

*Regional Strategy for  
Central America and Mexico  
FY 2003-2008*



*Volume 2:  
Annex C: Mexico Country Plan*

*September 5, 2003*

# *Mexico Country Plan*



## *In Support of the Regional Strategy for Central America and Mexico FY 2003-2008*

*The Country Plan for USAID/Mexico was approved by the Agency on September 5, 2003. It sets forth the Agency's policy and strategic direction for assistance to Mexico. Budget data contained in the Country Plan are estimates and do not represent a U.S. government commitment to provide a specific level of funding.*

*Release Date: September 30, 2003*

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**Mexico Country Plan**  
**In Support of the Central America and Mexico Regional Strategy**

**I. RATIONALE FOR ASSISTANCE AND SUMMARY ANALYSIS OF THE ASSISTANCE ENVIRONMENT**

Mexico, with the world's ninth largest economy, is not a traditional USAID recipient country. However, Mexico carries arguably unparalleled significance in terms of its direct linkages to U.S. foreign policy and domestic interests. The two countries share a 2,000 mile frontier that has on average more than one million border crossings per day. Several U.S. and Mexican industries (particularly automotive and electronics) have closely-linked production chains, many U.S. businesses remain dependent on an influx of Mexican migrant labor, and many Mexican firms are highly dependent on U.S. technology and the U.S. market. Since the activation of the North American Free Trade Agreement (NAFTA) in 1994, Mexico has become the second largest trading partner of the U.S., and is among the top ten export markets for 43 U.S. states. In November 2002, it became the primary supplier of crude oil to the U.S., providing almost 16 percent of imports.

Not all Mexicans are reaping the benefits this extensive trade and international visibility might offer, however, and a growing inequality in the distribution of benefits has given rise to the concept of "The Two Mexicos." Although the Government of Mexico (GOM) estimates GDP per capita at about US\$6,400, more than 50 million Mexicans (about 53 percent of the population) have an annual income of less than US\$1,440, and about 22 million people (23 percent of the population) have an annual income of less than US\$720. By comparison, the GDP per capita in Guatemala (population 13 million) in the same period was US\$1,642, and in Honduras (population 6.2 million) was US\$920.

Addressing these inequalities is a declared policy priority of President Vicente Fox's administration since taking office in 2000. The Fox Administration has pursued a policy of "socially responsible humanism," which promotes private sector-led trade, complemented with an explicit poverty reduction strategy ("*Contigo*, or "With You") and an emphasis on improving government transparency and accountability. Yet, the inequality remains, with recent economic analysis citing Mexico as having the starkest contrast between rich and poor among all nations in its economic category. Additionally, despite the gains of NAFTA, Mexico's competitiveness globally, has continued to lose ground steadily, most recently dropping from 34<sup>th</sup> place to 41<sup>st</sup> in 2002 according to rankings by the World Competitiveness Yearbook. And since September 11, 2001, the U.S. economic downturn has decreased demand for Mexican goods, with Mexican GDP growth falling to less than one percent in 2002 as compared to nearly eight percent in 2000.

While Mexico is unlikely to be an eligible country for assistance under President Bush's Millennium Challenge Account (MCA) due to its economic status and overall per capita income level, the performance areas established under the MCA are pertinent, as they relate directly to boosting the country's global competitiveness and addressing Mexico's vexing inequality issues.

## A. Proposed Country Plan and Relationship to Regional Strategy

USAID/Mexico's Country Plan for FY 2003-2008 is the culmination of an effort begun in 2001-2002 to re-focus programs to achieve greater impact on "national" or systemic reforms, and continued most recently through the careful selection of several key intermediate results delineated under USAID's Regional strategy for Central America and Mexico (CAM). The results selected are central to strengthening Mexico's competitiveness and improving the quality of life for all Mexicans.

The USAID program areas chosen under the Mexico Country Plan reflect Mexico's unique position in the region, U.S. and Mexico's shared development cooperation priorities, and areas where USAID has a comparative advantage to add value to Mexican reform initiatives. The Mexico Country Plan also includes the previously authorized Training, Internships, Exchanges, and Scholarships (TIES) Strategic Objective launched by Presidents Bush and Fox in 2002.

To contribute to the USAID regional strategic objective of **More, Responsive, Transparent Governance**, USAID/Mexico will focus its attention on supporting Mexican reforms to ensure: a) greater transparency and accountability of government, and b) a strengthened rule of law. USAID's governance plan builds on broad experience working with a diverse range of Mexican organizations and political leaders. It moves USAID's program from legislative strengthening, local government capacity building, civil society support, and election observation programs to a stronger focus on supporting national reform initiatives such as establishing a professional civil service, reforming the criminal justice system, and instituting the possibility for consecutive re-election of members of Congress in Mexico. USAID will support Mexican initiatives to reform the criminal justice sector, and will work at all three levels of government to improve accountability and governance. The importance of improving Mexico's competitiveness and the accountability of the Mexican Government to all citizens, and the past performance successes of USAID's democracy portfolio, elevate these two program elements as perhaps the highest program priorities of the Mexico Country Plan.

To contribute to the regional strategic objective of **Economic Freedom: Open, Diversified, Economies**, USAID/Mexico has a highly-focused economic growth approach that recognizes our areas of comparative advantage and our best prospects for catalyzing impact on an economy as large as that of Mexico. The plan encompasses just two intermediate results: a) broader access to financial services and markets, and b) improved management and conservation of critical watersheds.

Broad Access to Financial Services and Markets. Ninety percent of Mexico's businesses are classified as micro, small, or medium enterprises. Limited access by these firms to finance is a major impediment to broader-based economic growth in the country. USAID's strategy will focus initially on microfinance as expanding access to micro-enterprise finance is a top priority of the Fox Administration. Given this priority, USAID has been able to help improve the policy environment and climate for microfinance institutions that have a reputation for providing quality financial services. Under the Mission's access to finance focus, the program will also pursue a nexus between microfinance/credit unions and migrant remittances with the goal of improving the development impact of migrant remittances.

Improved Management and Conservation of Critical Watersheds Environmental degradation in Mexico presents a significant development challenge to the country's biodiversity as well as the country's continued economic growth, particularly in rural areas. USAID has elected to focus its

Country Plan on helping to mitigate ecological stresses on key national watershed areas, with an emphasis on catalyzing national replication of successful natural resource management and pollution reduction practices. The new natural resource management (NRM) plan will sharpen USAID/Mexico's focus on linking communities in the targeted watersheds with new markets and income generating activities such as eco-tourism, forest products, handicrafts, specialty coffee, and cacao.

USAID/Mexico will focus solely on the public health-related aspect of the regional strategy's **Investing in People: Healthier, Better Educated People** objective, and, through support for Mexico's National HIV Prevention and National Tuberculosis Control programs, will support just one intermediate result – HIV/AIDS and other infectious diseases contained and impact mitigated. USAID's HIV prevention program will focus on improving the policy environment, an area where Mexico already has been a global leader through programs to combat stigma associated with the disease, promote behavior change, and increase access to prevention and counseling services. USAID's tuberculosis support funding will strengthen U.S. – Mexico bilateral cooperation on public health and fortify Mexico's national TB control program in northern and southern border states and other key migration-significant states.

**Box 1: Partnership for Prosperity**

The Partnership for Prosperity (P4P) is a bilateral initiative launched jointly by Presidents Vicente Fox and George W. Bush in 2001. The P4P aims to forge a public-private alliance and “harness the power of free markets to boost the social and economic well-being of citizens, particularly in regions where economic growth has lagged and fueled migration.” More than 100 U.S. and Mexican business leaders, government officials and academics worked together to develop an Action Plan for the Partnership that focuses on several overarching strategies: expanding and broadening access to capital, sharing best practices and technical expertise, building capacity (human and physical) for future growth, and linking institutions with shared goals.

**Geographic Attention -- U.S. – Mexico Northern Border:** Overall, it should be noted that while a key facet of USAID/Mexico's Country Plan is its emphasis on aiming for national-level impact, and that while Mexico's southern states may have the strongest development needs, there are also clearly strong development challenges and opportunities associated with Mexico's northern border region with the United States. As part of its Country Plan development, USAID/Mexico commissioned a Northern Border Assessment conducted in early 2003 which outlined a strong development rationale for USAID to be engaged also on the border. The assessment confirmed the wealth of cross-border interchange and high potential for forming partnerships between the U.S. and Mexico in which USAID could play a supporting and strong catalytic role. Consequently, as a part of its Country Plan activities, USAID plans to a) deepen the impact of the national rule of law program by assisting justice sector reform efforts particularly in key Mexican border states, working to develop new partnerships and exchanges with U.S. legal institutions in Texas, Arizona, California, and New Mexico; b) increase the number of Training, Internships, Exchanges, and Scholarships (TIES) university partnerships program involving U.S. – Mexico border institutions; and c) continue the geographic focus of USAID's infectious disease control (particularly tuberculosis) on northern border states with a view toward adding Tijuana/Baja California as a key USAID HIV/AIDS prevention region.

Finally, related to the regional Special Objective for **Timely Humanitarian Assistance and Crisis Response**, USAID/Mexico plans to build on small but significant experiments in cross-border cooperation between Mexico, Guatemala and Belize in shared-ecosystems and a wild fires program that helped boost Mexico to becoming one of the five leading countries in the world in terms of early warning and wildfire suppression activities (US Forest Service

assessment). Under the new regional strategy, the Mission plans to work closely with G/CAP on a cross-border regional wildfire prevention/mitigation activity.

Pursuant to ADS 201.3.4.4, USAID/Mexico is incorporating the Crisis Modifier approach into its Country Plan. In the event of a major humanitarian crisis, the Mission will invoke the Crisis Modifier and seek Bureau approval, where necessary, to modify its activities to account for the crisis. In order to use the Crisis Modifier, the Mission will submit to the Bureau a time-phased plan in accordance with the guidelines set forth in the current CAM Regional Management Agreement. This modifier applies to all of our Strategic Objectives and appropriate crisis modifier language will be included in grants, contracts, and agreements under these objectives. The Mission acknowledges that Congressional Notification may be required and that account and earmark restrictions will remain in force.

## **B. Foreign Policy Interests and Goals in Mexico and Links to MPP**

The U.S. and Mexico have historically had a special relationship, driven by their geographic proximity. Over eight million Mexican-born persons lived in the U.S. in 2000, and approximately 25 million persons of Mexican descent live – and many vote – in the U.S. The economic, political, social, and cultural ties between the two nations are powerful, vibrant, and growing. With the election of Presidents Vicente Fox in July 2000, and George W. Bush (of the border state of Texas) in November 2000, the bilateral relationship has deepened. The two Presidents have met several times to discuss issues of mutual concern and have committed their governments to a number of shared initiatives. The U.S. - Mexico Partnership for Prosperity, summarized in Box 1, outlines this important initiative. The Partnership includes an emerging common development agenda between the U.S. and Mexico in which USAID is an integral actor. Most of the Partnership initiatives involve both government and the private sectors of both countries, and are intended to improve human and physical capital to assure security of both countries and to increase trade and prosperity overall. USAID/Mexico's Country Plan will continue USAID's vital role in the Partnership for Prosperity through the TIES program and activities that promote increased access to finances.

The strong U.S. national interest in Mexico is obvious, and the centrality of USAID's contribution to the U.S. Embassy in Mexico's Mission Performance Plan (MPP) is equally evident. In a country with 35 U.S. government agencies represented at the U.S. Embassy, the Ambassador and Country Team recognize that USAID and its program are essential to achieving U.S. Mission objectives in economic growth and development, stability and security, public diplomacy, and law enforcement and judicial systems.

## **C. Overview of Country Needs and Development Challenges**

Over the past year, USAID has analyzed Mexico's development challenges and opportunities through studies that covered: macroeconomic and trade performance; the dimensions of poverty that characterize "The Two Mexico's"; the special challenges of the border states; the dimensions of migration (within Mexico, to the U.S., and from Central America), Mexico's conflict vulnerability, including root causes of and USAID's potential to mitigate conflict; biodiversity and tropical forestry threats and opportunities, including aspects related to climate change; and gender analyses and sector recommendations. These analyses are listed in Annex A and are summarized as part of the Mexico Country Plan.

In preparation for the strategy, USAID conducted extensive consultations with partners and customers, including the Embassy, other donors, the Government of Mexico, NGOs and community groups. USAID also undertook a number of sector-specific assessments, including: democracy and governance; justice; environment; and an on-going profile of micro-enterprise in Mexico. Each of these analyses and assessments includes sector specific recommendations. As a group, they highlight the following main common clusters of issues:

**Governance Issues:** The country's democratic transition in July 2000 after more than seven decades of one-party rule provided unprecedented opportunity to transform many of Mexico's governance institutions. This political transition, however, is far from complete. Under the one-party state, the president made policy, mandated legislation, nominated candidates and led the party, both at the national and state levels. The presidency no longer has such sweeping powers, and thus Mexico's entire political system is being transformed. Political parties, national and state congresses, and even the executive branch, among others, have much to learn to be able to operate successfully in a democratic environment. Most of these institutions are relatively unprepared for the give and take that is required to achieve progress under democratic governance. As a result, Mexico continues to have difficulty in providing governance that is responsive to the needs and interests of its people and a legal system that gives citizens a sense of justice and security under the rule of law. Support to Government of Mexico plans for improving management and performance in government public services, with particular attention to the legal system, provides opportunity for real progress and change at the national transformative level as well as other levels of government.

**Economic and Related Environmental Issues:** While NAFTA led to impressive GDP growth in the latter half of the decade, it alone has not yet brought a decrease in the gap between "The Two Mexicos." Once other Latin American and Caribbean countries (e.g. Chile and Central America) begin to enter into free trade agreements with the U.S., and particularly when the Free Trade Area of the Americas becomes operational in 2005, Mexico will be challenged to compete with 31 other LAC countries having free trade access to the U.S. market. Worldwide experience has demonstrated a close link between trade liberalization, economic growth, and poverty reduction. Given Mexico's progress in the former, it now needs to achieve more equitable distribution of the benefits of trade and economic growth and reduce poverty. This will involve increased focus on mobilizing domestic resources – including financial, natural, and human – to provide more broad-based economic returns to the population, as well as deepening financial markets beyond the current formal banking sector, and assisting micro-, small-, and medium-sized businesses increase their participation in domestic, regional, national, hemispheric, and – eventually – global markets. New opportunities also exist to enable Mexican capital markets financing for state and local infrastructure development, critical to the competitiveness of Mexico and its private sector.

Additionally, there is a growing realization that Mexico's economic growth is limited by natural resource degradation, which has been accelerated due to changes in the intensity and type of environmental stresses due to trade expansion and migration. Given the 2,000 mile land border and two common oceans, this is an issue for the U.S. as well as Mexico. There are important opportunities to take advantage of the extent to which Mexico's states and their domestic and international trading partners share new technologies, environmental management practices (government, non-governmental, community), market-based approaches, consumer awareness and values. There is also a need to ensure that policies, standards, norms, and regulations – and the institutions that formulate and implement them -- are sufficiently robust to anticipate and mitigate new ecological stresses as the scale of overall economic activity expands.

**Social Issues:** Population movement is very high into Mexico (from Central America) and out of Mexico (to the U.S.). Infectious diseases that transit state and international borders, specifically HIV/AIDS and TB, undermine human capital and decrease productivity. Innovative programs for controlling infectious diseases, both in permanent and mobile populations, offer important opportunities to mitigate the negative consequences of a workforce that is increasingly exposed to diseases due to migratory patterns. The challenge – and the opportunity – in Mexico in HIV/AIDS is to contain the epidemic before it spreads widely into the general population. Because the epidemic is concentrated within certain vulnerable groups, Mexico still has time, with targeted prevention activities to avert a major epidemic such as has occurred in sub-Saharan Africa. Intra-country migration, as well as immigration from Central America, can increase the demand for land and resources in resource-constrained areas, thereby generating significant migration and/or potential for conflict that can be further exacerbated by ethnic differences. While USAID/Mexico's programs will not address migration directly, they will address important consequences of migration that could disrupt Mexico's path toward development. For example, programs to improve the management of natural resources can enhance economic productivity while ensuring that the resource base is not undermined.

**Regional Issues:** The governance, economic, social, and environmental issues cited above are particularly acute in two regions of Mexico: the Northern Border and the Southern and Southeastern States. The Northern Border has experienced extraordinary population growth over the past two decades, due in large part to the jobs created by the *Maquiladoras* (assembly) industry. This growth has overwhelmed the capacity of municipal infrastructure and caused alarming deterioration of the environment. As competition for *Maquiladoras* and other economic investment increases in the coming decade from other FTA countries, Vietnam and China, the Northern Border states need to find means to support their populations through more diversified economic activity, with stronger public health infrastructure, and in ways that protect land and water resources. In the South, pressures on resources and services both from Central American and Northern Mexican migrants are fostering conflict and threatening fragile tropical forests. The largely poor populations in the South frequently lack technologies and skills to manage their resources profitably for the long-term. The six Northern Border states and seven of the Southern states account for 70 percent of all tuberculosis cases in Mexico, and both areas contain critical HIV/AIDS "hotspots" of potential high transmission.

#### **D. Role of Other Donors in Mexico**

The World Bank and the Inter-American Development Bank (IADB) are the leading donors in Mexico in terms of sheer project loan funding value. The World Bank's portfolio in Mexico in 2002 comprised about 28 active projects with about \$5.2 billion in net commitments, and an undisbursed balance of around \$2.8 billion. IADB lending to Mexico totaled US\$1.4 billion in 2000, and US\$1.1 billion in 2001 through approximately 30 projects, including the Multilateral Investment Fund. The North American Development Bank (NAD Bank) plans to provide an estimated US\$350 million to the northern border states (4 US, 6 Mexican) for water, solid waste, and wastewater infrastructure development, including technical assistance on rates and management issues; to date the NAD Bank's active loan portfolio is only about US \$42 million. A number of USAID-initiated pilot activities or development approaches have been replicated on a national scale in Mexico through the World Bank, the IADB, or the Government of Mexico.

The European Union and the 18 United Nations organizations represented in Mexico are the lead multilateral/international organizations, and provide assistance across several sectors. In

terms of bilateral donors, Japan has historically been the largest, and through cooperative activities with USAID under the U.S. – Japan Common Agenda, is providing significant funding in parallel programs to USAID’s activities in environment, energy, and HIV/AIDS. Smaller bilateral donors include the Canadians (health and environment), British (entering the Environment sector), the Spanish (Microfinance, Environment, Justice), and the French (Environment). The Germans have worked in the Justice sector for several years and as with the Italians have expressed interest in HIV/AIDS programming.

Despite its rather modest portfolio value when compared to many other multilateral and bilateral donors, USAID’s Mexico program, with its grant financing, relative agility, reputation for success, and flexible mechanisms, is uniquely well-positioned to assist with national level reforms and to catalyze economic development through its own and the leveraging of resources and close cooperation from other donors, other USG agencies, the GOM and the U.S. and Mexican private sectors.

## **II. STRATEGIC OBJECTIVES (SOs)**

### **A. SO 1 Just and Democratic Governance: More Responsive, Transparent Governance**

**Development Challenge:** The development challenge is that there is not yet in Mexico, despite the recent democratic change, a broad sense of citizen ownership of existing and potential public resources – ownership that is critical to the effective functioning of democratic governance. USAID/Mexico’s democracy and governance strategy seeks to support efforts led by Mexicans to develop and implement the institutional mechanisms and incentive structures to effectively generate, manage, and oversee the resources of the Mexican state. Additionally, Mexico’s legal and regulatory frameworks, and their administration, hinder full access to basic civil, human, and property rights that are the main guarantee of access to public resources. Thus, democratic governance and equitable access to resources requires that Mexico’s justice system effectively guarantee the right to and protection of opportunities for economic and social development regardless of socioeconomic conditions.

**Development Hypothesis and Proposed Program:** The development hypothesis is that if Mexico achieves more accountable policy making and implementation, and enhanced rule of law, then equitable access to public resources and services will increase. The free and fair presidential electoral process of 2000 was the culmination of Mexico’s political transition from a highly centralized one-party state to one that is more pluralistic, competitive, and democratic. This change has had an important impact on the country’s other key political institutions, such as its federal and state legislatures, state and local governments, courts, and the executive branch itself. Institutions of long-standing history are now adapting themselves to operate under very different conditions. Mexico’s fundamental “rules of the game” are undergoing a total overhaul of governance principles: from closed and centralized practices to new standards of transparency, accountability, and service of the public good. The shift is nothing short of revolutionary, as most political institutions and actors must also learn to adapt and to operate successfully in a democratic environment. For the first time, competition is allowing Mexico to construct a political system that gives its rightful place to the rule of law and checks and balances.

USAID’s 2002 Democracy and Governance Assessment of Mexico detailed how, despite success in achieving electoral democracy, Mexico continues to have difficulty in providing

governance that is responsive to the needs and interests of its people and establishing a legal system that gives citizens a sense of protection under the rule of law. The same two elements that underlie this hypothesis are also two of the priority recommendations of Mexico's 2002 Conflict Vulnerability Assessment (CVA). The CVA found that unequal distribution of public assets has created a range of conflict conditions, and that institutions for electoral politics and representation, as well as public institutions to channel social conflict, are weak. Priority recommendations relate to building transparency in municipal allocation of resource transfers in conflict prone communities, supporting enforcement of existing legal statutes regulating land use and access to natural resources, and supporting diagnostics of the entire justice sector (from investigation to sentencing) in selected Mexican jurisdictions. These recommendations are reflected in the Mission's choice of its two regional strategy intermediate results under

## **Results Framework and Illustrative Activities**

### **Intermediate Result 1.1 Strengthened Rule of Law**

USAID proposes to provide assistance and training to key institutions of the criminal justice sector, including the judiciary, public defense, prosecutors, and civil society, and will possibly support reform efforts in the areas of civil family and civil commercial procedures. USAID may assist criminal code reforms and support case management systems, including training and other technical assistance to facilitate the passage and implementation of such reforms. USAID proposes to support activities that help define needed civil and criminal legal reforms in areas that affect the poor, women, and indigenous population; increasing the access to justice for disadvantaged groups; supporting mediation programs; and improving training for public defender programs. To increase professional standards to impart more equitable justice, USAID may help reform the legal education system and establish certification requirements for law schools and lawyers.

### **Intermediate Result 1.2 More Accountable Policy Making and Implementation**

USAID proposes to provide technical assistance and training to target government institutions at all three levels of the federal system to address the inter-related components of accountable governance. Activities include support for implementation of the GOM's recent civil service law, government transparency, certification standards for public officials, and citizen participation in resource allocation and decision making. USAID could assist in citizen audits and social oversight of the implementation of government programs as well as activities that support freedom of information, increase legislative accountability to constituents, "professionalize" the state's audit function, and strengthen oversight bodies at federal, state, and local levels of government. Activities may also be aimed at more effective and autonomous revenue generating capacity. Revenue sources to be addressed include taxes, fees, transfers, credit, and cost savings gained by increased management efficiencies. Illustrative activities include supporting fiscal federalism policy reforms and formation of alliances for private sector participation in infrastructure/service financing.

**Strategic Choices and Sustainability of Impact:** USAID's Mexico Country Plan under this SO targets assistance to Mexican institutions strategically placed at high levels and capable of delivering national level results and reforms. USAID/Mexico worked intensively throughout 2001 and 2002 to re-tool its democracy programs, eliminate lower-level activities, and channel funding to more strategic, nationally-impacting initiatives – initiatives led and sponsored by Mexicans. The recent passage of a professional civil service law is a good example of this.

Following, USAID's successful role in civil service reform, the GOM has also directly requested USAID technical assistance in the areas of Mexico's criminal justice system and congressional re-election reform. These far-reaching reforms, if successful, will be etched on the Mexican landscape and continue to have impact long after the strategy period has ended.

**Key Partners:** Key Mexican counterparts for accountable policy-making include the President's Office (Presidencia), the Federal Department for Public Administration (ex-SECODAM), relevant committees in the Mexican Chamber of Deputies and the Senate, and target State and some local governments. Key Mexican counterparts for judicial reform are the Supreme and State Courts, Presidencia, and civil society organizations.

**Measuring Achievement:** Mexico will choose certain selected regional SO 1 indicators TBD. Tentative indicators for assessment of Mexico activity performance will likely include:

- Number of major legal reforms passed and policy changes implemented related to improving governance and rule of law
- Number of federal career civil service staff hired and retained during the life of the strategy
- Amount of funding raised for target local and state infrastructure projects through private sector investment in newly developing municipal bond market
- Greater awareness among state/local governments of international financial management standards
- Percentage of sentences in target state courts based on confessions taken by coercion or torture
- Increased respect for guarantees of due process in target state and federal jurisdictions

**Estimate of Required Resources:** The estimated life-of-plan resources for this SO are \$51 million.

**SO Start and End Dates** FY 2003 – FY 2008

## **B. SO 2 Economic Freedom: Open, Diversified Expanding Economies**

USAID/Mexico's Country Plan targets both the financial access (IR 2.3) and management/conservation of watersheds (IR 2.4) elements of CAM Regional Strategy's SO 2. While there are linkages between both IRs, the rationale and activity outline for undertaking these two important elements of SO 2 are discussed separately and sequentially below:

**Development Challenge: IR 2.3 Broader Access to Financial Markets and Services:** The development challenge is that despite a wide array of institutions, access to financial services in Mexico is very limited. Banks, some still recovering from the "peso crisis" of 1995, generally service large businesses and are not interested in the large micro and small enterprise market. The cooperative sector, though quite large, mainly consists of weak institutions that offer low-quality services. The few microfinance institutions (non-cooperative, hereinafter referred to as MFIs) that do operate in Mexico lend to only approximately 150,000 to 200,000 enterprises. Only one of these has a client base exceeding 100,000, yet most experts agree that at least four or five MFIs of this size are needed to give the sector a critical mass of institutions. Government programs (federal and state) abound, yet they are relatively insignificant and are characterized by high loan defaults. The massive flow of remittances, estimated at \$10 billion per year, is channeled mainly through money transfer companies or informal means, and thus is barely captured by the financial sector. Thus, to date, the enormous potential to leverage these resources for savings and investment remains dormant.

Given a combination of factors -- the importance of micro-enterprise development to the Mexican economy, the high degree of interest and attention paid to the microfinance sector under the administration of President Fox, and USAID's technical expertise in micro-enterprise development -- USAID has the unique opportunity to make a substantial contribution to strengthening and deepening the microfinance-associated financial services sector in Mexico. Under the current strategy, the Mission undertook a Special Objective (SpO) that financed limited but significant assistance that contributed to the development of Mexico's new Popular Finance Law -- passed in June 2001 -- and is now supporting the implementation of the Law through the development of a prototype supervisory federation of microfinance institutions (MFIs). USAID/Mexico plans to expand these efforts, develop and strengthen a sustainable financial services sector (including the large cooperative credit union movement), and take advantage of new opportunities based on the explosive growth of remittances in recent years.

**Development Hypothesis and Proposed Program:** The development hypothesis underlying USAID's access to finance activities is that strong microfinance institutions, committed to growth and excellence, are the missing ingredient in the GOM's microfinance strategy. Building strong MFIs and a prudential supervisory mechanism, as well as linking these institutions to a massive and growing source of private capital (remittances), will deepen the financial sector, promote economic growth, and provide access to financial services for millions of Mexicans not currently reached.

The time is ripe to expand USAID support for the development of the microfinance sector in Mexico. Since the election of President Fox, the GOM has placed a strong emphasis on support for small and micro-enterprises through the development and expansion of what it calls the "social banking sector," i.e. microfinance institutions and financial cooperatives. To support the President's initiative, the GOM is channeling millions of dollars through the Ministry of the Economy, the new national savings bank (BANSEFI), and other GOM agencies. These funds represent an opportunity and a challenge for USAID. On the one hand, the level of commitment

they represent means that for the first time there is a real opportunity to build a microfinance industry in Mexico that has enormous potential for expansion. On the other hand, the variety of programs available, often working at cross-purposes, will mean that effective coordination with the GOM and the donor community will be critical if USAID is to maximize the leverage of its limited resources.

The 2001 New Popular Finance Law requires that more than 650 financial institutions to transform into one of two legal structures: a) savings and credit cooperatives, or b) savings and credit societies. Given the large volume of institutions that will become regulated, the new legislation establishes a “delegated supervision” scheme in which some 10-12 federations organized by the financial institutions will serve as supervisory bodies. This restructuring of the popular finance sector was originally to be completed by June 2003. Recognizing this timeframe was unrealistic, the GOM has extended the deadline for compliance until 2005. However, most observers agree that the majority of the proposed changes will probably take place over the course of the next five to six years. Under the current program, USAID is engaged in helping to rationalize a fluid and complicated regulatory picture, and should continue to be engaged in 2004 and beyond to help consolidate the supervisory structures and methods that will ensure a strong and vibrant sector. USAID/Mexico can make a significant impact on this sector by helping to ensure that this system of federations becomes operational and that their supervisory units perform effectively. Because regulations and increased supervision do not automatically translate into better and stronger MFIs, USAID also plans to strengthen institutions that fall under the new framework and to provide support for the emergence of a critical mass of strong institutions that will lead the continued development of the financial services sector.

Under the new strategy, USAID will also seek to leverage remittances flows. One of the most important emerging phenomena in Latin America, the level of remittances has accelerated dramatically over the past decade, growing at an average rate of between 7–10 percent per year. Remittances are often the most important source of funds for poor households. Despite the massive volume of transfers, the market is dominated by institutions that are either unable, in the case of money transfer companies that can't offer other services, or unwilling, in the case of commercial banks, to offer recipients other services. Similar to efforts underway in the United States, the program will work to bring underserved populations into the social banking sector – to “bank the un-banked” -- while at the same time lowering transaction costs by working with new private sector partners. In addition, associations of migrants, commonly known as “Hometown Associations” (HTAs), have begun to target social and productive investments to their communities of origin.

Recognizing this grassroots development, the Mission will seek to enhance the impact of these investments by working with HTAs to improve their project design and implementation capacity. Remittances are directly related to USAID's engagement with the microfinance sector as a new source of lending capital and a way to attract new clients. The end of program status for this program will be a larger, stronger microfinance sector that has new links to both the national and international financial sectors. This, in turn, will result in a significant expansion in the number of clients, especially the poor and women, who have access to financial services.

## **Results Framework and Illustrative Activities**

*National Federation and Microfinance Institutions Strengthening:* USAID plans to develop a capacity in one or two large federations to oversee new savings and credit law compliance and

to strengthen on-going supervision of member MFIs. One of the federations may be Prodesarrollo, an organization with which the existing microfinance program has been working. Depending on the pace of implementation of the new law and the experience with Prodesarrollo, USAID may elect to undertake capacity building with at least one additional federation. USAID will provide technical assistance and training to a limited number of MFIs, competitively selected on the basis of their potential for success and growth, to enable them to expand their lending and client base, capture savings, and adopt best management practices. The provision of limited support commodities, such as software and training manuals, to participating MFIs (as well as the federations) would be based on need and justified uses.

*Remittances:* USAID/Mexico proposes to link its ongoing work in microfinance to remittances. Efforts will focus on: a) increasing the variety of financial services available for recipient families, b) strengthening the financial position of MFIs by offering a new source of revenue, and 3) creating a new source of lending capital for Mexican micro-enterprises. This component will build on the current LAC regional pilot activities under the Opportunity Alliance and on the broader Partnership for Prosperity Initiative. The GOM is also seeking to channel a portion of the massive volume of remittances into productive investments, through cooperatives and select MFIs under the auspices of BANSEFI, and is looking at ways to attract increased amounts of HTA investment. USAID will coordinate its efforts with those of the GOM and will work to improve the quality of HTA investments by training members in project design and implementation best practices and by seeking to foster increased and more development-focused cross-border linkages.

**Strategic Choices and Sustainability of Impact:** While Mexico could certainly benefit from USAID technical assistance in a wide variety of areas outlined under regional strategy's SO 2, the Mission believes we can have the highest impact by addressing specifically the access to finance question. The choice of the access to finance IR, and the highly-focused attention in particular on microfinance and remittances, is based on USAID's comparative advantage to have impact, Mexico's priorities, and is congruent with the strategic parameters guidance provided to the Mission in 2002. The sustainability and financial viability of USAID's interventions in the micro-enterprise finance area are central to USAID's selection of activities and institutions with which to work, and will continue to guide Mexico's approach.

**Key Partners:** The Federal Treasury department (Hacienda), MFIs, Banking regulators, Prodesarrollo and other federations, credit unions.

## **Intermediate Result 2.4 Improved Management and Conservation of Critical Watersheds**

**Development Challenge:** The development challenge is that high rates of poverty are coupled with, and to a large extent driven by forest fragmentation, habitat loss and degradation, overexploited fisheries, and industrial and human pollution. The Mexican government has acknowledged the need to grow its economy in harmony with its natural resources base, but the challenge is great. Mexico is the fourth most biologically diverse country in the world supporting over 10 percent of the total number of species on earth on less than 1.5 percent of the earth's land. This high level of biodiversity is attributed to Mexico's complex topography, numerous climatic zones and its location. This has led to a complex ecology that goes from tropical rainforest and mangroves to alpine meadows, savannas, grasslands and temperate forests. People are a critical part of these ecosystems, and the economic and cultural diversity of Mexico is integrally linked to the landscape and the biodiversity that it supports. This directly links the welfare of the Mexican people to the continued health of these ecosystems. Rural

people in Mexico depend directly on soil fertility and the availability of water to support their agriculture, and on the health of their forests to supply construction materials and energy.

**Development Hypothesis and Proposed Program:** The Mission's development hypothesis is that if economic opportunities are increased, particularly in areas where communities rely on a natural resource base for their well being, and if local communities have more control over the resources they depend on, then natural resources and biodiversity can more effectively be conserved. Activities will address resource and watershed management at the community level in ways that both protect biodiversity and increase the economic potential of rural areas. Activities to improve watershed management will be prioritized in relation to their impact on threats to biodiversity, particularly on communal lands surrounding centers of high biodiversity. A secondary focus will be on improved linkages between watershed and water management as an integrative theme to help prioritize activities and to reduce vulnerability to climate change. Water-related activities will demonstrate ecological services to rural communities, which are more immediately tangible than biodiversity-related values. The emphasis on biodiversity and watershed management builds on the Mission's existing strengths in forest and conservation area management, fire suppression and prevention, capacity building, clean water; clean production and renewable energy.

Protection of Mexico's biodiversity through improved watershed management and economic development requires an integrated approach that gives communities both greater incentive and capacity to manage the resources they depend on. National, state, and municipal agencies also need enhanced technical capacity, and to a lesser degree, management capacity. Based on a USAID-led alliance with the Japanese under the current strategy to foster community-to-community technical assistance, USAID proposes to expand alliances that bring communities and private sector interests together with multiple levels of government to establish common goals, share information, and increase collaboration. These alliances will provide the foundation for transformative and catalytic change by creating models of cooperation between different actors that can be scaled up in targeted areas or replicated more broadly by GOM and private sector counterparts.

In order to address the development hypothesis, USAID will work to improve the national enabling environment for natural resource and watershed management by strengthening national capacities for policy implementation, particularly by federal, state, and municipal agencies. This is critical to support the new federal mandate that emphasizes decentralization of authority and increased implementation at the state and local level. USAID will also create public – private alliances that link national and local institutions, particularly around the development of new economic opportunities that respond to regional markets. And USAID will address needs at the community level in key national watersheds to help local groups responsibly manage their natural resources in an effective and transparent manner. Under the integrated watershed management focus, USAID will work with both urban and rural communities, and strengthen alliances between communities that depend on shared watersheds.

**Results Framework and Illustrative Activities (IR 2.4 Critical Watersheds):** Mexico's natural resources plan is already strongly linked regionally through USAID's Opportunity Alliance for Mexico and Central America, particularly as related to biodiversity, shared watersheds, fire management, and protection of the Meso-American reef - a key center of global biodiversity. Vulnerability to natural disasters and climate change will be addressed at cross-border, national, state, and local levels through the coordinated development of model activities, such as fire management and watershed protection plans that address climate change.

Additional areas of alignment with the CAM Regional Strategy and the Opportunity Alliance include integrated regional trade and diversification of rural economies. In direct support of both USAID and Fox Administration priorities, greater emphasis will be placed on increasing the private sector's capacity to provide technical assistance and financing for new investments - areas that were traditionally the responsibility of the GOM. Expansion of the private sector's role in clean production, renewable energy, ecotourism, and specialty crops, such as cacao and coffee, also supports the core objectives of the Global Development Alliance and the Opportunity Alliance.

Mexico's natural resource management activity will directly contribute to the Agency-wide indicator, *Number of hectares under approved management plans*. The number of hectares brought under approved watershed management plans will be the highest level of achievement for this strategy. The definition of areas under approved management plans will include community lands, especially those serving as buffer zones associated with sites of high biodiversity in key national watersheds.

The following are illustrative activities outlined for each primary area to be addressed under IR 2.4:

*Enabling environment for natural resource and watershed management:* Activities will improve the national enabling environment for natural resource management by strengthening national capacities for policy implementation, particularly those of federal, state, and municipal agencies. This is critical to support the GOM federal mandate to decentralize authority and increase implementation at the state and local level. A second key component will be to create public-private alliances that link national and local institutions, particularly around the development of new economic opportunities that respond to regional markets. Efforts will be made to link these new economic opportunities to all prospective participants with special efforts aimed at reaching women and youth.

*Environmentally sound and economically viable practices and technologies:* USAID will promote increased use of appropriate technologies and best practices, including GIS for watershed planning and other uses, and help link national level support and community needs. As new technologies and economic opportunities are adopted within USAID's targeted areas, government agencies and NGOs will be tasked with promoting them over a broader area to achieve more widespread results.

*Community role in natural resources and watershed management:* USAID will address needs at the community level to help local groups responsibly manage their natural resources in an effective and transparent manner. Under the integrated watershed management focus, USAID will work with both urban and rural communities, and strengthen alliances between communities that depend on shared watersheds.

**Strategic Choices and Sustainability of Impact:** USAID/Mexico's environment program has been one of the more successful in the LAC region. However, while highly visible, the program was also quite dispersed as it supported a basic conservation mandate in isolated but important sites all over Mexico. Under the Mexico Country Plan, the program moves away from local-level site-based approaches and emphasizes a systems approach that features extensive coordination and cooperation with the national government and with other donors. This will provide a better platform and opportunity for national dissemination of significant development

results and replication to other areas of the country that are not priorities within USAID's strategy.

In the Country Plan, the Mission also will not have a stand-alone set of clean production and energy efficiency activities. Even though the Mission was very successful in leveraging large-scale replication of its pilot activities through the World Bank and other financial institutions/donors, under the new Country Plan these activities will be integrated within the overall environment/natural resources objective in order to provide greater focus. Among the elements that will not continue in the new natural resources management plan are small grants to local NGOs and community groups outside of priority program and geographic areas. Under the new strategy, small NGOs and community grants will only be made for defined activities that directly contribute to specific expected development outcomes.

**Key Partners:** The GOM's Environment Department (SEMARNAT), and other key government natural resources agencies (CONAP, CONAFOR). USAID will likely work with Mexican NGOs and Mexican affiliates of U.S. NGOs such as Conservation International/Mexico and WWF/Mexico, and Mexican Nature Conservation Fund.

**Measuring Achievement:** The performance indicators for SO 2 and both IRs will be refined and selected based on regional agreement on common indicators and relevancy for Mexico. Assessment of Mexico activity performance may include:

*Mexico Natural Resources Management activities*

- Number of hectares under approved management plans.
- Reduction in pollution achieved by targeted industries, municipalities, and communities.
- Number of multi-level (i.e. community, state, federal) alliances addressing specific community NRM issues.
- Number of integrated community watershed management projects.

*Mexico Access to Finance activities*

- Number of microfinance savings and credit clients increased by 250% percent in participating MFIs. Reporting will be gender disaggregated; for the number of clients, the target is 60% women.
- Financial sustainability of selected MFIs increased.
- Effective supervision of MFI by federations, demonstrated by degree of MFI member compliance with new law.
- Amount of remittances channeled through participating MFIs increased.

**Estimate of Required Resources:** The estimated life-of-plan resources for the entire SO 2 are \$14.6 million (IR 2.3) and \$29.9 million (IR2.4) at the base level.

**SO Start and End Dates:** FY 2003-2008

### **C. SO 3 Investing in People: Healthier, Better Educated People**

#### **Development Challenge: IR 3.3 HIV/AIDS & Other Infectious Diseases Contained and Impact Mitigated**

The development challenge is that infectious diseases are not contained by political boundaries. Recognizing that the current and future health status of U.S. and Mexican citizens is closely linked through the spread of infectious diseases, including HIV/AIDS and TB, the United States has direct interests in safeguarding the health of American citizens and in reducing the negative consequences of disease worldwide. A 2,000 mile land border between the U.S. and Mexico, and almost one million border crossings a day, and a large population flow from Central America into both countries, facilitates the spread of infectious diseases in the U.S. – Mexico – Central America region.

Common priorities for both TB and HIV/AIDS include: preventing new infections; providing attention to the needs of mobile populations; enhancing capacity at the state level to address TB and HIV/AIDS; strengthened “steering roles” of the HIV/AIDS and TB national programs; and providing adequate attention and treatment for those already infected. Unlike many countries, the TB and AIDS epidemics have not been closely nor significantly linked together nationally in Mexico. However, there is evidence that in the state of Baja California there may be an increasing linkage. USAID will continue to look for ways to maximize synergies and the corresponding impact of both the Tuberculosis Control and HIV/AIDS prevention activities.

**Development Hypothesis and Proposed Program:** The development hypothesis is that if either country is to achieve decreased and sustained lower prevalence levels, the U.S. and Mexico need to address prevention and control of infectious diseases in partnership, particularly HIV/AIDS and TB.

USAID/Mexico is supporting common priorities in both the HIV/AIDS and TB national programs, and plans to further focus its resources under the proposed new strategy.

*For HIV/AIDS*, the GOM and USAID’s shared technical approach to prevention is based on global experience and substantial epidemiological evidence regarding the trajectory of HIV epidemics. HIV prevalence rises first in high risk groups, and then gains a critical mass, allowing the epidemic to be sustained and to spread to the general population. Particularly when dealing with low prevalence and concentrated epidemics such as that in Mexico, this process of epidemic spread calls for a program that addresses core transmitter and bridge population groups. Prevention resources should thus be targeted to changing the risk behaviors of such populations with the goal of keeping HIV prevalence low, thereby preventing or delaying spread to the entire population. USAID’s HIV/AIDS program has been developed based on this global experience. USAID will pursue a two-pronged approach to increase the use of HIV/AIDS prevention services and practices by promoting an enabling environment that reduces barriers to behavior change and care-seeking behaviors, and by increasing access to services, that will facilitate the adoption of safer behaviors. Special attention will be given to gender-determined behaviors and the special vulnerability of women – both due to biology and gender roles in Mexico. In addition to focusing efforts on core segments of the population, the strategy will target key HIV/AIDS hot spots and states based on STI/HIV prevalence, location along trade or migration routes, and recommendations from SSA and other stakeholders. The hypothesis is that if the virus can be contained, and eventually reduced, in these areas, then it will not become generalized throughout the population.

USAID's engagement in *Tuberculosis control (TB)* in Mexico began following a joint U.S. – Mexico Presidential Memorandum of Understanding in 1999. It is estimated that 25 percent of TB cases diagnosed in the U.S. originate in Mexico. An underlying rationale of USAID's assistance is that through Mexico's control of the disease, its own citizens will not only be healthier and more productive, but the U.S. will be in a better position to achieve its own goal of TB elimination since one of the major sources of infection will be controlled at the point of origin. The USAID-supported program in Mexico complements similar activities undertaken on the U.S. side of the border by the Center for Disease Control (CDC) and other organizations.

Activities under a current Mexico TB SO are establishing the foundation for an approach that has been found to be the most cost-effective and successful in the management and treatment of TB worldwide, e.g., Directly Observed Therapy Short course or DOTS. USAID assistance under the proposed new Infectious Diseases IR will build on the current investments to firmly establish DOTS in Mexico, and will focus on improving the quality of services provided as well as the sustainability of these services in the 13 states that account for 70% of TB cases in Mexico. The states are: a) Northern Border: Baja California, Sonora, Chihuahua, Coahuila, Nuevo Leon, Tamaulipas; b) Southern Border/Plan Puebla Panama States: Yucatan, Quintana Roo, Campeche, Tabasco, Chiapas, Veracruz, Puebla, Oaxaca, Guerrero; ci) Other High TB Prevalence States: Michoacan, Colima, and Jalisco.

**Results Framework and Illustrative Activities:** Activities to achieve HIV/AIDS results will be implemented through USAID's Global Health Bureau's field support mechanisms. For social marketing efforts, the Mission is working with the Global Health Bureau and Mexican partners to explore the feasibility of establishing a public-private sector alliance with Mexican and U.S. NGOs, foundations, and the commercial private sector. Because there is little experience with social marketing in Mexico, the potential alliance may take some time to fully establish, but it should provide for program sustainability once underway (est. FY 2004). Illustrative activities in the HIV/AIDS target states are:

*Improved policy environment:* USAID will support behavior change and stigma reduction activities and will continue to strengthen and expand to selected states in the south the multi-sector groups' model developed under the current strategy. USAID will support surveillance surveys to determine whether behaviors are changing in groups currently most at risk in order to apply current information about the direction of the epidemic to policy initiatives and service delivery.

*Increased access to services:* USAID will support a social marketing program targeted to high risk groups, including migrant populations in the southern states. Social marketing and other efforts will also promote behavior change communication, which is expected to lead to a decrease in risky practices and a reduction in number of sexual partners. Behavior change messages are also expected to increase demand for sexually-transmitted infections (STI) testing and treatment, and, over time, an increased demand for voluntary counseling and treatment and other services.

Activities to achieve the TB results will be further refined following a mid-FY 2004 evaluation of the current TB SO, but are expected to comprise the following:

*Improved national and local commitment:* USAID will engage in policy dialogue to ensure financial and human resources are adequate to support appropriate TB interventions at the national and regional level. USAID will also promote social activation and community

participation in target states to increase local-level advocacy, and help develop support networks within the health sector, and between health and other sectors, to create partnerships for stronger advocacy.

*Improvement of quality of services:* USAID will support capacity-building interventions at the national, state, and local levels, including strengthening and/or expansion of DOTS, laboratory networks, program management, and training and coordination of activities for tuberculosis information sharing and exchange.

**Key Partners:** For HIV/AIDS -- The Government of Mexico's National HIV/AIDS program (SENSIDA), the Ministry of Health (SSA). For TB Control -- the Ministry of Health's National TB Program and the Instituto Nacional Enfermedades Respiratorias (INER).

**Measuring Achievement:** To be finalized based on agreement on regional strategic indicators, however indicators of performance of Mexico infectious diseases activities will likely encompass the following:

- Number of positive policy changes.
- Change in AIDS Policy Index (API) score.
- Use of condoms among high-risk group members.
- Decreased mortality rates attributable to TB.
- Salaries of USAID-financed TB personnel absorbed by GOM and/or other sustainable source of financing.
- Increased use of laboratory-based diagnosis to identify TB cases.
- Improve DOTS meeting strict case definitions.

**Estimate of Required Resources:** The estimated life-of-plan resources for this SO are \$26.5 million.

**SO Start and End Dates:** FY 2003 – 2008. Under the Infectious Diseases IR, HIV/AIDS will be FY 2003 - 2008 and the tuberculosis activity will be FY 2004 - 2008 as it is currently covered under an existing SO.

**D. Mexico Strategic Objective: Enhanced Capacity of Participating Mexican Scholars and Institutions to Respond to the Common Development Agenda. SO 523-010**

**Training, Internships, Exchanges, and Scholarships (TIES) program**

USAID/Mexico will also implement as a part of its program during the Country Plan period the previously authorized Strategic Objective for TIES, a presidential initiative for U.S. and Mexico on higher education. While not a specific element of the regional strategy, the TIES SO is an integral part of the USAID/Mexico and U.S. Mission Mexico program and is outlined below:

**Development Challenge:** The development challenge is the need address issues of Mexico's regional and global competitiveness through involvement of higher education institutions in order to achieve desired social and economic growth and reduce the disparity of income and life quality between Mexico and the U.S. The Mexico Strategic Objective for TIES was approved by AA/LAC on August 1, 2002 in response to an announcement of the program by Presidents Fox and Bush. The SO Start Date is August 2002, the SO Funding Period is FY 2002-2008, and the SO End Date is September 30, 2009.

TIES priority areas are: expanding trade and investment; promoting environmental protection, alternative energy, and ecotourism; strengthening small and micro-enterprise; increasing agricultural production, extension, processing, and marketing; enhancing business and NGO management, finance, and marketing; broadening microfinance, international finance, and remittance utilization; augmenting development/use of telecommunications and information technology; improving public administration, transparency, and accountability, advancing application of engineering technology; and furthering competitiveness through research and human capital development. The enhanced capacity of Mexican scholars and institutions to respond to an emerging common development agenda between the U.S. and Mexico will be demonstrated by an increase in the number of participating Mexican institutions that establish new programs in these areas, and an increase in the number of participating Mexicans that work in common development agenda-related professions.

**Development Hypothesis:** The development hypothesis for TIES is that establishing linkages between U.S. and Mexican institutions of higher learning to address problems of common interest to the U.S. and Mexico, and increasing the number of Mexicans who have the knowledge and skills to address those issues will promote increased understanding and eventual mitigation of those common development agenda problems. A series of discussions in 2001-2002 by Presidents Fox and Bush have led to the emerging Common Development Agenda, primarily defined as the North American Free Trade Agreement (NAFTA) and the U.S. Mexico Partnership for Prosperity. Both Presidents have also placed a high priority on education, indicating that education is the best path for poor Mexicans to secure a brighter future. In joint communiqués at the end of each of the three Presidential meetings (Guanajuato, Washington, and Monterrey), Presidents Fox and Bush discussed their intent to launch a major new education and training program that would tie the two countries together to address new challenges and opportunities both within the region and globally. These discussions form the basis of the Presidential Initiative that is manifested in the TIES SO. The close official and personal relationship between the two Presidents has allowed the countries to collaborate as never before on the difficult issues of narcotics, migration, and crime. The role of developing human capital is considered vital to enable Mexico to continue to take advantage of economic opportunities and advance its development in pursuit of the emerging common development agenda. Achievement of three TIES intermediate results are expected to provide for increased Mexican capacity to do so over time: the partnerships will develop a sustainable capacity of Mexican universities; the graduate-level scholarships will allow targeted training in response to high U.S.-Mexico priorities; and the community-college scholarships for disadvantaged Mexicans will help fill skills gaps, making Mexican communities more competitive. At least 50 percent of the 750 scholarships funded by the TIES Initiative will be awarded to women.

### **TIES Results Framework and Illustrative Activities**

- **University Partnerships:** TIES University Partnerships component will establish training, internship, exchange and scholarship relationships between U.S. and Mexican universities to address CDA-related development problems that have been identified by Mexican higher education institutions and their public and private partners. It will be implemented through Field Support to the Association Liaison Office for University Cooperation in Development (ALO) cooperative agreement (or a similar successor) managed by the EGAT Bureau. Using FY 2002 funding, 18 such partnerships were funded, involving higher education institutions in 9 Mexican (plus the DF) and 11 US states (plus the national Galludet University). These new partnerships are actively addressing problems ranging from small

business development to trans-border public administration to applied ecology. Over the planning period, a minimum of 35 sustainable institutional linkages will be established and an estimated 250 scholarships in the U.S. will be supported.

- **Graduate Scholarships:** TIES Graduate Scholarships component will fund study in the U.S. and Mexico to address common development problems independently of the partnership activities. An estimated 250 scholarships will be funded, targeted on three distinct groups: i) faculty from universities serving rural, high-migrant-expulsing and southern areas of Mexico; ii) indigenous Mexicans, who will initially receive support for completing Mexican higher education programs, and upon completion of undergraduate work will compete for a smaller number of U.S. graduate-level scholarships; and iii) technical specialists receiving training to enhance their skills in support of USAID/Mexico's other programs, with particular emphasis on addressing needs along Mexico's Northern Border.
- **Community College Scholarships:** TIES Community College Scholarships component will provide access to training opportunities primarily for socially and economically disadvantaged Mexican youth. Expanding access to higher education, particularly for disadvantaged youth and in disadvantaged communities, helps reduce disparities in income between social groups – a goal of both the U.S. and Mexico. An estimated 250 scholarships will be supported from this component. The Cooperative Association of States for Scholarships (CASS) of Georgetown University will implement this component as part of a wider regional-bureau initiative.

In addition to establishing specific components to assure participation of indigenous Mexicans and social and economically disadvantaged individuals, USAID has established a target of 50 percent participation of women in the TIES program. It also foresees significant use of Minority Serving Institutions, including Historically Black Colleges and Universities.

#### **Measuring Achievement – Preliminary SO Level Indicators**

- Participating Mexican institutions with new programs that respond to CDA-related opportunities. Baseline, 2002 = 0. Final, 2009 = 35.
- Participating Mexican scholars that have graduated (from partnership institutions and/or through direct scholarship programs) using TIES-funded scholarships working in CDA-related professions. Baseline, 2002 = 0. Final, 2009 = 500.
- Disadvantaged Mexicans who have benefited from TIES scholarships (partnership, graduate and/or community college) who are utilizing new common development agenda-related training in their communities. Baseline, 2002 = 0. Final, 2009 = 400.

#### **TIES IR Level Indicators**

- IR10.1, University Partnerships: Partnerships activity developing new CDA-related programs. Baseline, 2002 = 0. Final, 2009 = 35.
- IR10.2, Graduate Scholarships: Graduate scholars successfully complete CDA-related programs. Baseline, 2002 = 0. Final, 2009 = 250.
- IR10.3, Community Collage Scholarships: Disadvantaged Mexicans successfully complete CDA-related training. Baseline, 2002 = 0. Final, 2009 = 250.

**Key Partners:** Mexican institutions of higher education, CONACYT (Mexican Science and Technology Commission), and the GOM's Department of the Economy.

### **III. PROGRAM RESOURCES**

The Mexico Country Plan timeframe and funding period is FY 2003 through FY 2008. Following guidance in the Parameters Cable, the Mission plans to “jumpstart” the Country Plan by treating FY 2003 as a transition year, splitting its FY 2003 operating year budget (OYB) between the current and new strategy. USAID will begin activity under each of its intermediate results on June 1, 2003, except for the TIES SO that was approved in August 2002 and has begun implementation already. The Country Plan intermediate result end dates will be 12 months after the end of the Mexico and Central America Strategic Plan funding period, thus September 30, 2009.

This funding is distributed among the Strategic Objectives over the FY 2004-2008 Strategy period as follows<sup>1</sup>:

SO-1 Ruling Justly: More Responsive, Transparent Governance (523-021):

\$ 7,000,000 DA  
\$44,000,000 ESF

SO-2 Economic Freedom: Open, Diversified, Expanding Economies (523-022):

\$44,500,000 DA

SO-3 Investing in People: Healthier, Better Educated People (523-023):

\$26,500,000 CSH

Special Objective: Enhanced Capacity of Participating Mexican Institutions to Respond to the Common Development Agenda (Also referred to as TIES) 523-010:

\$17,000,000 DA  
\$18,000,000 ESF

### **IV. PROGRAM AND OPERATIONAL MANAGEMENT**

#### **Staffing**

The FY 2003-2008 Mexico Country Plan implements recommendations from LAC Bureau Management Assessments conducted in 2000-2001. A key recommendation was that the Mission should continue to seek less staff-intensive approaches to implementing its programs.

In response to this recommendation, USAID/Mexico has designed its new country program to limit significantly the number of management units, and to operate with no more than four USDH for the FY 2003 – 2008 implementation period. These four USDH positions will cover senior management positions essential for a resident mission managing almost US \$30 million/ year: a Director, Supervisory Program Officer/Deputy Director, Program/Project Development Officer, and an Executive Officer.

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<sup>1</sup> Levels are estimated and subject to the availability of funds. Amounts are rounded to the nearest \$500,000.

The successful implementation of USAID/Mexico's Country Plan will also rely on excellent support services assistance provided by the Regional Support Services Center in USAID/EI El Salvador. The Controller, Acquisitions & Assistance (A&A), and Legal functions, essential to the smooth and prudent functioning of the Mexico operation, will continue to be funded via USAID/Mexico's OE account, and requested support services will be provided on a timely basis under a mutually accorded annual agreement.

All USAID/Mexico technical positions, other than the "core" positions mentioned above, including Strategic Objective Team Leader positions, will be program-funded. In compliance with the Mission Management Assessment recommendations, the Mission will continue to use a variety of approaches to attracting highly qualified personnel through mechanisms such as PSCs, Participating Agency Services Agreement (PASA) employees, Fellows, Interns, and similar mechanisms.

The Mission will continue to recruit modest additional FSN staff over the strategy period, and will shift responsibilities of existing staff, as appropriate, to assure prudent management. The Mission is currently recruiting an FSN Participant Training Processor for the TIES SO Team to take up anticipated management load under that initiative. The Access to Finance Team plans to add one FSN Specialist position when planned funding increases materialize. The Natural Resources/Environment Team will decrease by two off-shore positions (one PASA and one USPSC) during FY 2003-2004 in anticipation of fewer management units. The Health SO Team will convert its TB Program Manager from a USPSC to an FSN-PSC in FY 2003.

### **OE Budget**

Along with instructions to streamline, the Parameters guidance also recognized that USAID/Mexico is constrained in terms of the Mission's OE funding and that the Mission requires a modest increase to accommodate and prudently meet increased program management and staffing requirements. The Mission has reviewed options carefully for additional cost savings and OE needs and the Country Plan seeks an operating expense level at or very close to the Bureau's established FY 03 level for Mexico of \$1.1 million.

### **Management Units**

The Mexico Country Plan reflects not only a substantive re-focusing, but also a considerably streamlined management structure. To illustrate this tighter structure, USAID/Mexico plans to decrease last year's total of 40 discrete management units to a greatly reduced number (estimated 15) - of which over half will be low-management-intensity field support or pre-competed instruments - for the new Country Plan period.

## ANNEX: TECHNICAL ANALYSES

The following required and selected informational analyses and/or reports were used in development and preparation of the Mexico Country Plan and are available upon request from USAID/Mexico:

### STUDY, REPORT OR DOCUMENT

### USE

#### **Mexico Conflict Vulnerability Assessment**

Prepared by Susan Burgerman and Management Systems International under USAID Contract No. IQC #QEP-I-99-00040-00 TO #822, Washington, D.C., December 16, 2002

#### **Structural Volatility in Mexico: A Policy Report**

Prepared by Ricardo J. Caballero on behalf of the Massachusetts Institute of Technology and the National Bureau of Economic Research for the Inter-American Development Bank, August 2000

#### **Information and Communications Technology for USAID/Mexico Programs**

Prepared by Norene Janus and Jeff Cochrane of the USAID Information Technology Team from USAID/EGAT/EIT/IT and USAID/LAC, Mexico City, November 2002

#### **Gender Assessment of the USAID Mexico FY 2004-2008 Strategic Plan**

Prepared by Susan Pick and Manuel Berrondo of the Instituto Mexicano de Investigación de Familia y Población, and edited by Mary Kincaid of The Futures Group International, December 2002

#### **NAFTA and the Mexican Economy: Analytical Issues and Lessons for the FTAA**

Prepared by J. Ernesto Lopez-Cordova for INTAL-ITD-STA Occasional Paper 9, Inter-American Development Bank, July 2001

#### **Poverty Assessment Mexico**

Nora C. Lustiq and Luis F. Lopez-Calva of the Department of Public Policy and Development Studies, Universidad de las Americas, Puebla, prepared under contract with USAID/Mexico, 2002

#### **Biodiversity and Tropical Forest Conservation, Protection, and Management in Mexico: Assessment and Recommendations (FAA Section 118-119)**

Karen Menczer for ARD-BioFor IQC Consortium and Grupo Darum under USAID Contract No. LAG-I-00-99-00013-00 Task Order No. 809 Biodiversity and Sustainable Forestry (BioFor IQC), Burlington, Vermont, December 2002

#### **Responding to Development Challenges and Opportunities in the U.S.-Mexico Border Region**

James Michel and Francisco Lara-Valencia for CRI Consult, Inc. Under USAID Contract No. 598-0020-02-065, February 2003

#### **Another 50 Years of Mass Mexico Immigration**

David Simcox, Center for Immigration Studies, March 2002

#### **Mexico: A Comprehensive Development Agenda for the New Era**

Informed design in terms of geographic and demographic targeting and potential activities.

Input into assistance environment and development opportunities and constraints analysis.

Informed design on current and potential ICT applications.

Informed strategy development regarding gender.

Analysis of NAFTA and trade issues, provided insight into the trade-poverty relationship.

Informed strategy development on geographic and demographic targeting.

Provided analysis of threats, obstacles, opportunities, and recommendations for USAID to maximize impact on biodiversity and tropical forest conservation.

Informed strategy development on policy issues and considerations for geographic and demographic targeting. Migration data informed geographic focus.

Current compendium of key development issues:

<p>The World Bank, edited by Marcelo M Giugales, Olivier Lafourcade and Vinh H. Nguyen, Washington D.C., 2001</p>	<p>background for US - Mexico Common Agenda.</p>
<p><b>The U.S.-Mexico Partnership for Prosperity</b> Prepared by the Government of Mexico, the U.S. State Department and USAID, Treasury, Commerce</p>	<p>Informed strategy development regarding Partnership for Prosperity.</p>
<p><b>Rural Prosperity in Latin America and the Caribbean</b> USAID LAC Bureau, Washington, D.C, January 2002</p>	<p>Provided useful LAC framework for strategy development.</p>
<p><b>Mexico Democracy and Governance Assessment</b> David Cohen et al, January 2002</p>	<p>Background analysis for governance activities.</p>
<p><b>Assessment of USAID/Mexico's Administration of Justice Assistance and Activities</b> J. Michele Guttman, prepared under the National Center for State Courts Cooperative Agreement with USAID/Mexico, December 2000</p>	<p>Provided "lessons learned" and new directions for rule of law activities.</p>
<p><b>The USAID/Mexico Environment Program: Partnership and Program Assessment</b> George F. Taylor, prepared by International Resources Group, Ltd. For USAID/Mexico under the Environmental Policy and Institutional Strengthening IQC, February 2002</p>	<p>Key analysis for environment/energy sector.</p>
<p><b>Forests and Biodiversity Risk: Vulnerability in Strategic Areas and New Conservation Tools</b> CESPEDS and PRONATURA, October 2002</p>	<p>National analysis of terrestrial biodiversity and conservation threats. Used to select target areas.</p>
<p><b>AIDS in Mexico in Year 2000</b> National Center for the Control and Prevention of AIDS, Mexico City, 2001</p>	<p>Input for infectious disease, HIV/AIDS strategy and plans</p>
<p><b>Action Plan for AIDS and Sexually Transmitted Infections of the National Health Program 2001-2006</b> National Center for the Control and Prevention of AIDS, Mexico City, 2001</p>	<p>Government of Mexico national program and plans.</p>
<p><b>Strategies for an Expanded and Comprehensive Response (ECR) to a National AIDS Epidemic: A Handbook for Designing and Implementing HIV/AIDS Programs</b> Family Health International</p>	<p>Provided input for HIV/AIDS strategy and plans.</p>
<p><b>The Mexican HIV/AIDS Surveillance System, 1986-2001</b> AIDS Journal, 2002 16:51-53.</p>	<p>Input for infectious disease, HIV/AIDS strategy and plans.</p>
<p><b>Effective Prevention Strategies in Low HIV Prevalence Settings</b> Family Health International, 2001</p>	<p>Input for infectious disease, HIV/AIDS strategy and plans.</p>
<p><b>USAID's Response to HIV/AIDS</b> USAID, June 2002</p>	<p>Input for infectious disease, HIV/AIDS strategy and plans.</p>
<p><b>An Expanded DOTS Framework for Effective TB Control</b> WHO, Geneva, 2002</p>	<p>Information on mechanisms to implement a DOT project at the national level.</p>
<p><b>Guidelines for Establishing DOT-Plus Pilot Projects for the Management of MDR-TB</b> WHO, Geneva, 2000</p>	<p>Information on strategies to develop MDO-TB studies and DOT-Plus.</p>
<p><b>The Program for the Prevention and Control of TB in Mexico – the Evolution</b> PAHO, Mexico City, 2001</p>	<p>Background on the Mexico program.</p>
<p><b>Globalization and Migration: The Impact of Family</b></p>	<p>Analysis of use of remittances.</p>

**Remittances in Latin America**

Miguel Orozco, paper for the Inter-American Dialogue

**Remittances and Microenterprises in Mexico**

Chris Woodruff and Rene Zenteno, the University of California at San Diego, 2001

Provided a description of the relationship between remittances to microenterprise and noted opportunities for growth.

## **ACTION MEMORANDUM**

TO: AA/LAC, Adolfo A. Franco

FROM: Rosalie Fanale, LAC/SPO

SUBJECT: Approval for USAID/Mexico Country Plan

**Action Requested:** Your signature to the attached Management Letter is requested to approve the USAID/Mexico Country Plan and to authorize its incorporation into the recently approved Central America and Mexico (CAM) Regional Strategy and to allow the Mission to proceed with obligations. The Mission's Country Plan will have an approved funding level of \$122.0 million for the FY 2003–2008 period. This is in addition to the \$35.0 million already approved for the TIES (Training, Internships, Exchanges, and Scholarships) program.

**Background:** The Mission has completed and submitted its Country Plan for FY 2003–2008 which was developed with the central objective of supporting the CAM Regional Strategy for that period. Following submission, the Country Plan was reviewed by the LAC Bureau and relevant offices throughout the Agency. The Mission's Country Plan is consistent with and strongly supports the three principal strategic objectives of the CAM Regional Strategy.

Subsequent to the review of the CAM Regional Strategy, Mexico's HIV/AIDS Strategy was reviewed and approved by the Office of HIV/AIDS in the Global Health Bureau. The Mission has subsequently revised the HIV/AIDS program in its Country Plan to assure that it is consistent with the HIV/AIDS Strategy.

**Authority:** Approval of the CAM Regional Strategy was provided through the Management Agreement that you signed on August 1, 2003 in accordance with ADS 201.3.10.3. You have the authority to approve the Country Plan and its incorporation into the CAM Regional Strategy pursuant to ADS 103.3.8.1 in which you are delegated authority for strategic planning by the AA/PPC. The general authority for program implementation delegated to you by the AA/PPC in ADS 103.3.8.2 gives you the authority to allow the Mission to proceed with obligations in accordance with its Country Plan (although obligations are still subject to the Mission's meeting all pre-obligation requirements).

**Recommendation:** That you sign the attached Management Letter indicating your approval of the Mission's Country Plan and its incorporation into the CAM Regional Strategy beginning in FY 2003.

## **MANAGEMENT LETTER**

Mr. Paul White  
Mission Director  
USAID/Mexico

Dear Mr. White:

This is to express my sincere congratulations to your Mission for its outstanding work in completing its Country Plan for FY 2003–2008. I am pleased with the strategic direction and focus areas you have emphasized in your Country Plan.

This Management Letter approves the incorporation of the USAID/Mexico Country Plan into the Central America and Mexico (CAM) Regional Strategy. The USAID/Mexico Country Plan is consistent with and strongly supports the CAM Regional Strategy.

As the Mission moves forward with its activities, it should keep in mind program and staffing resource limitations so as not to overextend the program and dilute potential impact.

With this letter, subject to the Mission meeting all pre-obligation requirements, you are formally authorized to obligate funds under the CAM Regional Strategy beginning in FY 2003.

Sincerely,

Adolfo A. Franco  
Assistant Administrator  
Bureau for Latin America  
and the Caribbean

**Clearance Page for Approval of USAID/Mexico Country Plan and  
Incorporation into CAM Regional Strategy**

LAC/DAA, MDeal	_____	date: _____
LAC/RSD, CMango	(draft)	date: <u>08/22/03</u>
LAC/CEN, PKranstover	(draft)	date: <u>08/18/03</u>
LAC/EMT, CRoyalty	(draft)	date: <u>08/20/03</u>
LAC/SPO, JRudasill-Allen	_____	date: _____
PPC/PC, JLombardo	(by phone)	date: <u>08/25/03</u>
GC/LAC, JLifur	(draft)	date: <u>08/18/03</u>
DCHA/PPM, SParks	(draft)	date: <u>08/19/03</u>
EGAT/PAICO, SLow	(draft)	date: <u>08/19/03</u>
GH/OFPS, KNurick	(draft)	date: <u>08/19/03</u>

Drafter: DSoules x20409, 8/14/03 P:\lacspopub\countries\Central America\CAM  
Strategy\Annexes\Mexico Action Memo-Management Letter.doc