the finance ministry is making major progress in institutionalizing a mechanism developed by MEPP to make budget allocations more effective.

UPE chief José Ernesto López said targeted federal programs must use results from the PDP evaluation to modify their design and rules of operation to align them with Mexico's productivity goals. Such guidance from Mexico's most powerful economic ministry—the one with the most influence over budgeting decisions during a time of painful cutbacks—should have a transformative impact on governance. Reflecting on USAID's contribution, López said, "A fundamental component in Mexico's economic growth agenda is the strengthening of the institutional capacity of public sector programs to contribute to higher and more inclusive productivity growth. In this regard, thanks to USAID's assistance, we have been able to have an impact on the effectiveness of government programs, achieving better targeting of resources and improved inter-institutional coordination."



2. Businesses face fewer obstacles to growth

A. Streamlining business procedures

Empresa al Instante

On October 27, MEPP staff met with Elsa Ayala, General Director of Commercial Regulation from the Ministry of Economy, to determine next steps in the "*Empresa al Instante*" (rapid business start-up) project. The initiative requires participation from all three levels of government since it seeks to consolidate into a single platform federal, state and municipal procedures for opening a business. The ministry is working with Congress to create a new legal business mechanism called *Sociedad Simplificada* (*Simplified Enterprise*), which would benefit from faster, easier streamlined start-up rules. Under the new regulatory framework, these start-ups, which represent the vast majority of all small and micro enterprises in Mexico, would be simultaneously registered at federal, state and municipal levels. MEPP's technical assistance promotes two related goals that improve competitiveness: First, to allow enterprises that do not pose consumer safety, health or environment risks to begin operating and making sales as soon as they submit preliminary required paperwork. Second, to minimize response time and discretion of local government officials to approve start up of new businesses. In November, MEPP team members held consultations with the state governments of Yucatan and Veracruz, both of which expressed their intention to adopt relevant regulatory changes to legalize the *Sociedad Simplificada* as soon as federal legislation is approved.

Transparency in Local Business Regulation

Survey findings produced with USAID support show that 60 percent of business owners consider lack of regulatory information a major obstacle in starting and operating a business. Opaque rules lead to unintentional non-compliance and create opportunities for public officials to impose (or threaten) sanctions in a discretionary manner. As a result, microenterprises can spend up to 10 percent of their income on bribes. The innovative [MiNegocio](#) digital platform, developed with MEPP assistance, enables local governments to make information about business rights and responsibilities available online. Business owners (actual or aspiring) are able to consult procedures and requirements needed to operate and open businesses, in addition to inspection criteria and a list of authorized inspectors. At an October 21 press conference, USAID Director of Transparency and Integrity Elizabeth Ramirez presented the website, accompanied by Mexican Competitiveness Institute Director Juan Pardinás and Mexican Chamber of Commerce President Enrique Solana Sentiés. Speakers recognized the leadership of presidents from the six municipalities that participated in the MiNegocio pilot. MEPP will expand this transparency platform to other municipalities throughout the country in 2016 and 2017.

B. High impact entrepreneurship

Obstacles to high impact SMEs

On November 11, MEPP met with Adriana Tortajada, General Director for Entrepreneurial Programs from the National Entrepreneurship Institute (INADEM), to present its findings on high-impact enterprises. The study, based on a business survey carried out by MEPP earlier in the year, proposes a refined definition and methodology to identify high-impact enterprises. Main findings showed these enterprises have more robust practices and processes regarding use of technology, talent, financing, social responsibility, networking and strategy. MEPP provided detailed recommendations to INADEM to modify selection criteria for a fund focused on high-impact enterprises. The goal of our assistance is to help the Institute allocate resources to the most appropriate beneficiaries: those with real potential to grow and innovate. During a December 15 meeting, INADEM President Enrique Jacob said he would draw upon MEPP's work in modifying the rules of operation for the high-impact call for proposals (*convocatoria*), one of the subsidy programs within INADEM's entrepreneurship fund (see IB above).



3. Competition is improved

A. Procurement reform and innovation

Civic Oversight of Mexico City's New Airport

On November 5 and 6, more than 140 people attended the conference, "Getting it Right at Mexico City's New Airport," which brought together over a dozen international experts and numerous Mexican experts to identify challenges in slot allocation and other competitiveness issues facing the new Mexico City airport. Organized by the Alliance for Competition and the Citizen Observatory for the New Airport, two MEPP-supported initiatives, in collaboration with Anahuac University, the event was part of USAID's broader effort to build civic awareness and oversight of the new airport. On December 9, the Observatory organized a press conference in which CTS Embarq, the Mexican Competitiveness Institute (IMCO) and Ciudad Humana Mexico identified serious information gaps in local transport to and from the new airport. Adriana Lobo, director of CTS Embarq, said government had not published anything on highway planning, parking, or public transportation, despite forecasts that passenger and employee traffic is expected to increase significantly. With the national airport authority (NAICM) scheduled to open in five years, now is the time to involve civil society and local affected communities in the decision-making process.

Public Works Procurement Reform

On November 27, MEPP provided support for 10 local government officials to attend the International Forum on Innovation in Metropolitan Governance, held in Guadalajara, Jalisco. The conference was organized by the State of Jalisco, the Ministry of Agrarian, Territorial and Urban Development (SEDATU) and UN Habitat Mexico, and was inaugurated by their respective heads, Governor Artistóteles Sandoval, Secretary Rocio Robles, and Erik Vittrup. Over 700 people registered for the event, which covered infrastructure planning methodologies, mobility and promotion of social equity in urban design. MEPP sponsored a workshop on open data for governmental impact, delivered by the software development NGO Codeando México, a MEPP team partner. The workshop provided capacity-building and practical guidance for local government officials seeking to make public sector data more widely available to the general public.

B. Strengthening regulatory capacity

Alliance for Competition and Institutional Capacity Building

This quarter, the Alliance for Competition, an initiative co-sponsored by MEPP and the embassy of the United Kingdom, supported two capacity-building roundtables:

- November 16: Over 60 regulators received capacity building in radio spectrum management at the Federal Institute for Telecommunications. Dr. Martin Cave, a leading expert on competition challenges confronting networked industries, delivered the half-day seminar, which covered the design of a regulatory framework and the implications of spectrum allocation options amid increased demand from smartphone use.
- November 30: The Alliance for Competition organized an expert seminar focused on legal, technical and administrative challenges involved in disclosing or protecting information used in ongoing competition cases. Speakers included IMCO director Juan Pardinás, who provided a civil society perspective, while the public sector was represented by COFECE Strategic Planning Chief Alejandro Faya, Federal Telecommunications Institute Investigation Chief Ricardo Salgado, and Competition Tribunal Judge Jean-Claude Tron Petit. Roundtable participants acknowledged there was no “magic formula” for determining when case-sensitive information should be kept confidential, and affirmed that regulators are responsible for analyzing claims and making classification decisions on a case-by-case basis. At events such as this, USAID is helping to push the boundaries of public dialogue and build common understanding of proper enforcement among civil society and government stakeholders.

In 2016, the Alliance will sponsor seminars, technical courses and conferences on a range of topics that build the public sector’s capacity to enforce competition laws.



4. Greater SME access to private capital

A. Innovative financing for SMEs

CDMX Seed Capital Fund

The Mexico City Government sequestered about 48 million pesos (USD \$2.8 million) to create a seed capital fund that promotes innovative entrepreneurship. In November and December meetings with national economic officials, Mexico City officials agreed to manage and allocate resources within a larger seed capital fund that the national development bank (NAFIN) is currently developing with the Ministry of Economy (SE). The CDMX portion of the national fund would be dedicated to financing and provide strategic assistance to innovative, high-impact SME projects in Mexico City.

On December 1, Mexico City’s Social Development Fund (FONDESO) presented terms and conditions for becoming part of the new seed capital fund to NAFIN and SE. FONDESO based its participation on a private placement memorandum (PPM) produced with MEPP technical assistance earlier in 2015. On December 17, FONDESO’s Technical Committee instructed the Director to initiate administrative, legal and budgetary operations necessary for approval of the program agreement with NAFIN and the Ministry of Economy, expected in January 2016.

While the initial amount—less than US \$3m—is quite modest relative to the size of Mexico City, the initiative represents an important advance for local government promotion of business innovation. Prior to creation of the seed capital fund, the city promoted micro-businesses primarily through micro-loans, under criteria focused more on administrative compliance than economic development strategy. Under the proposed fund-sharing approach with NAFIN, private sector experts will select a small number of potentially high-impact enterprises to support through equity participation. While these innovative firms can come from anywhere in the city, much of the expected project pipeline will likely come from strong contenders that participate in *Atrévete a Emprender* and *Cleantech Labs*, two entrepreneurship initiatives supported by MEPP.



6. Citizens have greater access to public information

A. Open Data Ecosystem

Open Government

Let's Talk About Corruption

According to Transparencia Mexicana, the country's poorest people spend up to a quarter of their income on bribes to gain access to basic social services and to avoid government sanctions. More broadly, corruption erodes household welfare at all income levels and undermines private sector competitiveness. On October 12, MEPP co-sponsored a major international conference called *Hablemos de Corrupción* (Let's Talk About Corruption), an unprecedented public forum dedicated to a frank appraisal of one of Mexico's most enduring governance challenges, as well as policy proposals for reform. Co-organizers included USAID, the U.K. Embassy, the World Bank, the Inter-American Development Bank, Transparencia Mexicana, and MEPP implementing partner Mexico Competitiveness Institute (IMCO). The conference addressed the social and economic costs of corruption, why the corporate community believes legality is good for business, and the role of civil society in combatting corruption. Over 500 people, including over 70 members of the media, attended the event.

Open Data at the State Level

On October 16-18, over 300 students came from all over the state of Veracruz and camped at the city's Interactive Museum to develop innovative solutions to government challenges defined through a participatory civic engagement process. The Hackathon, co-sponsored by MEPP, was inaugurated by the state's Minister of Education, and the awards ceremony was hosted by the state Governor. Panels included civic innovation, entrepreneurship for digital economies, and citizen labs for public experimentation. In workshops, students learned how to access open data and use it to improve transparency in the public sector.

A week later, MEPP supported another innovative approach to catalyzing citizen participation in open data. Most *Poblanos* (residents of Puebla) have never heard of the State Auditor and have no idea that it exists to ensure public accountability. On October 23-24, 130 students of economics, marketing, international relations, political sciences, communications, graphic design and engineering registered to participate in a two-day event at Puebla's largest public university (BUAP), dedicated to transforming public sector data into accessible tools, graphics and information that are relevant and accessible to everyday citizens. The *Creatón Puebla* included capacity-building for local NGOs and students in open data and civic engagement. Participants had 30 hours to develop their projects, during which they could consult with a variety of experts through small workshops provided during the event. In November, BUAP announced that it would finance three projects that were initiated and proposed at the event: a video commercial, an infographic, and a mobile application --- all publicizing and demonstrating the benefits of transparent government. The State Auditor stated that it plans to utilize each deliverable once they are fully developed.

Retos Públicos

Retos Públicos is a digital platform that promotes civic innovation to address federal government challenges by inviting small developers to participate in IT procurement. In November, winning company Krieger Electronics signed a contract with Ministry of Public Administration (SFP) to deliver the first version of a mobile application for the government web site www.gob.mx, which provides basic information about federal government procedures, forms and applications. In December, *Retos Públicos* announced the five finalists for the challenge *CHKTENLINEA*, an application to help detect and monitor chronic degenerative diseases in members of the Mexican Social Security Institute (IMSS), and to help patients and their doctors follow up with treatment options. In addition, in December, the Ministry of

Education (SEP) launched a challenge for an application that enables students who have studied abroad to convert foreign coursework into academic credits formally recognized by SEP.

ADMINISTRATIVE ACTIONS

MEPP's base period will close in April 2016, after which we will enter into a two year option period. In order to close out the base period, MEPP will carry out some restructuring of personnel in a way that most effectively and efficiently meets the needs of the option period scope of work. As a result, two MEPP staff members, the Contracts Coordinator and Project Assistant, had their last day on December 30. The MEPP team has supported these two valued staff members in pursuing future employment.

PLANNED ACTIVITIES AND PROJECTED EXPENDITURES

During the next quarter -- Second Quarter of FY 2016 (January – March 2016) -- MEPP will close out all base period activities. The main activities we will carry out during this period include:

- Improving sustainability of Mexico City youth entrepreneurship program (Atrevete a Empreder) through production of operational manual and training of future project evaluators.
- Definition of executive innovative PPP project for Jalisco state government (including February event in Guadalajara).
- Selection and approval of legal mechanism for Mexico City cleantech innovation public-private partnership (including public launch event in March)s
- Completion of training and electronic platform for bidding price analysis by the Mexico Social Security Institute (IMSS)s
- Completion of multi-sector study of state government legislation and its impact on competitions
- Completion of study to improve and regularize land titling in the State of Morelos (including presentation in February)s
- Completion of study to develop technology cluster in Distrito Tec (Monterrey, NL).
- Completion of study on expatriate investment fund for ProMexico.
- Consultation with Mexican government counterparts to define activities and deliverables for option period work plan: Ministry of Public Administration (SFP), National Entrepreneurship Institute (INADEM), Federal Economic Competition Commission (COFECE), Office of the Presidency Digital Strategy unit.
- Produce preliminary draft of Option Period Work Plan.

MEPP projects that total expenditures for staff, fixed costs, subcontracts, grantees and consultants for the upcoming quarter will be approximately USD \$1.1 million.

SUPPORT TO U.S. EMBASSY

On December 3 the Chief of Party represented the Mexico Economic Policy Program at a USAID meeting of implementing partners.

CONCLUSION

As of the end of the first quarter of FY 2016, less than four months remain in the three-year base period of the Mexico Economic Policy Program. We have completed work on and documented achievement of eight LPI (Policy) activities out of a cumulative target of 14. We have also completed work on and documented achievement of six LP2 (capacity-building) activities out of a cumulative target of eight. In

addition, as of this quarter almost 3,500 people have participated in MEPP-sponsored capacity-building events, exceeding the target of 2,400 by almost one-third.

MEPP is on track to achieve and exceed targets before the end of the base period. We have completed work on many more activities and will obtain formal documentation of achievement in the next (and final) quarter. This will be reported in the next quarterly report. We will also complete several more activities over the next three months and document endorsement and adoption as indicated in the work plan. These, too, will be reported in the report ending March 2016.

The next quarterly report will cover activities and achievements from January – March 2016. It will be the final report for MEPP's base period, which ends in April. We can forecast with confidence that this document will report a total of at least 17 LPI activities and 11 LP2 activities achieved, exceeding targets in both categories. While some of these activities were programmed to end in early fiscal 2016, in most cases we have waited until close to the end of the base period to report so that we can document the most recent impact achieved during MEPP's first three years.

Beginning in April 2016, MEPP will begin its two year option period, which was formally approved by USAID in September 2015. USAID has directed MEPP to focus option period activities – which will run through April 2018 --- on open government and transparency, as well as accountable public sector procurement. MEPP is currently carrying out consultations with government counterparts, implementing partners and independent experts to produce a work plan that reflects the new focus. The work plan will include a new Performance Management Plan and related indicators for MEPP's final two years.

ANNEX I: MEPP ACTIVITY SUMMARY MATRIX

<ol style="list-style-type: none"> 1. Supporting state programs for SMEs 2. Strengthening the impact of federal programs 3. Promoting productivity through public sector programs 4. Supporting local economic reactivation 	<ol style="list-style-type: none"> 1. Streamlining business procedures 2. Reducing obstacles to high impact entrepreneurship 	<ol style="list-style-type: none"> 1. Procurement best practices 2. Strengthening regulatory capacity 	<ol style="list-style-type: none"> 1. Innovative financing mechanisms for SMEs 	<ol style="list-style-type: none"> 1. Improving the system for secured transactions 2. Deepening financial system
Government funds effectively promote private sector development and productivity	Businesses face fewer obstacles for growth	Competition is improved	Regulatory reform improves SME access to private capital	Business transactions are more efficient and reliable
Beneficiaries of GOM spending programs increase product, growth or value added	Costs or time to start up or operate a business are reduced	Prices of goods or services are reduced, or quality and choice are increased	Businesses obtain a higher proportion financing through private capital	Higher volume and number of formal commercial transactions among SMEs
<p>Digital Government and Open Data</p> <p>Citizens have greater access to public information and participate in public policy design</p> <ol style="list-style-type: none"> 1. Open data ecosystem 2. Applications 				

ANNEX 2: PMP Matrix

achieved this quarter – QR1 FY2016 – listed in green	Cumulative Indicator Achievement				
	LP1 ¹		LP2 ²	LP3 ³	
Outcome 1 - Private Sector Development	Endorsed	Adopted	Adopted	Men	Women
1. Local government SME support					
<i>a. FONDESO Electronic Tools</i>			2		
1. Risk assessment					
2. Referral website					
<i>b. Rules of operation</i>	1	1			
<i>c. CDMX geo-reference electronic platform</i>					
<i>d. Atrévete a emprender-Youth Entrepreneurship</i>	1	1		589	344
2. Federal government SME impact					
<i>a. INADEM Evaluation manual / guidelines</i>			1		
<i>b. Re-design rules of operation and impact evaluation</i>	1	1			
<i>c. Economic Development Agency (includes entrepreneurship mapping)</i>					
<i>d. Innovation programs criteria – CONACYT</i>	1			39	30
3. Public sector promotes productivity					
<i>a. Aligning public policy programs to productivity</i>			1	132	74
<i>b. MUSEIC</i>					
<i>c. Value chains</i>					
1. VC policy reforms	1			41	8
2. Textile platform					
3. Energy sector supplier program					
<i>d. PPPs for innovation</i>					
1. Jalisco portfolio					
2. FONDESO clean energy accelerator					
4. Local economic reactivation					
<i>a. SME cost reduction strategies</i>					
<i>b. Economic reactivation of marginalized areas</i>					
1. Monterrey cluster					
2. SEGOB policy					
Outcome 2 - Business procedures					
5. Streamlining procedures					
<i>a. Empresa al instante</i>	1				
<i>b. Local regulations – MiNegocio</i>			1	27	13
<i>c. Public notary reform</i>					
<i>d. Morelos property rights</i>					
6. High impact entrepreneurship					

¹ Legacy Program 1 (LP1): Number of new or modified laws, regulations, programs, rules of operation, or open data mechanisms affecting Mexico's economic competitiveness endorsed or implemented by Mexico government agency

² Legacy Program 2 (LP2): Number of mechanisms adopted to improve institutional capacity of a government in Mexico or subnational government agency

³ Legacy Program 3 (LP3): Number of individuals -from GOM, subnational governments, or the private sector- trained to improve economic governance

<i>a. Obstacles to high impact SMEs</i>					
<i>b. Patenting centers network</i>					
Outcome 3 – Competition					
7. Procurement reform and innovation					
<i>a. Public works toolkit</i>				14	8
<i>b. ICT goods & services</i>					
1. Digital procurement for Retos Publicos	1				
2. Technology enablers					
<i>c. IMSS pricing analysis</i>					
<i>d. Transparency and efficiency in CDMX Airport</i>				292	178
8. Regulatory capacity					
<i>a. COFECE strategy (includes investigation unit)</i>			1	133	82
<i>b. Finance sector analysis</i>	1	1			
<i>c. State sectoral analysis</i>					
<i>d. Judicial/regulator diplomado</i>				32	22
<i>e. Competition Alliance</i>				463	259
<i>f. Liquid fuel retail</i>					
Outcome 4 - Business Financing					
9. Innovative financing for SMEs					
<i>a. Equity investment</i>					
1. Stock market inclusion					
2. Expat Investment Fund					
3. Loan guarantee mechanism					
<i>b. CDMX Seed capital fund</i>					
Outcome 5 - Commercial Transactions					
10. Secured transactions					
<i>a. Operationalizing guarantees</i>					
<i>b. Liquidation and recovery of struggling businesses</i>					
11. Financial inclusion					
<i>a. Increasing electronic transactions</i>					
<i>b. Harmonizing US and Mexican credit bureaus</i>					
Outcome 6 - Digital Government and Open Data					
12. Open data ecosystem					
<i>a. Red México Abierto</i>				415	227
TOTAL	8	4	6	2177	1245
APPLICATIONS (Cross-Cutting indicator)	2				

OVERALL TARGET ACHIEVEMENT TO DATE – SEPTEMBER 30, 2015

LP1: Policies (only endorsed)	8 of 14
LP2: Institutional Capacity Mechanism	6 of 8
Applications (software applications launched)	2 of 6
LP3: Total Training	3,422 of 2,400
Men trained	2,178
Women trained	1,244

ANNEX 3: TRAINING

DATES From-To		LOCATION	COURSE / EVENT	AUDIENCE SIZE	MALE	FEMALE
19/Oct/15	19/Oct/15	Mexico City	Multiplatform Markets conference	82	46	36
20/Oct/15	20/Oct /15	Mexico City	Competition and Regulation in Telecom Sector workshop	81	54	27
20/Oct/15	20/Oct/15	Mexico City	Aligning Public Federal Programs to Productivity workshop	142	87	55
5/Nov/15	6/Nov/15	Mexico City	Getting it right at Mexico's City New Airport conference	121	70	51
17/Nov/15	17/Nov/15	Mexico City	Spectrum Management workshop	93	71	22
TOTAL				519	328	191

ANNEX 4: DELIVERABLE DATASHEETS

Title of Deliverable	Activity Name
<p>Introduction to competition on liquid fuel retail market: Lessons from International Experience <i>(Regulatory Capacity)</i></p>	<p>Liquid Fuel Retail</p>
Abstract	Counterpart
<p>Context: On 2013, Mexico’s government approved an energetic reform that will open the fuel market to the private sector. The report analyses international experience taking evidence from 20 jurisdictions by evaluating their practices on opening liquid fuel market and regulatory alternatives to maximize competition in the sector. Based on international practices, the report defines ten actions to encourage competition in market:</p> <ol style="list-style-type: none"> 1. Solve and avoid market concentration: high levels of concentration diminishes incentives of service stations (SS) to offer competitive prices 2. Regulate prices in places with no competition through maximum prices 3. Limit contract’s length between supplier and SS: vertical integration among refiners, distributors, and SS reduces free riding, negative externalities and transaction costs promoting scale and network economies 4. Allow SS with flag or multi branding 5. Not impose minimum distance between SS since it restricts the entrance of new competitors 6. Minimize artificial barriers to entry and competitors expansion 7. Respect international trend of economies of scale and scope 8. Force SS to publish on real time information of their prices 9. Components’ separation of motor fuels: if specifications for liquid fuel are very sophisticated less substitutes they have, decreasing competition and rising prices 10. Encourage competition in SS located in highways <p>Keywords: competition, concentration, service stations, economies of scale</p>	<p>Energy Regulatory Commission (CRE)</p>
	MEPP Partner/ Author
	<p>Agon</p>
	Date
	<p>September 2015</p>

Title of Deliverable	Activity Name
<p>Analysis of the Supply in the Entrepreneurial Ecosystem <i>(Federal Government SME Impact)</i></p>	<p>Economic Development Strategy</p>
Abstract	Counterpart
<p>Context: In Mexico there are many programs to support entrepreneurs, but most of the times are not well designed.</p> <ul style="list-style-type: none"> • The report finds a total of 2,482 suppliers offering products and services to entrepreneurs, of which only 685 suppliers could be phone verified. • Selected suppliers were evaluated according to its available information on: online presentation, services and products, means of contact, and telephone validation. • Suppliers were evaluated according to: types of products and services, target population, entrepreneurship approach (social, high impact, entrepreneur development), business management support (leadership, operational efficiency, and financial performance), company growth stage, and supplier profile (incubator, networking, and bank). • Based on the sample analysis: <ul style="list-style-type: none"> • Few suppliers are focused in the first stage of a company's growth: entrepreneurial spirit and idea • A majority offers training and consulting, rather than innovation, research and development • Women and young are the group with more entrepreneurial supply, but its products were poorly evaluated • State analysis showed Coahuila, Durango and State of Mexico had the less number of suppliers per capita • Geo-reference analysis shows that developer and richer areas had more supply • Recommendations include: offer products and services for the company's first stages of growth, and reduce development gaps by generating regional equity with evaluation criteria that considers geographic location. <p>Keywords: entrepreneurship, supply, idea, innovation</p>	<p>National Institute of Entrepreneurship (INADEM)</p>
	MEPP Partner/ Author
	<p>C230</p>
	Date
<p>October 2015</p>	

Title of Deliverable	Activity Name
<p>Executive Project for PPP to Boost Innovation <i>(Public Sector Improves Productivity)</i></p>	<p>PPPs for innovation</p>
Abstract	Counterpart
<p>Context: Mexico only assigns 0.56% of its GDP in science, technology and innovation, while countries like Finland and Israel invest more than 3%. PPPs for innovation it's a collaboration framework between the public and private sector that distributes risks and co-invests resources, helping to soft government's budget restrictions. In 2012, Mexican Congress approved a PPPs law offering the normative framework for its implementation. In addition, Jalisco is one of the top states in Mexico in technology and innovation which makes it the ideal place for innovative PPPs implementation.</p> <p>The report looks to promote PPPs implementation through innovative activities in collaboration with the government of the state of Jalisco - via the SICyT - and the private sector by analyzing the legal and institutional adequate framework. It includes:</p> <ol style="list-style-type: none"> I. Portfolio of three PPPs projects for the state of Jalisco II. Design and methodology to validate and select projects with PPP potential by measuring legal, institutional and socio-economic viability III. Based on the methodology ranking, selection of the best PPP project. IV. According to selected project, develop a legal analysis that contains the guidelines participating actors most follow; in this section, roles and activities of the private and public sector are described V. Technological and technical scorecard to evaluate potential partners VI. Recommendations to the government of Jalisco to boost PPPs for innovation <p>Keywords: PPPs, innovation, PIPs Law</p>	<p>Ministry of Innovation, Science and Technology of the State of Jalisco (SICyT)</p>
	MEPP Partner/ Author
	<p>Ethos</p>
	Date
<p>October 2015</p>	

Title of Deliverable	Activity Name
<p align="center">Portfolio for three PPPs projects <i>(Public Sector Improves Productivity)</i></p>	<p align="center">PPPs for innovation</p>
Abstract	Counterpart
<p>Context: MEPP presented three projects for the state of Jalisco which could be potentially viable PPPS.</p> <p>I. Clinical and translational medicine research center: Proposal for the development of a complex with technological equipment focused on specialized services related to testing clinical trials to encourage the pharmaceutical industry, a strategic sector in the state of Jalisco.</p> <p>II. Computer Park: Project promoted by the Ministry of Innovation, Science and Technology of the State of Jalisco (SICyT) based on the development of a complex which can resort to host 50 specialized centers in data handling positioning the entity strategically as the best place to develop projects of this nature in the country. The park would have a wind and a solar farm with the ability to produce energy in a low-cost sustainable way.</p> <p>III. Extraction of active components: Construction, equipment and operation of a network of 12 plants with appropriate technology for extracting active ingredients available in the main agricultural products of the different regions of Jalisco which implies a value added chain within each system. The project involves the integration of tertiary educational institutions in plant operation in collaboration with the Agricultural Council of Jalisco.</p> <p>Keywords: PPPS, medicine, agriculture, computer park</p>	<p align="center">Ministry of Innovation, Science and Technology of the State of Jalisco (SICyT)</p>
	MEPP Partner/ Author
	<p align="center">Ethos</p>
	Date
<p align="center">October 2015</p>	

Title of Deliverable	Activity Name
<p>Action Plan for the Promotion of Private Investment in Innovative Companies <i>(Innovative financing for SMEs)</i></p>	<p>Loan guarantee mechanism</p>
Abstract	Counterpart
<p>Context: MEPP technical assistance found 3 viable mechanisms through which USAID's DCA (Development Credit Authority) could guarantee loans to SMEs with non-commercial bank lenders:</p> <ol style="list-style-type: none"> 1. DCA guarantee given to a SOFIPO which, with additional private funds loans additional to equity investment, funds fin-tech SMEs (fin-tech identified as a niche industry) 2. DCA guarantee given to a SOFOM which, with additional NAFIN funds, loans to automotive SMEs (automotive sector identified as niche industry) 3. DCA guarantee given to a SOFOM which funds FONDESOM Mexico City selected startups in incubation phase <p>All three solutions were elaborated with valuable private sector feedback and interest and present an interesting new mechanism for SME financing, which should it be adopted, aids unclogging an important financing bottleneck for Mexico's private sector.</p> <p>Keywords: DCA guarantee, SOFIPO, SOFOM, SME financing</p>	<p>National Institute of Entrepreneurship (INADEM) Mexican National Development Bank (NAFIN)</p>
	MEPP Partner/ Author
	<p>Infyde</p>
	Date
<p>October 2015</p>	