TC Document

I. Basic Information for TC

▪ Country/Region:	MEXICO
▪ TC Name:	Supporting the Transparency Agenda in Mexico
▪ TC Number:	ME-T1399
▪ Team Leader/Members:	Dassen, Nicolas (IFD/ICS) Team Leader; De Michele, Roberto (IFD/ICS) Alternate Team Leader; Alvarez Bollea, Maria Cecilia (IFD/ICS); Barragan Crespo, Enrique Ignacio (LEG/SGO); Barrios Nunez, Uriel (CID/CME); Catano Guzman, Mariana (IFD/ICS); Chavez Pena, Rafael (VPC/FMP); Farias, Pedro Cesar L. (IFD/ICS); Fitzpatrick, Silvana Valdivieso (IFD/ICS); Garza Cortina, Miriam (VPC/FMP); Miranda Monroy, Edna (CID/CME); Rodriguez Perez, Ariel Enrique (VPC/FMP); Santa Maria, Benjamin R (IFD/ICS); Zanabria Gainza, Gustavo (IFD/ICS); Zappani, German (VPC/FMP)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	01 Oct 2019.
▪ Beneficiary:	December 13, 2019
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS); Transparency Trust Fund(AAF)
▪ IDB Funding Requested:	US$350,000.00
▪ Local counterpart funding, if any:	US$0
▪ Disbursement period (which includes Execution period):	30 months (Execution period 24 months)
▪ Required start date:	August 15, 2019
▪ Types of consultants:	Individual consultancies and consulting firms
▪ Prepared by Unit:	IFD/ICS-Innovation in Citizen Services Division
▪ Unit of Disbursement Responsibility:	CID/CME-Country Office Mexico
▪ TC included in Country Strategy (y/n):	Y
▪ TC included in CPD (y/n):	Y
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objectives and Justification of the TC

2.1 The objective of this TC is to enhance government transparency, integrity, and the efficiency of Mexico's public sector to improve the quality of services delivered to citizens. The specific objectives are: (i) Contribute to the implementation of the National Digital Platform of the Anticorruption National System; (ii) Promote adequate Anti-Money Laundering policies and regulations in accordance to FATF recommendations; and (iii) improve business environment at the municipal level in Mexico, through the simplification, standardization and digitization of the Construction Licenses processes.

2.2 **Justification:** A review of the relevant transparency and integrity indicators for Mexico shows there is ample room for improvement in the public sector, both at the national and local levels. There is also an opportunity to enhance both transparency and

government effectiveness, thorough the digitization of government transactions, especially in the area of permits.

2.3 The Transparency International Corruption Perception Index (CPI), scored Mexico with 28 points in 2018, which is significantly lower than Latin American and the Caribbean (LAC) countries, which reported an average CPI of 39.1 and with 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, state and local authorities. As a mandate, it is required to implement a National Digital Platform to integrate and connect six different information systems and develop data analytics tools to prevent and control corruption more efficiently. [1] The NAS is divided into several committees (Citizen Participation, Oversight, Anticorruption Local Systems) and coordinated by a specific committee related to the Executive Commission and an Executive Secretariat. These two are ultimately responsible for the National Digital Platform.[2]

2.5 The National Digital Platform contains different databases, including the financial disclosure of public officials, with over 250,000 digital forms. These forms are reported on an annual basis. The electronic filing system developed by Mexico is called *Declaranet.* Public officials use *Declaranet* to report all the information mandated by law. Recently the NAS adopted the new electronic form. However, the system needs to improve its functionality to manage the stock on reports, especially under a risk-based approach, rather than on a case by case basis. This TC will contribute to tackle this problem by developing a mathematical model to analyze large quantities of information.

2.6 Mexico conducted in 2016 a National Risk Assessment (NRA) on money laundering with the assistance of the Inter-American Development Bank. The NRA[3] 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. The NRA also highlighted the importance of the extractive sector and hence, the risks traditionally associated with this sector. In addition to these threats identified, there are other factors that impact directly or indirectly, Mexico's ML risks. These activities include 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 **In 2018, the Financial Action Task Force (FATF) completed the** Mutual Evaluation of Mexico**. The review found that Mexico's legal and institutional framework for anti-money laundering and anti-terrorist financing framework is adequate from a technical point of view** to cover the criminalization of these crimes. It also found that the financial sector has implemented a risk-based approach to comply with the FATF requirements on anti-money laundering and the financing of terrorism (AML/CTF). However, the FATF also found that Mexico can improve the effectiveness

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[1] 1. Asset declaration system of public officials; 2. Conflicts of interests' disclosure system; 3. Tax declaration affidavit; 4. Database of public officials involved in public procurement processes; 5. Database of criminal and administrative sanctions to public officials; 6. Database of corruption or administrative reports submitted by citizens.

[2] For more information about legal mandate and organization, see: *Sistema Nacional Anitcorrupcion*

[3] This document is confidential as requested by the government of México.

of the AML/CFT framework in key areas, including non-financial activities, including actions related to beneficial ownership information.

2.8 **Issues related to Administrative Simplification and Digitization.** The reduction of the administrative burden generated by government procedures is a priority for LAC at present. According to the World Economic Forum (WEF), investors signal inefficient bureaucracy as the main obstacle for doing business in the region. Administrative simplification, through the use of regulatory, technological and managerial tools, can have a strong impact on reducing corruption, making the process more transparent and also increasing productivity and competitiveness.

2.9 The IDB provides support to Mexican institutions in their efforts to improve the construction sector's transparency and governance framework by developing together with the Secretariat of Finance and Public Credit– a Sustainable Infrastructure Taxonomy. In the case of Mexico, the construction sector is very relevant for the economy, representing 8% of GDP. Furthermore, it has been estimated that for every 10 temporary jobs linked to construction, 8 permanent jobs are created in the local economy. However, the process of obtaining a Construction License in many municipalities signifies a series of bureaucratic procedures that inhibit investment, promote informality and corruption[4]. It was identified that in 32 municipalities, obtaining a construction license takes up to 66 days on average, entails 7 processes, 43 requirements and 22 interactions are carried out by the user with the government.

2.10 To overcome this challenge, the National Commission for Regulatory Improvement (CONAMER), the counterpart, launched the Simplified Construction Window Program (VECS in Spanish) to promote productivity, boost competitiveness and improve the business environment in Mexican municipalities and federal entities. VECS proposes the implementation of a single window for obtaining construction licenses for commercial businesses with low risk and low impact. The program focuses on the simplification and redesign of procedures and services and facilitates access through different channels of services, and exchange of information between government agencies and users.

2.11 Currently, the municipalities have limited capacities to implement the simplification and digitalization reforms required by VECS. In this context, the IDB and CONAMER[5] have agreed to support the development and implementation of a standardized and simplified solution for the municipal licensing of construction with a multichannel approach, contemplating the identification of human, organizational, regulatory and technological resources that local governments require for its adoption.

2.12 **Strategic Alignment.** This TC is aligned with the cross-cutting theme Strengthen institutional capacity and the rule of law selected in the Update to the Institutional Strategy 2010-2020. Additionally, the TC is aligned with the Transparency Fund's objective to strengthen the capacity of IDB member countries to prevent and control corruption by implementing transparency policies, tools and mechanisms. Particularly, the TC is aligned with pillar I of the AAF, which focuses on strengthening financial integrity systems.

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[4] Documented by the National Commission for Regulatory Improvement (CONAMER) in diverse technical studies during 2018

[5] National Commission for Regulatory Improvement

2.13 This TC is also aligned with the results framework for Institutions of the Ordinary Capital Strategic Program for the Development of Institutions (INS) in accordance with GN-2819-1. The following table shows the contribution of each Component to the different Results:

Results	Component I	Component II	Component III
Institutional and policy quality in national and subnational public sector entities strengthened		X	
Implementation capacity to improve service delivery and policy implementation	X		X
Technological innovation to foster institutional and policy quality and implementation capacity	X		X

2.14 This TC is aligned with the Bank's strategy in Mexico, having signaled the improvement of public management as one of the priority areas of intervention in Mexico. The TC is also included in the Annual Programming for 2019 by the COF within the dialogue with Mexican authorities. It is also aligned with the Bank's Updated Institutional Strategy 2010-2020 (AB-3008) as it relates to: i) the cross-cutting of institutional development, through its objective of strengthening the capacity of the state to ensuring the efficiency, effectiveness, and transparency of institutions; ii) enhance productivity and innovation, by reducing the transaction costs for citizens and entrepreneurs in their interaction with the government, and iii) it targets one of the key structural and emerging development challenges of social exclusion and inequality caused among other reasons by the limited capacity of the public sector and civil service to deliver services, fight corruption, and enforce the rule of law.

2.15 Additionally, the program contributes to the Corporate Results Framework (CRF) 2016-2019 (document GN-2727-6) through the indicator government agencies benefited by projects that strengthen technological and management tools to improve the provision of public services. Finally, the TC is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2).

III. Description of Activities/Components and Budget

3.1 At the request of Mexican authorities, this TC will be executed by the Bank mainly due to procedural constraints in accordance with Appendix 10 of OP-619-1 and GN-2629-1 that would delay the execution of the TC (see Letter of Request in Annex I). This TC is working with three counterparts from different Ministries of the Mexican government, namely the SNA for component I, the FIU for component II, and CONAMER for

component III. Thus, to facilitate the effective coordination, carry out an efficient monitoring and support our beneficiaries to deliver the intended outputs will be requested that the Bank acts as the Executing Agency. Moreover, the Bank Execution is justified since none of these institutions have the capacity to oversee the execution of the other components, and therefore the achievement of objectives would be jeopardized. On the contrary, if the TC would be executed by the Mexican Government, the whole process would be complex, since each of the three executing agencies would have to allocate in their own budget the CT financial contribution and carry out their own fiduciary procedures and financial audits.

3.2 **Component I. Support the National Digital Platform of the National Anticorruption System (SNA) in Mexico (US$112,500, INS).** The beneficiary of this component is the Executive Secretariat of the SNA to contribute in the implementation of the National Digital Platform by: i) proposing a mathematical model based on a risk approach to analyze data from financial disclosure forms; and ii) design learning material to help disseminate knowledge and good practices and benefit other countries with the Mexican experience (dissemination activities may include blogs and participation in specific panels in open data or open government conferences).

3.3 **Component II. Support for anti-money laundering and financial transparency (US$125,000 AAF).** This component supports reforms and capacity building aimed at helping México with improving its level of compliance with the FATF Recommendations and the recent Mutual Evaluation. Potential counterparties beneficiated from this component are the Ministry of Economy and Finances and the Financial Intelligence Unit (FIU). Specific activities include: i) Review of the status of the National Risk Assessment (NRA) to propose and update work plan and the identification of policies under a Risk-Based Approach (RBA) to ensure that adequate prevention or mitigate money laundering and terrorist financing ii) support a program for information management to adopt a one-stop shop approach, (iii) provide a preliminary assessment of AML/CFT risks related to the extractive sector, and (iv) provide a preliminary assessment to implement beneficial ownership information policies.

3.4 **Component III. Improve transparency and efficiency of government services (US$112,500 INS-AAF).** The objective of this component is to enhance transparency in the construction sector in Mexico as well as to improve the business environment at the municipal level in Mexico, through the simplification, standardization and digitization of Construction Licenses processes. The counterpart for this component is CONAMER. The activities and products to be financed are: (i) to design a standardized, simplified process for urban construction licenses less than or equal to 1,500 m2) in Mexican municipalities selected by CONAMER ; (ii) making available for municipalities a digitized service for obtaining construction licenses, based on a standardized and simplified process; iii) evaluation of the implemented digital service in order to generate technical knowledge applied to innovation in the improvement of regulatory quality and modernization of services; iv) elaborate and implement a knowledge and dissemination strategy of the products and results of component III (dissemination activities will include blog posts, participation in events, and participation at the Ibero-American Network on Regulatory Improvement).

Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Total Funding
Component I: Support the National Digital Platform of the National Anticorruption System in Mexico (INS)	Support the National Digital Platform to pilot its interoperability	**112,500 (INS)**	**112,500**
Component II: Support to anti-money laundering and financial transparency (AAF)	Improve Mexico´s level of compliance with the FATF Recommendations	**125,000 (AAF)**	**125,000**
Component III: Improve transparency and efficiency of government´s services through the simplification of government transactions (INS-AAF)	Support Mexico through the simplification, standardization and digitalization of Construction Licenses	**112,500 (INS US$87,500 -AAF US$25000)**	**112,500**
TOTAL		**350,000**	**350,000**

IV.   Executing agency and execution structure

4.1   At the request of Mexican authorities, this TC will be executed by the Bank mainly due to procedural constraints in accordance with Appendix 10 of OP-619-1 and GN-2629-1 that would delay the execution of the TC (see Letter of Request in Annex I). This TC is working with three counterparts from different Ministries of the Mexican government, namely the SNA for component I, the FIU for component II, and CONAMER for component III. Thus, to facilitate effective coordination, carry out efficient monitoring and support our beneficiaries to deliver the intended outputs will be requested that the Bank acts as the Executing Agency. Moreover, the Bank Execution is justified since none of these institutions have the capacity to oversee the execution of the other components. Therefore, the achievement of the objectives would be jeopardized. On the contrary, if the TC would be executed by the Mexican Government, the whole process would be complex, since each of the three executing agencies would have to allocate in their own budget the CT financial contribution and carry out their own fiduciary procedures and financial audits.

4.2   The project team is led by IFD/ICS, who will supervise the TC components and the technical quality of the products. In addition, execution by the Bank in this topic has proved to enhance information sharing among beneficiaries, allowing an efficient exchange of best practice engaged in this TC and also by other countries that want to learn from the Mexican experience.

4.3   The Bank, has worked for several years in collaboration with the government of Mexico in the design and implementation of transparency and innovation solutions, positioning it as a benchmark in the area. In addition, the Bank has specific experience in the execution of the activities foreseen in this TC, particularly through the following TCs: Transparency in LAC (RG-T2976), ME-T1351 (Smarter Crowdsourcing for Anticorruption). Furthermore, the Bank is supporting the Government of Mexico to strengthen its institutional capacities for climate transparency. Operations ME-T1361 (Institutional Strengthening for transparency arrangements under Mexico's NDC) and ME-T1390 (Transparency under the Paris Agreement: National and Subnational Contribution) will contribute to monitor and report the implementation of the climate change commitments acquired by Mexico within the Paris Agreement. The Bank will

support the development of an Information System of Actions for Transparency for the Nationally Determined Contribution (SIAT-NDC), to register climate change actions at the national and subnational level and meet the transparency requirements defined in article 13 of the Paris Agreement.

4.4 All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-1 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-20 for logistics and other related services.

V. Major issues

5.1 **Risks.** No significant risks are expected during execution due that the IDB will execute this TC in collaboration with the counterparts in Mexico. However, a low risk is associated with the timeframe of execution due to the level of complexity of some outputs that involve technological assistance. In order to mitigate this risk, this TC is expecting to extensively work with the counterparts and experienced firms to deliver products as expected. In addition, the Team will actively monitor the delivery of such products from start to implementation.

5.2 **Sustainability** will be secured since activities are consistent with the implementation of legal and regulatory mandates in all three components with the SNA, the FIU and CONAMER, respectively. Additionally, sustainability will be strengthened by closely working with counterparts in order to build institutional capacity to continue with the activities funded by this project. Moreover, the products intended in this TC are required by the counterparts thus it's on their interest to implement and use the products as a result of this TC.

5.3 The project team will work in close coordination with COF towards deepening the dialogue and collaboration with authorities seeking, in case the process of delivering this TC creates opportunities to support the operational agenda.

VI. Exceptions to Bank policy

6.1 This operation does not foresee any exceptions to Bank policy.

VII. Environmental and Social Strategy

7.1 There are no environmental or social risks associated with the activities outlined in this operation; therefore, its environmental classification is "C", according to the Environment and Safeguard Compliance Policy (OP-703). (See Safeguard Policy Filter Report and Safeguard Screening Form).

Required Annexes:

- Request from the Client - ME-T1399
- Results Matrix - ME-T1399
- Terms of Reference - ME-T1399
- Procurement Plan - ME-T1399