

## TC ABSTRACT

### I. Basic Project Data

|                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ▪ Country/Region:                                                  | MEXICO/CID - Isthmus & DR                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| ▪ TC Name:                                                         | Supporting the Transparency Agenda in Mexico                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| ▪ TC Number:                                                       | ME-T1399                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| ▪ Team Leader/Members:                                             | Dassen, Nicolas (IFD/ICS) Líder del Equipo; De Michele, Roberto (IFD/ICS) Jefe Altero Del Equipo De Proyecto; Perez-Segnini, Juan Carlos (LEG/SGO); Zappani, German; Garza Cortina, Miriam; Rodriguez Perez, Ariel Enrique (VPC/FMP); Martinez Cervantes, Emilio; Miranda Monroy, Edna; De Gyves Sandoval, Alejandro; Barrios Nunez, Uriel; Ceron, Nelly; Torres Gonzalez, Laura G (CID/CME); Catano Guzman, Mariana (IFD/ICS); Chavez Pena, Rafael (VPC/FMP); Garcia Rodriguez, Yocauris Del Carmen (CID/CDR). |
| ▪ Taxonomy:                                                        | Client Support                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| ▪ Number and name of operation supported by the TC:                | N/A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| ▪ Date of TC Abstract:                                             | 08 Mar 2019                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| ▪ Beneficiary:                                                     | Mexico                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| ▪ Executing Agency:                                                | Inter-American Development Bank                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| ▪ IDB funding requested:                                           | \$ 350,000.00                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| ▪ Local counterpart funding:                                       | \$ 0.00                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| ▪ Disbursement period:                                             | 30 months                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| ▪ Types of consultants:                                            | Individuals; Firms                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| ▪ Prepared by Unit:                                                | Innovation in Citizen Services                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| ▪ Unit of Disbursement Responsibility:                             | Country Office Mexico                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| ▪ TC included in Country Strategy (y/n):                           | No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| ▪ TC included in CPD (y/n):                                        | Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| ▪ Alignment to the Update to the Institutional Strategy 2010-2020: | Institutional capacity and rule of law                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

### II. Objective and Justification

- 2.1 The objective of this TC is to support Mexico in fostering transparency, integrity, improve internal controls and prevent money laundering through specific interventions. The specific objectives are: (i) Promote adequate Anti-Money Laundering policies and regulations in accordance to FATF recommendations. (ii) Contribute to the implementation of the National Digital Platform of the Anticorruption National System; (iii) Strengthening transparency, accountability and prevention and control of corruption systems in the stated owned company Petróleos Mexicanos – PEMEX.
- 2.2 A review of some indicators shows there is ample room in Mexico for improving government transparency and to attain best practices in anti-corruption, prevention and mitigation of Money laundering and corporate governance of State-Owned Companies.
- 2.3 The Transparency International Corruption Perception Index (CPI), scored Mexico with 28 points in 2018, which is significantly lower than other Latin American and the Caribbean (LAC) countries which reported an average CPI of 39.1 and in comparison

to OECD countries that scored an average CPI of 68 points on a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean (Transparency International, 2019).

- 2.4 The National Anticorruption System (NAS) was created through a constitutional reform in 2015 to coordinate policies among federal and local authorities. As a mandate, it needs to implement a national digital platform to integrate and connect six different information systems to control corruption more efficiently. The NAS is composed of several committees (Citizen Participation, Oversight, Anti-corruption Local Systems), that are coordinated by a specific Committee with the support of an Executive Commission and an Executive Secretariat from which depends the National Digital Platform.
- 2.5 Regarding financial integrity, the legal and institutional framework is relatively adequate regarding criminalization of money laundering (ML) and the financial sector has implemented reasonable risk-based approaches to Anti-Money Laundering and the Financing of Terrorism (AML/CTF). However, the country faces significant money laundering risks and challenges that negatively impact on the effectiveness of the system in key areas.
- 2.6 Mexico's National Risk Assessment (NRA) on money laundering was conducted in 2016 with assistance of the Inter-American Development Bank. The final document highlights that the amount of proceeds generated by predicate crimes is high, with the main predicates for money laundering being drug trafficking, organized crime and corruption. In addition to these threats identified, there are other factors that impact directly or indirectly Mexico's ML risks. These activities are: the high level of informality, the role of foreign currency in domestic transactions, the use of new payment methods and the geographical position of the country.
- 2.7 Regarding the transparency and the Corporate Governance of the State-Owned Companies, Mexico faces great challenges, particularly related to the company Petróleos Mexicanos - PEMEX. At the end of 2018, specifically for PEMEX, and as part of a joint effort with the Energy Division of the IDB (INE), a first diagnosis was prepared on the situation of the company, based on the principles and international standards of (i) transparency; (ii) accountability; (iii) prevention and control of corruption.
- 2.8 Some results of this analysis are the following: The information referring to the PEMEX Group Companies is scarce or, in some cases, non-existent. There is an important opportunity to improve transparency in relation to procurement and procurement processes. It was also suggested to implement a compliance system and to strengthen internal controls, particularly PEMEX subsidiaries.

### III. Description of Activities and Outputs

- 3.1 The proposed TC is organized in three components: (i) Support to anti-money laundering and financial transparency; (ii) Support the National Digital Platform of the National Anticorruption System in Mexico; (iii) Support to strengthening transparency, accountability and prevention and control of corruption systems in PEMEX.
- 3.2 **Component I. (US\$125,000): Support to anti-money laundering and financial transparency.** This component supports reforms and capacity building aimed at helping México with improving its level of compliance with the FATF Recommendations. Potential counterparties benefited from this component are the Ministry of Economy and Finances and the Financial Intelligence Unit. Specific activities include: i) Providing technical cooperation for the design of regulations and procedures to apply a Risk-Based Approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the vulnerabilities identified in (NRA) and the evaluation report from the FATF and ii) strengthening the legal and operational framework to facilitate access for

appropriate authorities to information concerning the identity of BOs in accordance with FATF Recommendations.

- 3.3 **Component II. (US\$112,500): Support the National Digital Platform of the National Anticorruption System in Mexico.** The beneficiary of this component is the Executive Secretariat of the NAS to contribute in the implementation of the National Digital Platform, specifically to pilot its interoperability by: i) developing a methodology or algorithm to analyze data from the Financial Intelligence Unit (FIU) with fiscal declarations and procurement information to identify shell companies; ii) developing a visualization tool with geographic information to the results so that GIS or mapping software can identify its real location; iii) documenting the process and working with open code and open software to benefit other countries with the Mexican experience.
- 3.4 **Component III. (US\$112,500): Support PEMEX to strengthening its institutional transparency, accountability and the control systems to prevent corruption.** The direct beneficiated counterpart from this component is PEMEX, indirectly also the Ministry of Economy and Finances and the Secretary of Energy by better economic results, and more effective and incorruptible performance of the company. Specific activities include: i) Conducting a broad and in-depth internal and external dialogue for designing in a coordinated manner an Action Plan to improve information management systems and information disclosure best practices ii) Proposing a Road Map to implement an auditable processes of procurement, production and commercialization of products ii) Elaborate a plan to implement a Compliance Office, including an internal and external integrity promotion dialogue, and a proposal for corporate measures to improve the audit of financial reports, to mitigate the internal control deficiencies and to manage of conflicts of interest at a political and commercial level.

#### IV. Budget

##### Indicative Budget

| Activity/Component                                                                                                                                                    | IDB/Fund Funding | Counterpart Funding | Total Funding |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|---------------------|---------------|
| Component I (US\$125,000 AAF). Support to anti-money laundering and financial transparency.                                                                           | \$ 125,000.00    | \$ 0.00             | \$ 125,000.00 |
| Component II (US\$112,500, INS). Support the National Digital Platform of the National Anticorruption System in Mexico                                                | \$ 112,500.00    | \$ 0.00             | \$ 112,500.00 |
| Component III (US\$112,500, INS and AAF). Support PEMEX to strengthening its institutional transparency, accountability and the control systems to prevent corruption | \$ 112,500.00    | \$ 0.00             | \$ 112,500.00 |

#### V. Executing Agency and Execution Structure

- 5.1 This TC will be executed by the Bank through the Innovation in Citizens Services Division (IFD/ICS) at the request of Mexican authorities.
- 5.2 The project team is led by IFD/ICS who will supervise the TC components. In addition, execution by the Bank in this topic has proved to enhance information sharing among beneficiaries, allowing an efficient exchange of best practices by countries engaged in comparable reform processes.

#### VI. Project Risks and Issues

- 6.1 No significant risks are expected. The technical capacity of the counterparts in these topics might slow down the implementation of components. In order to mitigate this risk, assistance will be provided to facilitate drafting Terms of Reference and help them throughout the procurement process from start to implementation.

- 6.2 Sustainability will be secured by closely working with counterparts in order to build institutional capacity to continue with the activities funded by this project.
- 6.3 All technical support at country-level will require a letter of request or a non-objection.

**VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "undefined".