



# Concept Environmental and Social Review Summary

## Concept Stage

### **(ESRS Concept Stage)**

Date Prepared/Updated: 06/13/2019 | Report No: ESRSC00426



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
Mexico	LATIN AMERICA AND CARIBBEAN	P169959	
Project Name	Modernization of Public Financial Management Systems in Mexico		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Governance	Investment Project Financing	8/16/2019	10/31/2019
Borrower(s)	Implementing Agency(ies)		
	Ministry of Finance and Public Credit		

Proposed Development Objective(s)

The objective of the proposed Project is to improve the coverage, quality, timeliness, transparency, and use of public financial information in Mexico.

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>100.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The proposed Project aims to expand the coverage and strengthen the coverage, quality, timeliness, transparency and use of the public financial information in Mexico through the strengthening of the integrated management of three key areas linked to the expenditure cycle: (1) the consolidation of integrated public financial management methods and practices within core financial management functions; (2) the strengthening and integration of decentralized administrative functions (e.g. human resource, asset, and procurement management); and (3) the strengthening of the national public investment management system. These advances will be supported by work to strengthen institutional capacities to use and manage public financial management information based upon an updated

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technological platform designed to support the efficient and secure functioning of these systems and a cross-cutting emphasis on the construction of a strong governance structure and change management strategy. In the long term, these advances are expected to help to support more effective and efficient use of public resources by enabling more efficient and transparent public financial management.

**D. Environmental and Social Overview**

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]  
The proposed Project will be implemented at the national level with the Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público, SHCP) and other individual ministries. It will finance the deployment of consulting and advisory services, capacity building and training activities. No financing of civil works is planned, and no lending is foreseen through financial intermediaries as defined under the ESS9. No negative environmental or social impacts on the population are expected given the nature of the proposed Project.

D. 2. Borrower’s Institutional Capacity

The Project Coordination Unit (PCU) is expected to be located within the Treasury Department of the SHCP and will hold administrative, fiduciary, and monitoring responsibilities. The Project will use NAFIN (Nacional Financiera), the financial agent for the Federal Government, to support fiduciary aspects of Project implementation. While the Treasury Department has experience working with the World Bank (WB) on Reimbursable Advisory Services (RAS), as well as on WB financed projects through the IDF Grant “Strengthening Cash Management and Control Systems” (P121771), it does not have experience in the implementation of WB investment operations. The Bank will provide support to the PCU to comply with the commitments based on the relevant Environmental and Social Standards of the WB Environmental and Social Framework (ESF).

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**II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS**

**A. Environmental and Social Risk Classification (ESRC) Low**

**Environmental Risk Rating Low**

The proposed Project’s Environmental Risk is assessed as Low, as it will finance consulting and advisory services, capacity building and training to help improve and consolidate Mexico’s technological platform for public financial management. Hard and software programming might be expected but are not confirmed at Concept Stage. Regarding positive impacts, strengthening fiscal transparency and citizen participation has potential to create opportunities for civil society, institutions and networks that are pushing the agenda of good governance linked to environmental management of public investments.

**Social Risk Rating Low**

The proposed Project’s Social Risk is assessed as Low, as it will finance consulting and advisory services, capacity building and training to help improve and consolidate Mexico’s technological platform for public financial management to improve the PFM system. No planned Project activity will finance or lead to physical displacement nor construction works; thus no negative impacts are projected on social inclusion or on vulnerable populations. The strengthening of fiscal transparency and citizen participation initiatives considered under Component 1 and 2 of the proposed Project are expected to enhance public accountability and transparency.

**B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered**



## B.1. General Assessment

### ESS1 Assessment and Management of Environmental and Social Risks and Impacts

#### **Overview of the relevance of the Standard for the Project:**

An environment and social (E&S) screening did not identify any potential risks and/or impacts based on the initial information collected from (i) Mexico's E&S risk management approach, (ii) scope of activities described in the Project's Concept Note, and (iii) the experience of SHCP in implementing WB projects.

The proposed Project includes technical activities to improve the PFM system to strengthen public accountability and transparency. The SHCP will incorporate any necessary E&S risk management processes and procedures consistent with ESS1 in the Project's Operational Manual (OM) prior to Appraisal. Particularly, processes and procedures will provide specific references to ensure that all project workers, as defined by ESS2 on Labor and Working Conditions, will be hired and/or are able to benefit of the applicable labor management principles consistent with the requirements of ESS2. The OM will also provide guidance on requirements to be incorporated in terms of reference, contracts, and reporting mechanisms to ensure that the activities and outputs are in line with ESS2. ESS3 on Resource Efficiency and Pollution Prevention and Management might result relevant at a later stage of Project preparation in case hard and software programming gets confirmed. The relevance of ESS3 will be further assessed if the SHCP proposes and the WB agrees to include hardware for the operations of the PFM platform and if this is the case, provisions will be made in the OM to secure full compliance with applicable regulations and specifications for energy efficient equipment and electronic waste management. ESS4, ESS5, ESS6, ESS7, and ESS8 are not considered relevant. ESS9 on Financial Intermediaries is neither considered relevant: the proposed Project will use NAFIN, the federal financial agent, only to implement the Project's fiduciary aspects. The proposed Project will not channel funds to a Financial Intermediary with the objective of sub lending. Regarding ESS10 on Stakeholder Engagement and Information Disclosure, the PIU/SHCP will develop a Stakeholder Engagement Plan (SEP) to identify the key stakeholders. The SEP will include specific measures to allow continuous engagement and adequate communication strategy throughout Project implementation. During preparation, the WB will complete its due diligence on the Borrower capacity and further assess the relevance of each ESS for the proposed Project as its design evolves.

#### **Areas where "Use of Borrower Framework" is being considered:**

Given the characteristics of the activities that will be financed under the proposed Project, reliance on the Borrower's E&S Framework will be considered as typical for the provisions of ESS2 on Labor and Working Conditions. Mexico's legal framework is in line with the principles of ESS2, and the Project will be mainly implemented by SHCP staff. An outside firm may be hired, in which case it will be done in line with the applicable national and ESF regulations.

### ESS10 Stakeholder Engagement and Information Disclosure

The PIU/SHCP will prepare a preliminary Stakeholder Engagement Plan (SEP) before Project Appraisal to identify the key stakeholders. A detailed SEP will be completed prior to WB Board approval. The SEP will establish measures to allow for a continuous engagement and adequate communication strategies with relevant stakeholders throughout Project implementation. The WB's Social and Environmental Specialists will guide the PIU/SHCP team to identify and attend stakeholders based on the final Project scope. The SEP will include and cover consultations with stakeholders who will be directly impacted by the update of the PFM System. Consultations may also include civil society sectors on citizen participation initiatives related to the implementation of a more open and transparent information portal, in line with public open data standards. The distinction between internal and external stakeholders will be further



defined during Project design. The internal and external communication strategy will build upon consultations' main findings and will facilitate stakeholders' buy-in of the reform. During Project preparation, the WB will complete its due diligence on PIU/SHCP capacity and further assess the relevance of each ESS for the proposed Project as its design evolves.

## **B.2. Specific Risks and Impacts**

**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

### **ESS2 Labor and Working Conditions**

ESS2 is relevant for the proposed Project in terms of people employed to form the PIU and SHCP staff directly engaged with the Project (direct workers). Activities under the proposed Project are not expected to have any negative impacts related to labor and working conditions, and the applicable national legal framework is aligned with the principles of ESS2. The Project will be implemented primarily by Government staff from the Ministry of Finance (SHCP). In line with ESS2, where Government civil servants are working in connection with the Project, whether full or part-time, they will remain subject to the terms and conditions of their existing public sector employment agreement or arrangement, unless there is an effective legal transfer of their employment or engagement to the Project, in which case ESS2 will apply to such Government civil servants. Provisions of paragraphs 17 to 20 (Protecting the Work Force) and paragraphs 24 to 30 (Occupational Health and Safety) apply to this Project but are covered by Mexican Law. However, the Project may finance consultancy firms e.g. to support updates of the technological platform. Such contracting will be done by the Government and will request the firms' documented evidence that their working conditions are in line with ESS2. This requirement will be reflected in the OM, bidding documents and the actual contracts between the PIU/SHCP and its providers.

### **ESS3 Resource Efficiency and Pollution Prevention and Management**

ESS3 standard is not relevant at the Concept Stage. The proposed Project will neither finance nor support any civil works, thus no pollution prevention and management measures will apply. Hard and software programming might be expected but are not confirmed at Concept Stage. The relevance of ESS3 will be further assessed if the Government proposes and the WB agrees to include hardware for the operations of the PFM platform. If this is the case, provisions will be made in the OM to secure full compliance with applicable regulations and specifications for energy efficient equipment and electronic waste management.

### **ESS4 Community Health and Safety**

ESS4 is not relevant at least at the Concept Stage. The proposed Project will neither finance nor support any civil works. No rehabilitation or construction of new infrastructure or other actions that would imply environmental or social risk or having negative impact on the environment or community health and safety will be financed.

### **ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**



ESS5 is not relevant. The proposed Project will not finance physical infrastructure and is not expected to cause physical displacement to formal or informal occupants. No involuntary land taking will be financed. Hence, the Project is not expected to generate any negative impact covered under ESS5.

**ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

ESS6 is not relevant. The proposed Project will neither finance nor support any civil works or policies that might affect biodiversity or management of living natural resources.

**ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

ESS7 is not relevant. The proposed Project will focus on consulting and advisory services, capacity building, training activities and technological platform improvement. Despite being implemented at the national level, it is not expected that any of the activities would have a direct impact on Indigenous Peoples as defined by ESS7.

**ESS8 Cultural Heritage**

ESS8 is not relevant. The proposed Project will finance technical activities aimed at improving Mexico’s public financial management system. In this context is not expected that it could directly or indirectly affect tangible or intangible cultural heritage.

**ESS9 Financial Intermediaries**

ESS9 is not relevant. The proposed Project will use NAFIN (Nacional Financiera) only to support fiduciary aspects of implementation; it will not channel funds to a Financial Intermediary with objective of sub lending.

**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways** No

**OP 7.60 Projects in Disputed Areas** No

**III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE**

**A. Is a common approach being considered?** No

**Financing Partners**

n/a

**B. Proposed Measures, Actions and Timing (Borrower’s commitments)**



**Actions to be completed prior to Bank Board Approval:**

The PIU/SHCP will include E&S risk management processes and procedures consistent with ESS1, ESS2 (and ESS3, if applicable) as part of the Project’s Operational Manual.

The PIU/SHCP will prepare a preliminary SEP before Appraisal and a detailed SEP prior to WB Board Approval. The SEP will establish the consultations to be conducted during Project preparation and implementation as well as specific measures for a continuous engagement and adequate communication strategies with different stakeholder groups.

**Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):**

The ESCP will be part of the legal agreement and is expected to cover the arrangements needed to maintain continuous engagement and adequate communication strategies with the key Project stakeholders.

**C. Timing**

**Tentative target date for preparing the Appraisal Stage ESRS**

15-Nov-2019

**IV. CONTACT POINTS**

**World Bank**

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**Borrower/Client/Recipient**

**Implementing Agency(ies)**

Implementing Agency: Ministry of Finance and Public Credit

**V. FOR MORE INFORMATION CONTACT**

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**VI. APPROVAL**

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