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FIRST ANNUAL REPORT**

USAID/MEXICO ECONOMIC POLICY PROGRAM

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OVERVIEW OF PROGRAM

The USAID/Mexico Economic Policy Program (MEPP) began operations in May 2013. Its mission is to improve Mexican private sector productivity and competitiveness by supporting Mexico's efforts to strengthen public sector economic governance. MEPP seeks to improve governance through: (1) Policy change: laws, regulations, program rules and design, and transparency; and (2) Organizational capacity-building: promoting best practices in operating procedures and information access, and human capital development.

The Mexico Economic Policy Program promotes six over-arching policy outcomes. On one hand, economic outcomes depend on numerous exogenous factors that foreign technical assistance cannot change. On the other hand, key Mexican institutions have a major impact on those outcomes, and can themselves be strengthened by carrying out reforms developed through technical assistance. In this regard, MEPP promotes the implementation of substantive reforms and improved practices within the governmental institutions and organizations that have the most direct impact on achievement of the following economic outcomes.

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

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

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

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

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

Outcome 6: Citizens have greater access to public information. MEPP supports the unique private sector initiative *Apps4Change*, which helps governmental and non-governmental organizations to develop and launch mobile applications that increase the quality and quantity of governmental information available to the public. Applications have the potential to make it easier for individuals, civil society groups and businesses to interact with government agencies and programs.

LIST OF ABBREVIATIONS

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

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

Introduction

This document includes the Mexico Economic Policy Program (MEPP) FY 2013 Annual Report and the MEPP 2013 Fourth Quarterly Report. (1) The FY 2013 Annual Report covers the period from project award in mid-April 2013 through September 2013. It is divided into two sections: start-up and work plan development. (2) The Fourth Quarterly Report for FY 2013 covers July – September 2013. It provides a detailed description of counterpart consultations, activity development and technical progress achieved during the period.

1. Annual Report

A. Program Start-up

Summary: During the half year since USAID awarded the Mexico Economic Policy Program contract to Abt Associates, MEPP has become fully operational technically, organizationally and administratively. The Program team established strong relations with Mexico's main economic governance institutions and developed a detailed work plan that addresses counterparts' demand and priorities.

In April 2013 USAID selected Abt Associates as the prime contractor for the project Supporting Improved Economic Governance in Mexico (AID-523-C-13-00001). The effective contract start date is April 18, 2013. The effective mobilization date is May 8, 2013. In May, USAID renamed the project Mexico Economic Policy Program (MEPP). The Spanish name is Programa de Política Económica de México (PROPEM).

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

The objective of the orientation was to clarify formal and informal procedures to implement award requirements, clarify roles of USAID and Contractor personnel, clarify more complex and critical Contractor requirements, and respond to questions from Contractor personnel. The orientation began with a general overview (award type, performance period and budget), and covered functions and authority of USAID and Contractor personnel, an OAA briefing (contract

schedule and CO approvals), and financial management (payment, invoicing, reporting and audits). Program Director Kim Delaney addressed Program Office issues, including participant training (TraiNet), branding, and events reporting. COR Mark Gizzi gave a technical briefing covering upcoming milestones (grants manual, work plan, PMP) reporting and DEC, and approval procedures.

USAID informed Abt that the *effective date of mobilization* was May 8, thus completion time frames for all milestones specified in the contract are counted from that date. On May 8, the Chief of Party gave a presentation on the objectives and general technical aspects of the new project at a USAID meeting with consortium partners. On the following day, the MEPP COP, Project Director and Economic Governance Advisor met with staff from the U.S. Embassy Economic Section to share information about Mexican economic governance reform priorities and opportunities for U.S. Government support.

During the first three months of the Mexico Economic Policy Program, Abt Associates contracted core staff for the MEPP site office based in Mexico City. As of the end of FY 2013 MEPP core staff include:

Site office

- Tim Kessler, Chief of Party
- Narciso Suarez, Senior Economic Governance Advisor
- Ramiro Nava, Director of Government and Partner Alignment and Relations
- Lucia Gamboa, Policy Research and M&E Specialist
- Miguel Angel Contreras, Operations Manager
- Nancy Cuenca, Contracts Coordinator/Finance Assistant
- Andrea Cabrera, Operations Assistant
- Guadalupe “Lupita” Juarez, Receptionist and Administrative Assistant
- Prisciliana Gutierrez, Office Assistant

Home Office

- Michele Laird, Project Director
- Veronica Ramos, Contracts and Finance Manager

B. Consultative Process

The MEPP team organized numerous meetings with leaders from the principal economic governance organizations of the Mexican government. The purpose of the meetings was to introduce MEPP to the new administration and gain insight into the government’s economic governance priorities that can be advanced through foreign technical assistance.

Immediately after Program launch, Abt Associates and partner staff held in-depth consultations with counterpart organizations. During May and June, consultations focused on the identification of public sector priorities and goals, government “champions” committed to

implementing reform, and the development of specific proposals for technical assistance and corresponding deliverables. From July to September, consultations focused on defining institutional objectives for technical assistance and on refining MEPP activities (see Fourth Quarterly Report in the following section for more detail).

Over the first five months of the Program, the MEPP team held consultations and developed constructive relations with: the Ministry of Finance (SHCP), Ministry of Economy (SE – including Undersecretariat of Commerce and Industry and Undersecretariat of Competitiveness and Standards), the National Entrepreneurship Institute (Inadem), National Science and Technology Commission (Conacyt), ProMexico (export and foreign investment promotion), Federal Competition Commission (CFC), Office of the President, Ministry of Public Administration (SFP), Mexico City’s Secretariat for Economic Development (Sedeco), and the Federal Judiciary. As of the end of September, MEPP staff had met with officials from each organization at least twice, and in most cases on several more occasions. (For a detailed description of consultations held in the Fourth Quarter of FY 2013 please see Section 2 of this report.)

C. Work Plan development

On June 13, the COP and Economic Governance Advisor gave a presentation to the USAID Mission Director, Economic Growth Team Leader and Program COR on the proposed priority policy areas for MEPP. The recommendations were based on consultations with Mexican counterparts. They included the five policy areas included in the RFP: transparency of economic institutions, market regulation, SME access to finance, commercial law and labor reform implementation.

Graph 1



On July 2, Abt Associates, convened a half-day meeting with Mexico Economic Policy Program partners, the USAID COR and other USAID staff to present work plan activity proposals for July 2013 – September 2014. The Chief of Party and Senior Governance Advisor opened the meeting by reviewing the consultative process that MEPP partners employed to determine the priorities of Mexican government counterparts, as well as the basic governance indicators that will be reported to USAID. In addition, the COR gave a brief presentation on the characteristics of the contractual mechanism underlying MEPP and USAID's goals. Abt's Home Office Project Director also participated in the workshop, providing comments and feedback on proposed activities. Representatives from C-230, IMCO, Ernst & Young and Green Momentum then gave presentations on over 20 activities proposed for inclusion in the first annual work plan. As part of the work plan development process, Abt staff proposed indicators to measure achievement in each of the proposed activities, as shown above in Graphic 1. Following discussion, the implementation of labor reform policy area was removed from the work plan as USAID will address this area in its upcoming Workforce Development Program.

On July 19, Abt Associates submitted a draft of the first annual MEPP Work Plan to USAID. The Work Plan includes most of the activities presented at the July 2 meeting (labor law implementation was taken out), as well as three new ones. The introduction of the draft Work Plan links each activity to four of the policy areas included in the original RFP: transparency of economic governance institutions, market regulation, SME access to financing, and commercial law.

While the policy areas provided useful guidance for the selection of activities, organizing the Work Plan under the four areas led to two challenges: first, many activities overlapped, addressing two (or more) of the policy areas at the same time and second, the short labels of each policy area did not convey relevant information to external audiences about the purpose and rationale of each activity. For this reason, Abt Associates organized the Work Plan around five overarching outcomes:

1. Government funds effectively promote private sector development and productivity;
2. Businesses face fewer obstacles to growth;
3. Competition is improved;
4. Regulatory reform improves SME access to private capital; and,
5. Business transactions are more efficient and reliable.

These outcomes provide a readily understandable narrative for the selection and expected results of each MEPP activity within the four policy areas. The Work Plan also includes a cross-cutting **sixth** outcome: *Citizens have greater access to public information and participate in public policy design*. This outcome corresponds directly to the Apps4Change initiative to be implemented by MEPP, and will also be linked directly to the five governance outcomes described above.

During August and September, USAID staff met several times with MEPP staff to review the draft Work Plan and provide feedback. On August 21, the Project Director, COP and Economic Governance Advisor presented the revised draft Work Plan to the USAID Mission Director, Deputy Mission Director, COR and other USAID staff, as well as members of the U.S. Embassy Economic Section. The purpose of the meeting was to inform the Economic Section about proposed MEPP activities and explore opportunities to build synergies and share information with the Economic Section staff. Activities related to SME access to finance were of particular interest. USAID, Embassy and MEPP staff agreed to carry out progress briefings and review technical deliverables through periodic meetings.

Following the meeting, the MEPP team received feedback and guidance from the Deputy Mission Director, Economic Growth Team Leader and COR. USAID recommendations focused on: specifying how the MEPP team would collaborate with counterpart organizations to implement proposed governance improvements; how changes to specific programs could be expanded or upscaled to have an impact on other programs; and, how changes at the state government level could be replicated by other states. To promote greater implementation at the state level, USAID staff proposed the use of targeted incentives to motivate state governments, such as rankings, prizes and other forms of positive public recognition from national leaders.

On September 13 MEPP staff presented proposed Work Plan activities to staff from the Economic Productivity Unit of the Finance Ministry (SHCP). The USAID COR and EG Team Leader also attended. SHCP has significant influence over economic development policy in general and governance of Mexico's most important economic programs in particular. Dr. Jose Ernesto López-Córdova, the Productivity Analysis Director of SHCP's productivity unit, expressed his approval of MEPP's proposed activities and indicated that almost all of them are directly related to SHCP's oversight. He suggested that the MEPP team coordinate carefully with relevant public sector organizations to ensure that all key decision-makers are informed and committed to the implementation of proposed reforms. He made particular reference to the Federal Commission on Regulatory Improvement (COFEMER) at the federal level, and state government competitiveness commissions and related bodies at the local level.

Finally, Dr. López-Córdova indicated his intention to work with the MEPP team on activities that most directly promote SHCP priorities and to provide technical feedback, suggestions, and contacts for ongoing activities wherever possible. Following the SHCP meeting MEPP staff revised the Work Plan to incorporate feedback from USAID and the Ministry of Finance. USAID approved the Work Plan on September 24. A summary of activities, disaggregated by governance outcomes, is provided in Annex 1.

D. Performance Management Plan

On September 19, Abt Associates submitted the draft MEPP Performance Management Plan (PMP), based on proposed and anticipated MEPP activities, to USAID. The PMP identifies indicators and achievement targets for the lifetime of the Economic Policy Program. The PMP disaggregates outcomes into two “tiers” of implementation. Tier 1 indicates formal acknowledgment and approval of MEPP governance proposals from a ranking public sector official, as well as a statement of intention to implement the proposal. Tier 2 indicates actual adoption or implementation of governance proposals produced through MEPP activities. In addition, the PMP includes training targets. The Program’s lifetime targets are summarized in the following table.

YEAR	Tier 1 (% of all activities)	Tier 2 (% of all activities)	Trainings (number of people)
1	30	0	12
2	30	20	373
3	20	20	210
Total	80	40	595

In addition to achieving these targets, MEPP will have an observable impact on the sixth overarching objective: increasing citizen access to public information. This will occur through our Apps4Change activity, in which the most relevant performance indicator is the launch and operation of mobile applications. Given that Apps4Change is an innovative program that is just starting up, we do not anticipate production of functional applications in the first year. We expect three applications for Year 2 and another three for Year 3. The MEPP team acknowledges that developing such governance-oriented mobile applications through a competition is *terra nova* for us. Because we do not have any reference point or comparable experience from previous projects with which to estimate what we will achieve, our expectations may be conservative. Depending on what we actually observe following the first competition cycle of Apps4Change, this target might be substantially revised.

As an additional deliverable required under contract, the MEPP team supplemented the PMP with an analytical document that explains the selection of proposed activities and the rationale for proposed indicators. The document, entitled *Competitiveness Baseline and Institutional Analysis* (CBID), is divided into four sections:

- State of competitiveness in Mexico, focusing on MEPP policy areas: transparency of economic governance institutions, market regulation (competition), SME access to finance and commercial law;
- Government institutions responsible for improving economic performance;
- Specific goals that MEPP seeks to achieve; and
- Evidence of government commitment to each proposed MEPP activity.

The CBID is the Mexico Economic Policy Program's clearest statement and justification for economic governance activities supported by USAID. Once it is approved by USAID, the document will be uploaded to the DEC. As of the end of September, the PMP and CBID are under review by USAID.

2. Fourth Quarterly Report for FY 2013

The Fourth Quarterly Report covers the period from July – September 2013. During those three months, MEPP deepened its relations with core counterparts, defined activities, deliverables and expected outcomes from MEPP assistance, and made significant technical progress in four high-priority activities.

A. Consultations with Mexican Government Counterparts

During the fourth quarter, MEPP team members met with all principal counterparts involved in the proposed Work Plan. The purposes of the consultations included: affirming counterpart commitment to implementing governance reforms; identifying the most effective operational contacts and “champions” for change; determining the priority and urgency of each activity; and agreeing on key deliverables and corresponding timelines.

- Deputy General Director for Innovation, Services and Internal Trade (SE Undersecretariat for Commerce and Industry -- SSCI), July 3. The objective of the meeting was to define areas of collaboration between MEPP and SSCI to: (1) improve operating procedures for PROSOFT, SE’s main information technology development program, by increasing transparency and establishing stronger criteria for the transfer of subsidies to beneficiaries; and (2) establish binding mechanisms (sanctions and incentives) to enforce a voluntary agreement on commercial practices among private sector actors.

NOTE: While MEPP may work with SSCI in other areas, the two activities discussed in this meeting were not approved by USAID for inclusion in the final Work Plan.

- General Director of Commercial Standards (SE), July 4. The purpose of the consultation was to define MEPP’s technical assistance in promoting two goals: (1) improve the registration of secured transactions in the Unique Registry of (non real-estate) Guarantees (RUG), under responsibility of the General Director’s office; and (2) develop and implement a pilot for oral and summary trials for commercial cases.
- General Director of Technical Regulations and Standards (SE), July 12. The purpose was to define MEPP’s collaboration with the federal government agency in charge of regulating standards with which products and services must comply. MEPP partner, IMCO, recently produced a diagnostic on the process for determining technical regulations and standards. The General Director of Technical Regulation and Standards asked MEPP to build on that analysis by designing a proposal to streamline the compliance assessment – the evaluation that determines if actual products are consistent with technical standards.
- Federal appellate judge (*magistrado*), July 23. The purpose was to learn about economic governance priorities of the Mexican judicial branch, especially oral trials for commercial

cases, which can be promoted through foreign technical assistance. MEPP staff will follow up with Mexico's Federal Judicial Institute to explore possibilities for capacity-building of judges and judicial staff.

- Chief of Staff of the Ministry of Economy, July 24. The purpose of this meeting was to keep SE's leadership informed about the status of MEPP consultations and activities.
- Digital Innovation Unit, Office of the President, September 5. The purpose was to present MEPP's Apps4Change initiative and identify common goals and opportunities for collaboration. Presidencia staff advised MEPP to roll out Apps4Change nationally while focusing on specific policy areas, and indicated their willingness to support the effort, especially in the first stage, by helping to establish linkages with relevant organizations. The MEPP team and Presidencia expressed their interest in working together during the second stage by assessing proposal viability and challenges related to information access. A major reason for Presidencia's support of Apps4Change is the opportunity to encourage other government counterparts to provide valuable information that is currently not accessible to the public.
- Assistant General Director of Technological Development and Innovation at the National Science and Technology Commission (Conacyt), September 12. The purpose was to define MEPP activities and deliverables that would help Conacyt incorporate commercial viability into selection criteria of programs that provide financial support to innovative firms. After MEPP staff gave a brief presentation on the proposed technical assistance, the Assistant Director affirmed Conacyt's commitment to implement reforms to be proposed by MEPP. He emphasized the importance of leveraging international experience and best practices on selection criteria for innovation support and project evaluation (e.g., U.S. and Korea) and suggested applying the revised criteria within a Conacyt pilot that could be upscaled.
- Unit Chief of Export Promotion, Promexico: During September, MEPP staff met twice with officials from ProMexico, the country's main export and investment promotion agency, to define an activity that creates opportunities for local suppliers to participate in global value chains. While the assistance will eventually involve other organizations such as INADEM, Ministry of Economy, Bancomext, and state governments, ProMexico is MEPP's principal counterpart as the activity begins. On September 17, MEPP learned about current efforts to link SME suppliers to global companies through ProMexico's Alianza con Compañías Transnacionales (ACT). An important area of opportunity that emerged was the development of an electronic platform that matches global manufacturing requirements to local capacities, as ACT's current platform is quite limited. In a follow-up meeting on September 25, MEPP staff presented the activity proposal to ProMexico's technical team as well as the agency's Unit Chief (*Jefa de Unidad*) for Export Promotion, who expressed enthusiastic support for USAID technical assistance. All present agreed to focus initially on the high-impact automobile sector

and to divide the activity into three phases: sectorial assessment, platform development, and public policy reform.

- President of the Federal Competition Commission (CFC), September 30. CFC has been undergoing fundamental structural changes, including the appointment of six new Commissioners – including the new President -- who were designated on September 10. Three weeks after the new Commissioners were sworn in, the President, her chief of staff and the Commission's Technical Secretary held a meeting with USAID's Mission Director, Economic Growth Team Leader, MEPP COR, U.S. Embassy Economic Section, and MEPP staff. The purpose of the meeting was to inform USAID about the most pressing goals of CFC's new leadership that could be advanced through foreign technical assistance. The CFC officials highlighted several high priority areas in which USAID support would be useful: producing part of a technical study on the state of competition within Mexico's financial services sector (specific sub-sectors will be defined in the coming weeks); capacity building for information forensics (i.e., extraction and analysis of electronic data obtained from companies under investigation); and improved data security.

B. Technical Assistance

i. Reducing Obstacles to Entrepreneurship: INADEM leadership visit to U.S. Small Business Administration (SBA) in Washington DC

On August 16 and 17, a delegation of MEPP staff traveled to Washington DC with Enrique Jacob, President of Mexico's National Entrepreneurship Institute (INADEM) to meet with staff from the U.S. Small Business Administration (SBA). The purpose of the visit was to learn about SBA procedures, operations and practices that could be adapted by and for INADEM. During the visit INADEM staff and MEPP team members met with key SBA leaders (see summaries below).

- Office of the Ombudsman: This meeting was led by Yolanda Swift, Deputy National Ombudsman for Regulatory Fairness Programs, who gave a presentation on the Office's main responsibility: to assist SMEs that have incurred costs resulting from rules, regulations or sanctions in other parts of government. This meeting was relevant to INADEM, since an Ombudsman Office is expected to be incorporated within INADEM's structure. The Ombudsman position has not yet been filled, so the meeting helped INADEM to consider the duties and corresponding profile of qualified candidates.
- Office of Advocacy: This meeting took place with Sarah Bresolin, Assistant Chief Counsel of the Office of Advocacy. The tasks of this office are complementary to those of the Ombudsman: the Office of Advocacy reviews and evaluates regulations and laws under consideration, provides official comments about anticipated impacts on SMEs and, wherever applicable, provides recommendations for modification. In Mexico the two offices (Ombudsman and Advocacy) may be consolidated into one. INADEM leaders were interested in the rationale behind having two distinct offices.

- Small Business Innovation Research (SBIR) Program: This meeting was led by Ronald Cooper, Innovation Policy Analyst, who explained how SBA interacts with other government agencies in order to promote innovation in diverse federal programs. He focused on mechanisms designed to ensure that resources are invested in innovative projects that entail a significant element of risk. One aspect of SBIR rules that could be adapted within INADEM is designating a required minimum percentage of high risk/innovation projects for each participating federal agency.
- Government Contracting & Business Development: Calvin Jenkins, Deputy Associate Administrator, described different strategies the SBA follows to promote government procurement from SMEs. The U.S. federal government tries to achieve 23% of procurement from registered US small businesses. Mexico could adapt certain rules and criteria to increase the participation of small business in federal contracting. The program also has the potential to target marginalized areas.

The SBA visit resulted in important inputs to Mexico's emerging policy framework governing SME promotion and representation of the SME sector. These include inter-agency efforts to support SME innovation and the creation and operation of the Ombudsman Office, which will be responsible for protecting SMEs from excessive or inappropriate government regulatory burdens and proposing solutions regulatory obstacles. According to INADEM's Chief of Staff, Alejandro Gonzalez, the visit and the meetings were "extraordinary and gave us important insights on how to design and run our planned programs."

ii. SHCP productivity tool

Before the final Work Plan was approved, USAID pre-authorized MEPP to provide assistance to the Ministry of Finance (SHCP) Economic Productivity Unit to develop a tool designed to align federal government spending programs with the President's "Democratization of Productivity" strategy. The tool, an in-depth questionnaire and assessment process, will be piloted within the National Entrepreneurship Institute (INADEM) before being rolled out to other programs at Ministry of Agriculture, the Ministry of Labor and the Ministry of Social Development.

On July 8, the MEPP team met with the Productivity Analysis Director of the Productivity Unit to propose refinements to the productivity assessment tool. The half-day meeting resulted in significant improvement to the structure and clarity of the questionnaire. On August 22, MEPP staff met with SHCP and INADEM staff to validate the instrument and obtain feedback on what kind of indicators could better represent the impact of programs on productivity.

On September 18, the MEPP team met again with SHCP officials. The meeting focused on how to "score" results from the proposed survey and develop a system to assign weights to responses based on the relative importance of the survey sections. In addition, the MEPP team initiated a review of international experiences in performance-based budgeting that will inform proposals for moving Mexican public sector spending programs towards a more productivity-oriented framework.

As a result of these meetings and internal analyses and proposals carried out by MEPP staff, SHCP has been able to: (1) refine the productivity assessment questionnaire, making it clearer and more user-friendly, with the expected result being greater responsiveness from federal organizations and more reliable responses; (2) improve the weighting system given to each question in the context of program's scope and objective; and (3) link program responses to SHCP recommendation for specific actions.

iii. Mexico City fund to promote high impact SMEs

In its effort to improve the local business environment and encourage the generation of high-impact innovation among new companies, the Secretariat of Economic Development (SEDECO) of Mexico City requested MEPP technical assistance to re-design the Fund for Social Development (*Fondo de Desarrollo Social - FONDESOS*) to support SMEs and high-impact entrepreneurs.

After receiving USAID pre-authorization to work on this high-priority activity, on August 20 MEPP partners met with the General Director of FONDESOS and his staff to present: (1) preliminary results of the first phase of the TA, focused on the description of previous impacts and results of the Fund; (2) a map of federal and local programs to avoid duplication of programs; (3) a proposal to articulate the SEDECO's current efforts, and (4) a study describing the environment of private capital and commercial loans for SMEs. FONDESOS representatives were enthusiastic about the findings and agreed to start as soon as possible with the re-design of the Fund based on MEPP recommendations.

At a follow-up meeting on September 17, MEPP and SEDECO staff (1) reviewed best practices of local government SME support programs in London, Chicago, Medellin and Guadalajara; and (2) carried out interviews with SEDECO staff to identify FONDESOS's weaknesses, such as human resource limitations and discretionary or politically-motivated project selection. SEDECO staff expressed support for re-designing FONDESOS with dedicated resources for high-impact SMEs. At a September 24 meeting, MEPP and SEDECO staff discussed the possibility of using USAID resources to develop a simple algorithm for beneficiary selection that would reduce or eliminate discretionary decision-making and improve loan repayment rates.

The initial achievement of MEPP assistance was research that contributed to the re-design of the fund's beneficiary selection process. Preliminary evaluations of other SME support programs revealed lack of dedicated support to firms at the stages of consolidation and expansion. In addition, no specific federal program supports social entrepreneurs. The findings have led the SEDECO to distinguish program assistance based on enterprise type (e.g., social, tradition, high impact) and maturity (e.g., start-up, growth). In addition, MEPP research showed that other federal agencies, such as the Ministry of Labor and Social Protection and Ministry of Culture, could offer complementary support to FONDESOS, creating opportunities to leverage resources.

3. CONCLUSION

Although the Work Plan for the period July 2013 - September 2014 was formally approved in late September, the COR pre-approved several activities: the Ministry of Finance (SHCP) productivity assessment tool, the Mexico City SME fund, understanding obstacles to entrepreneurship, and Apps4Change. Pre-approval of these activities allowed MEPP to begin substantive work and make technical progress in the fourth quarter (the first semester of the Program's implementation). This work has enabled the Program to gain recognition and trust from Mexico's key economic governance institutions. The most important evidence of that trust was SHCP endorsement of the MEPP Work Plan and the commitment of its Economic Productivity Unit leadership to support USAID in achieving governance goals within other public sector organizations.

ANNEX 1: Activity Summary Matrix

<ol style="list-style-type: none"> 1. Developing selection criteria for commercial viability of innovative firms 2. Supporting high impact entrepreneurs in Mexico City 3. Designing impact evaluation of INADEM's programs 4. Promoting productivity in public sector programs 5. Understanding and replicating regional technology sector innovation 6. Optimizing supplier support government programs to strengthen value chains 	<ol style="list-style-type: none"> 1. Understanding and streamlining municipal procedures affecting business operations 2. Improving and consolidating online business procedures (assessment of pilot) 3. Understanding obstacles to high impact entrepreneurship 	<ol style="list-style-type: none"> 1. Reforming state government procurement of public works 2. Strengthening the institutional capacity of the Federal Competition Commission 3. Regulation of digital government 4. Improving the compliance assessment in technical norms and standards 5. Promoting the development and registration of patents 	<ol style="list-style-type: none"> 1. Reducing barriers to entry in the Mexican stock market 2. Increase access to equity for SMEs 	<ol style="list-style-type: none"> 1. Improving the process for liquidating a business 2. Improving the system for secured transactions 3. Improving contract enforcement through oral trials 4. Increasing financial inclusion by reducing cash-based transactions
<p>Government funds effectively promote private sector development and productivity</p>	<p>Businesses face fewer obstacles to growth</p>	<p>Competition is improved</p>	<p>Regulatory reform improves SME access to private capital</p>	<p>Business transactions are more efficient and reliable</p>
<p>Beneficiaries of GOM spending programs increase product, growth or value added</p>	<p>Costs or time to start up or operate a business are reduced</p>	<p>Prices of goods or services are reduced, or quality and choice are increased</p>	<p>SMEs obtain a higher proportion financing through private capital</p>	<p>Higher volume and number of formal commercial transactions among SMEs</p>
<p>Apps4change Citizens have greater access to public information and participate in public policy design</p>				