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QUARTERLY REPORT OCTOBER - DECEMBER 2008

USAID/MEXICO COMPETITIVENESS PROGRAM

Contract: EEM-I-00-07-00004-00

9 January 2009

[Per COTR instructions, reports submitted to the DEC include only those sections deemed to be of value for ongoing development consideration. This report therefore excludes administrative sections.]

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QUARTERLY REPORT

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Contract No. EEM-I-00-07-00004-00

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United States Agency for International Development
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I. EXECUTIVE SUMMARY

During its first quarter, the Mexico Competitiveness Program (MCP) made significant progress toward the development and implementation of a diverse and complex Work Plan. As the first quarter has been primarily a start-up period, much of this quarterly report addresses procedural and administrative achievements that are required before the regular program can begin in full force. Our most important programmatic achievement to date has been the delivery, presentation and provisional USAID approval of the MCP Work Plan for the first fiscal year. The Work Plan identifies 30 activities across three thematic areas. In addition we submitted a draft, detailed Performance Management Plan for review.

Nevertheless, even though the Work Plan had not yet been approved until near the end of the quarter, MCP also carried out a number of important programmatic activities. Most of these activities were associated with Component 2 (More Efficient and Effective Government). This was expected, since Component 2 carries over several activities from the Casals Greater Transparency and Accountability Project – particularly on small business and competition policy -- and were thus “in the pipeline.” Abt Associates sought and obtained USAID authorization to allocate program resources toward these activities. These activities are described in the programmatic section of this report.

In addition, MCP was directed by USAID to undertake a special activity not identified in the RFTOP or Task Order, namely the production of the FAA 118/119 report, which is an Assessment of Tropical Forest and Biodiversity Conservation in Mexico. The document analyzes the current status of tropical forests and biodiversity in the country, describes the main direct and indirect threats to them, and identifies the activities that USAID can support to help Mexican partners achieve conservation of biodiversity and tropical forests. The Assessment was prepared in compliance with the Foreign Assistance Act (FAA) of 1961, Sections 118 and 119.

Working closely with USAID Mexico and the Contracts Office, Abt Associates hired several consultants with required expertise and delivered a complete draft of the report, which is under review. The report is important because it identifies major environmental threats, and orients USAID’s strategy for preserving Mexico’s biodiversity and forests. MCP’s ability to produce the report in an extremely short time frame, and its agility in re-allocating resources necessary to do so, demonstrate the responsiveness of the Abt team.

In addition to these programmatic accomplishments, MCP also carried out all of the administrative and procedural steps necessary to begin regular operations in the second quarter. Key achievements during the first quarter include:

- ◆ Hiring of key personnel
- ◆ Registration of Abt Associates in Mexico
- ◆ Office selection and lease
- ◆ Opening bank accounts

- ◆ Contracting telephone, cellular and internet service
- ◆ Ordering computer equipment
- ◆ Ordering office furniture
- ◆ Orientation of MCP staff on the Task Order
- ◆ Work Plan and PMP development

Each of these will be elaborated in the following section on Program Start-Up. Abt Associates is confident that our achievements during the first quarter represent concrete steps toward the successful implementation of the Mexico Competitiveness Program.

II. PROGRAM START-UP

Setting up a 4.5 year, \$17 million program requires many steps. During the first quarter MCP dedicated most of its energies toward getting the program up and running. We focused on a number of administrative and financial tasks, as well as the central goal of developing our technical program and identifying relevant partners.

A. Work Plan

The MCP Work Plan will be the core document for identifying Abt Associates' activities and responsibilities, as well as our accountability to USAID in achieving concrete results. We understand that the work plan is an evolving document and will likely undergo numerous changes. At the same time, it provides a detailed roadmap for how to achieve economic and environmental goals identified by USAID.

We identified the Strategic Outcome of the Work Plan as follows: *“Strengthen governance to improve economic competitiveness as well as more effective environmental management and preservation of biodiversity”*. The Work Plan includes a total of 30 activities across the three components identified in the Task Order: 17 activities for Component 1: Sustainable Environmental Management (environmental governance, sustainable forest management, alternative income opportunities in high biodiversity areas); 5 activities for Component 2: More Effective and Efficient Government (small business policy, technical assistance for Mexico's competition agency); and 8 activities for Component 3: More Efficient Factor and Precursor Markets (greater access to capital for SMEs, development of microfinance institutions, promotion of renewable energy and energy conservation, more efficient urban water service provision).

In addition, we submitted a highly detailed Performance Management Plan, which includes indicators for each activity as well as basic timelines for achieving goals. In broad terms, MCP proposes to spend its first two years (2009-2010) producing and disseminating information, establishing close relationships with government and non-governmental organizations, creating and supporting policy networks, and establishing the program's technical credibility with a range of policy stakeholders. In the final two years (2011-2012) we will seek to make concrete achievements in the areas of public policy and private production, and to scale up those achievements through our networks and our close linkages to government actors.

From early October to mid-November, the Abt team held over 50 meetings with research organizations, Mexican government agencies at the national and state level, environmental NGOs, international organizations and development banks, consultants and independent academics. These consultations were critical in enabling us to build a relevant and demand-driven work plan that responds directly to Mexican priorities and realities.

The Abt Team formally presented the first Work Plan draft on December 17. Our CTO provisionally accepted the plan on December 18 and authorized us to move forward with the activities. She also directed us to elaborate on certain aspects of the proposed activities. We

submitted an expanded and revised Work Plan and PMP on December 24 and will respond to comments to produce a final draft at the beginning of the second quarter.

(During the first quarter, MCP also carried out several programmatic activities. These are described in Section III.)

B. Administrative and Procedural Tasks:

This section focuses on administrative and procedural achievements necessary to begin regular program operations in the second quarter.

I. Hiring MCP staff:

- ◆ Chief of Party – Tim Kessler
- ◆ Component 1 Lead – Santiago Enriquez
- ◆ Component 2 Lead – Alain de Remes (Casals)
- ◆ Component 3 Lead – Maribel Muñoz
- ◆ Finance Manager – Barbara de Lille
- ◆ Office Manager – Luisa Marin (Casals)
- ◆ Government Relations – Ramiro Nava (Casals)
- ◆ Research and IT – Jonathan Pinzon (Casals)

In addition we identified two more staff members to be hired in the second quarter. Gabriela Lozada will be our Grants Manager. (In the meantime, we will also contract Cristina Galindez, who has significant grants administration experience with major international foundations, as a consultant to get our program running.) We will hire Blanca Analco as our Administrative Assistant.

2. Registration of Abt Associates in Mexico

On November 14, 2008, Abt Associates, Inc. was officially registered as a non-income earning representative office in Mexico at the Ministry of Economy. On November 20, 2008 we received Notary certification of company statutes for operating within Mexico. Abt's registration and status allows the company to freely hire staff and consultants within Mexico. It also ensures that Abt Associates does not have to pay income tax in Mexico.

3. Office selection

On December 19, 2008, Abt Associates signed a lease for an office located at:

Moliere 13-201
Colonia Chapultepec Polanco
Mexico DF 11560
MEXICO

Abt staff visited approximately 15 offices before making its selection. Our decision was based on a comparison with numerous other locations. The Moliere office was easily the best choice

because of the following factors: location and accessibility in the city, floor space and distribution that enables all staff to have private offices and provides necessary meeting space, building and office condition, parking for all staff, high level of security, price and leasing terms.

In addition, we contracted an architect and his crew to make modifications necessary for the creation of individual offices and other improvements. The work will be completed in early January, when all MCP staff will begin regular work in the new office.

4. Bank accounts

On November 21, 2008, Abt Associates opened two bank accounts with Banamex, one in Mexican pesos and the other in U.S. dollars.

5. Communications

In December, MCP arranged to cancel and/or transfer landlines, cellular phones and internet services from the temporary Lope de Vega office to the new office. The contract for landlines is with Telmex; the contract for cellular phones is with Movistar; and the contract for internet is with Telmex. All of these services are expected to be operational in our new office in early January.

6. Computers

In December Abt ordered (but did not purchase) seven desktop computers and six laptop computers. Subsequently we discovered that while the desktops were Made-in-USA, the laptops were not, presenting a possible conflict with USAID regulations. After undertaking research and consulting with computer distribution professionals, we determined that no laptops are truly “made in the USA” (although some are assembled there). Given the difficulty of complying with the rule and the importance of having a Mexican service plan, we requested a waiver from the USAID contracts office. The request is currently under review and we expect a response in early January.

7. Office furniture

Abt ordered desks, chairs, conference table and chairs, and assorted cabinets and shelves for the new office. The crew contracted by our architect will assemble all of the furniture and place it within each office. The furniture is scheduled to arrive immediately after the architect completes modifications in early January.

8. Task Order orientation

One of the most important activities of the first quarter was a November 4 orientation on the MCP Task Order given in person by Tracy Miller, a USAID contract officer based in the El Salvador office. The orientation was held at the USAID office in Mexico City, and included the CTO and deputy CTO, the Chief of Party and three component leaders, as well as teleconference participation from the MCP Project Director, Contract Advisor, and other HQ

staff. The orientation was extremely valuable because it clearly identified procedures and authorization requirements, particular those in which the Contracts Office must approve requests.

C. Issues requiring further attention: Biodiversity earmark

The Abt team is confident that we are on track for timely and effective implementation of approved programmatic activities. We are, however, monitoring one issue that needs to be resolved early in the second quarter.

USAID/Mexico has made it clear that all resources charged to the biodiversity earmark (almost \$2.4 million) must completely satisfy USAID criteria. At the same time, it is acknowledged that these criteria are somewhat open to interpretation. The CTO and COP concur that it is essential to reach explicit agreement with USAID on the relevance and applicability of MCP's biodiversity activities *before* undertaking those activities. We do not want to be in the position of trying to convince skeptical external actors that we spent USAID resources appropriately after the fact.

Our CTO initiated consultations with USAID biodiversity expert Peter Keller on this topic. The CTO, COP and Component I Lead will consult directly with Mr. Keller in early January to present the activities in our Work Plan which we believe satisfy biodiversity earmark criteria. The Abt team will subsequently implement any instructions given following that consultation.

D. Training in 1st. Quarter

DATES		LOCATION	COURSE / EVENT	AUDIENCE SIZE	MALE	FEMALE
October 29, 2008	October 30, 2008	Mexico City	Antitrust Law and Economics	70	50	20
November 11, 2008	November 13, 2008	Mexico City	Economic Analysis in Antitrust Law Seminar	70	50	20
November 11, 2008		Mexico City	Round table with Mexican Judges on Economic Analysis in Antitrust Law	20	12	8
December 3, 2008		Mexico City	Competition Policy and Implications for Small Businesses	30	23	7
December 15, 2008	December 19, 2008	Mexico City	Especially designed workshop to evaluate the new federal innovation policy for the Development Fund for SMEs	20	16	4
TOTAL				210	151	59

III. PROGRAM

The following activities are from Component 2: More Effective and Efficient Government, which focuses on small business policy and strengthening the national competition agency. These activities are largely continuations of work previously carried out under the Greater Transparency and Accountability Project, which ended on September 30, 2008. Components 1 and 3 will begin reporting on activities in the second quarter.

ACTIVITY: C2-I SME Public Policies

Sub-Activity C2-I.A: Support SME research that becomes a key reference for policymakers

Strategic Outcome:

Public sector SME programs in Mexico adopt rational selection criteria and performance-based indicators on competitiveness.

Status: **Green**

Results narrative

Program activities during the First Quarter reflected a continuation of the previous USAID/Mexico Greater Transparency and Accountability of Governments Program (GTAGP). During this period MCP reached an agreement with the Subsecretariat of Industry and Commerce to launch the book *Supporting SME Innovation: The State of the Art* in February 2009. The book, published in 2008, reviews good practices in SME innovation programs in eight countries, based on primary and secondary research in each country.

On December 3, the USAID-supported *Red PyME* (SME Policy Network) and the National Association of Independent Entrepreneurs (ANEI) co-hosted a conference on Competition Policy in Mexico and its importance for small and medium enterprises (SMEs). Eduardo Pérez Motta, President of the Federal Competition Commission, gave a keynote speech in which he stressed that public sector programs for SMEs cannot be expected to fully achieve productivity improvements as long as businesses are forced to use overpriced services in sectors such as telecommunication, transportation, financial services and energy. He concluded by noting an OECD study that showed that Australia's recent competition reforms had resulted in GNP gains equal to 58,000 pesos per household. The conference was attended by about 30 participants from research institutions, international organizations and the federal government.

(Outside the scope of our workplan, the Mexican Institute for Competitiveness (IMCO), a USAID partner, presented the *2009 Doing Business in Mexico* report. The report compares regulations affecting business across all Mexican states and the Federal District in four key areas: starting a business, construction permits, registering property and enforcing contracts. The report shows that differences in the implementation of national regulations can affect local business activity, and describes 40 reforms in relevant areas undertaken in 28 cities. These reforms produced tangible results, such as reducing the average time to open a business from 36 to 24 days, and to register a property from 47 to 38 days. The launch of the 2009 report was held in Villahermosa, Tabasco, and included the participation of USAID, the Foreign Investment Advisory Service (FIAS), the National Association of State Development Secretaries (AMSDE), the Federal Commission for Regulatory Improvement (COFEMER), the William and Flora Hewlett Foundation, and the British Embassy.)

Changes in PMP

None

Deliverables:

<ul style="list-style-type: none">• Book <i>Supporting SME Innovation: The State of the Art</i>	<ul style="list-style-type: none">• .pdf
<ul style="list-style-type: none">• <i>Doing Business in Mexico 2009</i>	<ul style="list-style-type: none">• .pdf
<ul style="list-style-type: none">• Presentation of the conference on <i>Competition Policy in Mexico and its importance for small and medium enterprises (SMEs)</i> by Eduardo Pérez Motta, President of the Federal Competition Commission	<ul style="list-style-type: none">• pdf.

Events:

Conference on Competition Policy in Mexico and its Importance for Small and Medium Enterprises

Dec 3 / Mexico City, Mexico.

Presentation of Doing Business Report

Nov 11 / Villahermosa, Tabasco

Publications:

Supporting SME Innovation: The State of the Art
Doing Business 2008

PMP Indicators:

Number of SME networks and organizations that collaborate with MCP research.

Minimum 4 Outstanding 7

Red PyME presentations requested by and delivered to public policy actors

Minimum 2 Outstanding 4

ACTIVITY: C2-2 Technical Assistance to Federal and State SME programs

Sub-Activity C2-2.B: TA to Subsecretariat of Industry and Commerce to make PROSOFT (IT Fund) more transparent, accountable and effective

Strategic Outcome:

PROSOFT rules of operation become a benchmark for other programs

Status: **Green**

Results narrative

As a first step towards a more comprehensive project with the Ministry of Economy, the USAID/Mexico Competitiveness Program organized a series of workshops with assistant secretaries and other ranking officials, on the design and implementation of programs to support small and medium enterprises. The workshops included the participation of two international experts. Patricia Noda described and assessed Chile's well regarded INNOVA Program, while Roberto Spindel discussed lessons from Israel's Nitzoz SME program. Both of these cases were reported in the USAID-financed book *Supporting SME Innovation*. The main purpose of the workshop was to exchange information and experiences between Mexican officials and international experts on how to effectively implement SE's new Development Promotion Fund (*Fondo de Fomento*), which will consolidate several funds (e.g., Fondo PyME, which focuses on SMEs, and Prosoft, which promotes IT). The new fund is scheduled to be launched in early 2009. During the workshop participants discussed the importance of well-defined objectives and operating rules, clear selection criteria and mechanisms for monitoring and evaluation of the Fund.

Changes in PMP

None

Deliverables:

• Presentation of Israel NITZOZ made by Roberto Spindel	• .pdf
• Presentation of Chile INNOVA made by Patricia Noda	• .pdf

Events:

Workshop with ranking officials from the Secretariat of Economy

Dec 18 / Mexico City, Mexico.

PMP Indicators:

Number of Recommendations on policy or rules of operation endorsed by Subsecretariat of Industry and Commerce

Minimum 2 Outstanding 4

ACTIVITY: C2-3 Strengthening competition policy

Sub-Activity C2-3.A: Competition and Regulation Network members promote initiatives that strengthen the Federal Competition Commission.

Strategic Outcome:

CFC has a greater ability to enforce competition law

Status: **Green**

Results narrative

On October 29-30, USAID/Mexico arranged a visit by Dr. Stephen Calkins. A highly regarded expert on antitrust and consumer law, Calkins is a law professor at Wayne State University and coauthor of *Antitrust Law and Economics in a Nutshell*, which was recently translated into Spanish and published by USAID/Mexico under the title *Derecho y Economía de la Competencia*. The book was launched and widely distributed at the event organized by USAID and the *Red Mexicana de Competencia y Regulación* (Competition and Regulation Network). Professor Calkins delivered a keynote speech at the Second International Conference on Competition and Regulation, which was organized by the Center for Research on Development (CIDAC). His speech focused on two unique aspects of U.S. competition law – the criminalization of anti-trust violations and the use of private litigation – and discussed opportunities and costs of each of these. Other speakers included Francisco Gil Díaz, former Secretary of Finance, and many Mexican experts on different areas of competition policy including telecommunications and energy.

Changes in PMP

None

Deliverables:

• II International Conference on Competition and Regulation flyer	• .pdf
• Presentation by Calkins	• .pdf
• Other Presentations	• .pdf

Events:

Second International Conference on Competition and Regulation

Oct 29 / Mexico City, Mexico

PMP Indicators:

Presentation of finding at forums with public sector officials

Minimum 3 Outstanding 5

ACTIVITY: C2-3 Strengthening competition policy

Sub-Activity C2-3.B: Technical Assistance to the Federal Competition Commission

Strategic Outcome:

CFC becomes more effective in initiating and litigating competition cases in Mexican courts

Status: **Green**

Results narrative

As an ongoing effort to provide Mexican competition officials with international perspectives on antitrust issues and legal cases, on November 11-13, Mexico's Federal Competition Commission (CFC), the Federal Judicial Institute and USAID co-hosted a series of capacity-building events featuring Frédéric Jenny, Judge of the French Supreme Court and Chairman of the OECD's Competition Committee. Events included a seminar on Competition and Intellectual Property Rights co-organized with the Mexican Association of Corporate Lawyers, a roundtable discussion on antitrust cases with Mexican judges, a meeting with the CFC's chairman and commissioners, and a conference with CFC staff. Over 100 professionals attended these events. A central goal of USAID's technical assistance initiative is for CFC to build a common understanding with the Mexican judiciary about the use of economic tools in analyzing evidence in competition cases. Mr. Jenny acknowledged that judges typically resist incorporating highly technical economic conclusions into their decision. However, Mexican judge Jean Claude Tron recognized the importance of economic analysis in reaching decisions, noting that determining the relevant market and evaluating the effects of anticompetitive practices by a dominant firm are crucial for protecting competitor, and ultimately consumers.

Changes in PMP

None

Deliverables:

• International Seminar on Economic Competition flyer	• .pdf
• Presentation by Frederic Jenny	• .pdf

Events:

Seminar on Competition and Intellectual Property Rights

Nov 11 / Mexico City, Mexico

Roundtable discussion on antitrust cases with Mexican judges

Nov 12 / Mexico City, Mexico

Meeting with the CFC's chairman and commissioners

Nov 12 / Mexico City, Mexico

Conference with CFC staff

Nov 11 / Mexico City, Mexico

PMP Indicators:

Number of CFC and judicial officials trained.

Minimum 75 Outstanding 150

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