Document of
The World Bank

Report No: NCO2951

NOTE ON CANCELLED OPERATION
(IBRD-81400)

ON A

LOAN

IN THE AMOUNT OF US$ 300.75 MILLION

TO THE

THE UNITED MEXICAN STATES

FOR A

FISCAL RISK MANAGEMENT DEVELOPMENT POLICY LOAN

May 30, 2014

Poverty Reduction and Economic Management Department
Colombia and Mexico Country Management Unit
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 30, 2014)

Currency Unit = Mexican Peso
MX$1.00 = US$0.07771
US$1.00 = MX$12.8680

FISCAL YEAR
[January 1 – December 31]

ABBREVIATIONS AND ACRONYMS

ASF	*Auditoría Superior de la Federación* (Federal Supreme Audit)
BANSEFI	*Banco de Ahorro Nacional y Servicios Financieros S.N.C.* (National Savings and Financial Services Bank)
CMU	Country Management Unit
CNBV	*Comision Nacional Bancaria y de Valores* (National Banking and Securities Commission
DPL	Development Policy Loan
FONDEN	*Fondo de Desastres Naturales* (National Fund for Natural Disasters)
FRL	Fiscal Responsibility Law
GoM	Government of Mexico
IBRD	International Bank for Reconstruction and Development
PDO	Program Development Objective
SHCP	*Secretaría de Hacienda y Crédito Público* (Ministry of Finance and Public Credit)
STA	Single Treasury Account
TESOFE	*Tesorería de la Federación* (Teasury Department)

Vice President:	Jorge Familiar
Country Director:	Gloria M. Grandolini
Sector Manager:	Auguste Tano Kouame
Project Team Leader:	Jozef Draaisma, Andrea Coppola
NCO Team Leader :	Jozef Draaisma

THE UNITED MEXICAN STATES
Fiscal Risk Management Development Policy Loan

CONTENTS

Data Sheet

A. Basic Information			
Country:	Mexico	Project Name:	Fiscal Risk Management Development Policy Loan
Project ID:	P123505	L/C/TF Number(s):	IBRD-81400
NCO Date:	05/28/2014		
Lending Instrument:	DPL	Borrower:	GOVERNMENT OF MEXICO
Original Total Commitment:	USD 300.75M	Disbursed Amount:	USD 0.00M
Revised Amount:	USD 0.00M		
Environmental Category:			
Implementing Agencies: Ministry of Finance and Public Credit			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	10/05/2011	Effectiveness:	09/05/2013	
Appraisal:	02/08/2012	Closing:	11/29/2013	11/29/2013
Approval:	03/22/2012			

C. Ratings Summary	
Performance Rating by NCO	
Outcomes:	Not Applicable
Risk to Development Outcome:	Not Applicable
Bank Performance:	Satisfactory
Borrower Performance:	Moderately Satisfactory

D. Sector and Theme Codes		
	Original	
Sector Code (as % of total Bank financing)		
Central government administration	67	
Sub-national government administration	33	

Theme Code (as % of total Bank financing)		
Debt management and fiscal sustainability	34	
Natural disaster management	33	
Public expenditure, financial management and procurement	33	

E. Bank Staff

Positions	At NCO	At Approval
Vice President:	Jorge Familiar	Hasan A. Tuluy
Country Director:	Gloria M. Grandolini	Gloria M. Grandolini
Sector Manager:	Auguste Tano Kouame	Auguste Tano Kouame
Program Team Leader:	Jozef Draaisma	Jozef Draaisma, Andrea Coppola
NCO Team Leader:	Jozef Draaisma	

F. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	07/09/2012	Satisfactory	Satisfactory	0.00
2	02/02/2013	Satisfactory	Satisfactory	0.00

1. Context, Project Development Objectives, and Design

1. The Mexico Fiscal Risk Management Development Policy Loan (DPL) is a US$300,751,879.70 Loan in support of the Government of Mexico (GoM)'s Fiscal Risk Management Strategy. The loan was approved by the Board on March 22, 2012 as a single tranche DPL for which all prior actions had been met at the time of loan negotiations. In accordance with OP 13.00, paragraph 4, the Loan was withdrawn on September 25, 2013 as it had not been signed within eighteen months after the Board's approval of the Loan.

2. This DPL supported the Government's efforts to minimize and mitigate short-term fiscal risks and therefore reduce disruptive adjustments during budget implementation.

3. At the time of loan preparation the Mexican economy had recovered from a severe contraction following the global financial and economic crisis in late 2008 and early 2009. The authorities continued with fiscal consolidation to unwind the fiscal stimulus introduced in 2009 and financed, at the time, by non-recurrent revenue. Stimulus was gradually withdrawn by diminishing budget deficits in 2010, 2011 and 2012, and a plan to return by 2013 to a balanced budget as stipulated in Mexico's Fiscal Responsibility Law (FRL).

4. Over more than a decade Mexico has introduced a strong rules-based monetary and fiscal policy framework that helps secure macroeconomic stability, enhances resilience to external shocks, and allows the authorities to implement credible and adequate policy responses. The balanced budget rule imbedded in the FRL institutionalized efforts to contain fiscal deficits and stabilize public debt levels. In addition, fiscal risk management measures are essential to minimize and mitigate the impact of shocks on budgetary revenue and expenditure that could lead to highly disruptive adjustment during budget implementation or undermine the credibility of fiscal policy if budget balance targets are missed.

5. Reducing the vulnerability of public finances to major macroeconomic and external shocks such as oil price, interest rate or exchange rate volatility has been at the forefront of efforts to strengthen Mexico's fiscal policy framework. The FRL contains an oil revenue stabilization mechanism (including a formula to estimate the budgetary oil price and the incorporation of revenue stabilization funds). A longer standing effort has been oriented at improving the country's public debt management, changing the profile of debt towards a larger proportion of fixed rate, domestic currency debt instruments. In the area of natural disaster risk management a public expenditure stabilization mechanism in the form of a multi annual trust fund with annual budget allocations, the National Fund for Natural Disasters (FONDEN), has been operating since 1996.

6. The Project's Development Objective (PDO) was to support Mexico's fiscal risk management policies so as to foster the efficient and effective implementation of public expenditure programs. This was going to be achieved by: (i) supporting Mexico's

integrated risk management approach; (ii) promoting the institutionalization of risk mitigation policies; and (iii) highlighting critical elements of Mexico's risk management framework.

7. The project focused on three policy areas: budget stability and transparency, natural disaster risk management, and subnational debt management. Incremental policy measures, strengthening elements of the country's fiscal risk management strategy in each of these areas were identified and were to be supported through the loan including: (i) the introduction of an internet-based channel for the direct purchase of government securities by retail investors (Cetes Directo); (ii) the improvement of Mexican Treasury processes and streamlining of public revenue and payment flows through a Single Treasury Account; (iii) strengthening of the rules of operation of FONDEN to allow for more expedient initiation of reconstruction works; (iv) the introduction of indemnity-based insurance in the operation of FONDEN; and (v) modification of prudential regulation for bank lending to Subnational Entities.

8. At the time of preparation, a sharp weakening in the prospects for global economic activity and high global financial market volatility during the second half of 2011 posed some downside risks to Mexico's outlook for economic growth and financial stability. Global financial turbulence and a flight from risky assets was related to weak economic activity and fiscal problems in the U.S., the sovereign debt crisis in several European countries and associated weakness in the European banking system.

9. As identified in the Program Document, the DPL relied on policy actions within the purview of the Executive as the upcoming presidential elections –July 2012- would diminish the possibility to construct legislative majorities to support structural reform proposals.

10. The preparation, design and quality at entry of the project were satisfactory.

2. Post-Approval Experience and Reasons for Cancellation

11. The Loan was withdrawn on September 25, 2013 as it had not been signed within eighteen months after the Board's approval of the Loan. The cancellation is in accordance with the Bank's OP 13.00, paragraph 4. The Ministry of Finance and Public Credit (SHCP) did not sign the Loan on the grounds that it was unable to enter into a "Contrato de Mandato" with the financial agent National Savings and Financial Services Bank (BANSEFI) (required for loan effectiveness) without previously assigning the responsibility of loan implementation to an entity within SHCP or the Federal Public Administration. The International Affairs Unit of SHCP, which coordinates the overall program of the Bank with the GoM, participated in the preparation and led the negotiation of the Loan on behalf of the GoM. The International Affairs Unit was not able to identify a department within SHCP or the Mexican Public Administration that was able and willing to take on the responsibility of loan implementation.

12. The need for a loan implementation entity had been identified by staff from the International Affairs Unit of SHCP and the financial agent BANSEFI at the time of loan negotiations. Bank staff was made aware of this requirement of the Mexican Public Administration during loan negotiations. However, the Bank team did not perceive a loan implementation entity to be critical for the adequate program implementation and dialogue and instead assessed the issue of a loan implementation entity as an administrative and internal government requirement. Discussion on the substance of the policies supported by the DPL as well as on the broader framework of fiscal risk management took place with different units within SHCP. These include: the Public Credit Unit on Cetes Directo, public debt management and oil revenue stabilization mechanisms; the Economic Planning Unit on the overall fiscal risk management framework and the assessment in the annual budget documents; the Treasury department on the Single Treasury Account; the Insurance, Pensions and Social Security Unit as well as the Budgetary Expenditure Policy and Control Unit on natural disaster risk management; and the Banking, Securities and Savings Unit as well as the National Banking and Securities Commission and the Unit of Coordination with Subnational Entities on the prudential regulation for bank lending to Subnational Entities.

13. Multiple changes in the staffing of the International Affairs Unit of SHCP between the time of negotiations and withdrawal of the Loan contributed to a delay in adequately dealing with the issue of a loan implementation entity. Leadership of the unit changed twice in the referred period, initially early April 2012 (immediately after Board approval) and subsequently in March 2013 after a new administration had taken office. In addition, the unit counted with an extended period of interim leadership from the beginning of the new administration in December 2012 to March 2013.

14. Other elements that may have contributed to the non-designation of a loan implementation unit, and therefore may have led to loan withdrawal include:

- Loan negotiations took place about five months before the Presidential elections in July 2012. Election times are usually avoided for the preparation and negotiation of DPLs in view of the risk to program implementation due to changes in political preferences of the newly elected and incoming government. This was taken into account as three DPLs that the Bank agreed with the GoM as part of the FY12 program were discussed and approved by the Board in March 2012 (March 1 - Strengthening Social Resilience to Climate Change, P120170; March 13 - Second Programmatic Upper Secondary Education, P126297; and March 22 - Fiscal Risk Management, P123505). None of these loans suffered from policy reversal or backtracking on institutional actions, and the first two DPLs were signed and eventually disbursed in December 2012. The policy and institutional actions supported under the Fiscal Risk Management DPL were also maintained and eventually expanded by the new administration that took office in December 2012, though the change of administration (and staffing of several government offices) did not facilitate the assignment of the responsibility of loan implementation.
- An audit of the Federal Supreme Audit Office (*Auditoría Superior de la Federación*, ASF), published in April 2012, of a Bank DPL provided in 2009 and

implemented by SHCP (Mexico Economic Policies in Response to the Global Crisis DPL, P118070) led to several observations related to an interpretation by the auditors of public debt regulation that would require that this type of external borrowing should be one-on-one related to specific public expenditure (as in investment lending). While SHCP refuted the observations by arguing that it does have the faculty to contract loans even when loan proceeds are directed to general budget support, the experience may have created a more risk averse attitude among public officials and may have created reluctance within SHCP to assume the responsibility of loan implementation.

- Mexico has been the recipient of strong private capital flows with record levels of net portfolio investment at US$ 73 billion and US$ 48 billion registered in 2012 and 2013, respectively. A strong interest of foreign investors in Mexican government bonds allowed the government to pursue its longer term strategy to "finance the Federal Government mainly through domestic debt markets maintaining most liabilities in local currency". The share of federal government debt denominated in domestic currency increased from 78.9 percent in 2011 to 81.0 percent in 2013 as the non-resident holdings of domestic currency government bills and bonds increased from 30 to 46 percent over the same period. Similarly, the government has been able to finance a larger share of its gross external financing needs with resources from international capital markets. Whereas 45 percent of federal government gross external financing between 2009 and 2011 was provided by multilateral development banks, this percentage was reduced to 22 percent in 2012 and 2013. This ample availability of private capital during 2012 and 2013 was not entirely foreseen at the time of loan preparation and negotiation as the second half of 2011 had shown a sharp weakening in the prospects for global economic activity and high global financial market volatility (see also para.8).
- A surge in Bank lending to Mexico in the years following the global financial crisis (US$12.5 billion commitments in FY09-11) led to a rapid increase in the Bank's exposure to Mexico. Mexico is the largest IBRD borrower with an outstanding debt of US$ 15.0 billion by December 2013, thereby rapidly approaching the Bank's single borrower limit (SBL), at the time, of US$16.5 billion. Limiting disbursements of Bank lending during periods of ample availability of private capital, such as 2012 and 2013 and thus creating some headroom for Bank support in future in case countercyclical lending is needed, may have been a consideration on the part of the GoM in not moving forward with the effectiveness of this DPL.

15. Bank staff raised the issue of the delay in DPL signature and effectiveness with counterparts in the International Affairs Unit of SHCP and BANSEFI on numerous occasions. In addition to e-mails and verbal communications throughout the period, the issue was raised in the context of the Bank's Annual and Spring Meetings, a portfolio review meeting held in November 2012 as well as other regular meetings between SHCP and the Bank Country Management Unit (CMU). The DPL supervision mission in March 2013 provided another formal occasion to highlight the issue and discuss the

implications of the delay in signature (as reflected in the aide memoire of the supervision mission).

16. The DPL supervision mission of March 2013 confirmed that the government remains committed to the strengthening of its fiscal risk management framework, maintaining and building on policy and institutional actions supported under the DPL. Progress towards the overall PDO, that is, to support Mexico's fiscal risk management policies so as to foster the efficient and effective implementation of public sector expenditure program, was to be measured by outcome indicators related to each of the policy areas and prior actions supported under to program. A quantitative target for 2012 and a baseline for 2010 were established for each of the outcome indicators. In addition, a qualitative assessment of policy continuity and follow-up policy and institutional actions was made.

17. Outcome indicators for the Cetes Directo program are related to the number of active accounts and the amount invested. By the end of 2012 the number of active accounts increased to 25,000, surpassing the target of 15,000. The total amount invested grew line with the number of users and currently amounts to 1.1 billion MXN pesos, slightly above the 1 billion MXN pesos targeted. The average account holds approximately 60,000 MXN pesos, though some have reached the ceiling of 7 million MXN pesos. The government remains committed to Cetes Directo as a crucial part of Mexico's public debt strategy as confirmed by the reference to Cetes Directo in the 2013 and 2014 annual financing plans.

18. TESOFE continues to roll out the Single Treasury Account (STA) and was able to include the majority of federal government payroll and pension payments through the STA. The number of operations channeled through the STA thereby increased to 52.5 million payments in 2012 compared to 15 million in 2010, exceeding the target set at the time of the DPL (25 million payments) as TESOFE was able to incorporate government pension payments early in the year.

19. With regard to the natural disaster risk management strategy, the GoM has maintained the operating rules for FONDEN that allow the States and Federal Government to independently finance and manage the reconstruction of State level infrastructure. This reduced the time between the declaration of a natural disaster and access to FONDEN resources for infrastructure reconstruction from an average 182 days for the natural disasters that occurred in 2010 to 136 days for those that occurred in 2012 (with the median declining from 105 days in 2010 to 94 days in 2012). In this respect, the Program Document included a baseline of 45 days in 2010 and a target of 28 days by 2012. However, the program files do not contain any reference as to how these numbers were obtained from the publicly available information released by FONDEN. In the same vein, the information provided by FONDEN did not allow for the estimation of the outcome indicator on the number of reconstruction programs closed in 2012 as a percent of total open programs.

20. Continuity in the government's commitment to incorporate risk transfer mechanisms as part of its natural disaster risk management strategy has been demonstrated by the decision of the government to issue in October 2012 its third parametric catastrophe bond for a period of three years and contract, in July 2012 and July 2013, annual indemnity-based insurance related to FONDEN. The first indemnity-based insurance contract had been included as a prior action in the DPL. No specific outcome indicator was identified related to this prior action, though the involvement of private insurers (with a "skin in the game") in the operation of FONDEN, including damage assessment and valuation of reconstruction costs, has reportedly enhanced FONDEN's processes and governance.

21. Subnational debt continues to increase at rates above the growth of economic activity. Additional attention to adequate risk assessment and registration with SHCP of bank lending to subnational entities, further to a resolution of the Banking Commission (CNBV) that links prudential reserve requirements for this lending to a comprehensive set of indicators, has led to an increase of the share of bank lending (commercial and development) to subnational entities reported by Banco de Mexico that has been adequately registered by SHCP. By December 2010, the subnational debt registry of SHCP recorded a total subnational debt of MXN 314.7 billion of which MXN 242.6 billion was contracted with commercial and development banks. The latter figure compared to MXN 279.2 billion of bank lending to subnational entities as reported by banks to the financial authorities. The registry of SHCP thus covered 86.9 percent of total bank lending. By December 2012 total subnational debt registered by SHCP increased to MXN 434.8 billion of which MXN 365.4 billion was the amount reportedly outstanding to banks. According to bank reports outstanding loans to subnational entities amounted to MXN 379.6 billion. Thus the percentage of bank lending adequately covered by the subnational debt registry held by SHCP increased to 93.9 percent. This has been in line with the program's outcome indicator that looked for an increase from 86.5 percent to 93 percent of registered debt between December 2010 and December 2012.

22. In addition, the government is actively supporting legislative initiatives to introduce a subnational fiscal responsibility framework including a balanced budget rule, prudential debt limits and federal guaranteed borrowing in case of fiscal adjustment programs. The Unit of Coordination with Subnational Entities of SHCP also implemented a modernization project of its subnational debt registry.

23. Overall progress towards achieving the PDO has been satisfactory. A quantitative assessment of outcome indicators assembled for the purpose of the DPL shows satisfactory achievement of all indicators except for those in the area of natural disaster risk management, where some problems in the design of the indicators have been signaled. A qualitative assessment of progress toward the PDO shows that in several areas, the GoM has not only provided continuity to the strengthening of the fiscal risk management framework but has also taken additional, further steps to enhance the framework.

3. Assessment of Bank Performance

Rating: **Satisfactory**

24. The preparation, design and quality at entry of the DPL were **Satisfactory**. Bank engagement in Mexico in several areas of fiscal risk management has been strong over an extended period of time. Through a broad range of knowledge, financial and convening services the Bank assisted the GoM with:

- An integrated financing strategy for managing natural disaster related risks including insurance and the transfer of natural disaster risk to capital markets;
- Policies to reduce the vulnerability of agricultural producers and rural communities, evaluating the efficiency of interventions in the area of agricultural insurance and commodity price risk management;
- Regular assessments of financial sector stability;
- Use of financial instruments to mitigate vulnerability to interest rate and currency risk on the outstanding Bank loan portfolio.

25. The DPL aimed at supporting an integrated risk management approach, institutionalizing risk mitigation policies and highlighting critical elements of Mexico's risk management framework. Prior actions relevant in the context of fiscal risk management were identified and presented in a context of other recurrent and longer-standing policies (such as oil price hedging, public debt management, catastrophe bond) highly relevant for the Mexican approach to fiscal risk management. The DPL provided an opportunity to disseminate knowledge about the GoM's overall fiscal risk management strategy and the Bank's engagement in the design of some of the critical building blocks of the strategy to a broader international audience. In this regard, a south-south cooperation visit by the government of the Philippines to Mexico took place on July 23-24, 2012 and the Mexican fiscal risk management strategy was presented at the Bank's Sovereign Debt Forum held in Washington D.C. on October 29-31, 2012.

26. The need for an administrative entity within the GoM that was able and willing to take on the responsibility of overall loan implementation was considered by Bank staff as an internal requirement of the Mexican Public Administration that was not of essence to adequate policy implementation and dialogue and only relevant for loan disbursement.

27. The quality of supervision is rated **Satisfactory**. Bank assistance and policy dialogue continues to take place and advance on several fiscal risk management related issues with the different Units responsible for the design and implementation of public policies in SHCP, in particular on natural disaster and agricultural risk management and insurance.

28. Throughout the period of program supervision, Bank staff and the program's task team leader, based in Mexico City, maintained a dialogue with the government counterparts on the policies supported by the DPL, the broader framework of fiscal risk management and requirements for additional Bank support as well as on the delay in DPL signature and effectiveness. One formal supervision mission took place in March 2013, a

year after approval of the Loan, to raise awareness among (recently appointed) government officials about the DPL and the lack of progress on loan signature, effectiveness and disbursement as well as to assure continued adequate implementation of the program and progress towards the outcome indicators. The issue of loan signature, effectiveness and disbursement was also raised at a portfolio review meeting between the Bank and SHCP in November 2012 and other regular meetings between SHCP and the Bank Country Management Unit (CMU), as well as on several occasions through e-mails and verbal communications with staff from the International Affairs Unit of SHCP and BANSEFI.

29. The overall Bank performance is rated as **Satisfactory**. Project cancellation only had an impact on Bank lending disbursements, not on attaining the program's overall development objective. Both quality at entry and quality of supervision are rated satisfactory.

4. Assessment of Borrower Performance

Rating: **Moderately Satisfactory**

30. The GoM is at the forefront among emerging market economies in fiscal risk management and the use of innovative approaches of transferring risks to capital markets. Policy dialogue on the technical aspects of the overall fiscal risk management strategy as well as on the areas and specific prior actions supported under the DPL has been smooth and of high quality, as the staff from the responsible units of SHCP is highly interested in maintaining exposure to international experience. On the substance of policy and institutional actions as well as progress achieved towards the PDO, the performance of the Borrower is considered as fully satisfactory.

31. The Bank's lending program is closely coordinated with the International Affairs Unit of SHCP, which in turn relies on the programming of the Public Credit Unit on the need for borrowing and the amount of loan disbursements requested from multilateral financial institutions. The International Affairs Unit of SHCP proceeded with loan negotiations even though it was aware that the responsibility of loan implementation had yet to be assigned to an entity in the Mexican Public Administration.

32. Changes in the staffing of the International Affairs Unit of SHCP between the time of negotiations and withdrawal of the Loan led to a delay and a lack of ability to address the issue of loan implementation at an appropriate level within the Public Administration. Leadership of the unit changed twice in the referred period and included an extended period of interim leadership at the beginning of the new administration in December 2012.

33. With a fully satisfactory performance of the Borrower on policy substance and progress towards the PDO, but a less than satisfactory performance on loan implementation and clarity in the communications and intentions with regard to the signing, effectiveness and eventually disbursement of the DPL, the overall Borrower performance is considered moderately satisfactory.

5. Lessons Learned

34. The Mexican Public Administration requires that responsibility for program coordination is assigned to a single, specific department or unit within the administration, even though support provided through DPL to a program of policy and institutional actions is often implemented by different areas of government. This requirement may limit the scope of policy and institutional actions that can be supported to those under the purview of the coordinating department or, as in the case of the Fiscal Risk Management DPL, generate an unresolved issue of program coordination forcing the Bank to eventually withdraw the DPL. Going forward, the Bank may want to assure government's internal arrangements are adequately completed at the time of loan negotiations. In this regard, a draft "Contrato de Mandato" as part of the negotiations package could provide such assurance.

35. The use of Bank financial support instruments as well as the range of policies and institutional actions that can be supported through a single program may be constrained by a country's institutional and administrative arrangements. Such arrangements and the possible impact on adequate program implementation should be part of an implementation risk assessment as part of program preparation. In the case of Mexico, observations of an audit by the ASF related to the use of DPL proceeds for general budget support instead of specific public expenditure (as in investment lending) may have created some additional risk aversion on behalf of public sector officials with respect to the use and implementation of this type of instruments. The Bank could initiate a discussion with auditors and other oversight bodies aimed at explaining the different financing instruments and identifying any concern that the use of these instruments may create in the context of institutional and administrative arrangements in Mexico.

36. The Bank should avoid a critical period around national elections for the preparation, negotiation and approval of DPLs. Even if the risk to program implementation due to changes in political preferences of the newly elected and incoming government could be mitigated by selecting policies and institutional actions about which there exists a broad based consensus, implementation risks may arise due to changes in staffing of key government counterpart offices with the change in government.

37. The Bank's Operation Policy (OP 13.00) does not specify a deadline for signing of legal document, though it states that the Bank expects signing to occur as soon as possible after loan approval. It does also state that if the legal agreements are not signed 18 months after approval, the Bank normally withdraws the loan. The latter is in line with the policy on effectiveness which states that the legal agreements terminate if the conditions established for effectiveness are not met by the date specified in the legal agreements, normally 90 days after signing, but this date does not normally exceed 18 months after loan approval. This implies that the Borrower has little incentive to sign the loan before it has met effectiveness conditions and assured itself it wants to disburse (part of) the loan. If these conditions are not met, the Borrower may be better off delaying loan signature. With both conditions within the purview of the Borrower, as in the case of this single tranche DPL, the Borrower keeps an option of immediate access to funds

without any financial cost involved. A review of Bank policies may be needed if loan withdrawals due to the lack of signature of legal agreements after 18 months following approval become a recurrent issue.

Annex 1. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Andrea Coppola	Country Economist	LCSPE	
Edith Cortes Angeles	Consultant	LCSPE	
Jozef Draaisma	Sr Country Economist	LCSPE	
David Michael Gould	Lead Economist	SARCE	
Eva M. Gutierrez	Lead Financial Sector Specialist	LCSPF	
Rosa Maria Hernandez-Fernandez	Program Assistant	LCC1C	
Oscar Anil Ishizawa Escudero	Disaster Risk Management Specialist	LCSDU	
Xiomara A. Morel	Sr Financial Management Specialist	LCSFM	
Angelica Nunez del Campo	Sr Urban Spec.	LCSDU	
Aude-Sophie Rodella	Economist	LCSPP	
Mariangeles Sabella	Senior Counsel	LEGES	
Fabiola Altimari	Senior Counsel	LEGLE	
Katherine M. Scott	Senior Economist	LCSPP	
Juan Carlos Serrano-Machorro	Sr Financial Management Specialist	LCSFM	
Geeta Sethi	Program Manager	AES	
Natasha Zamecnik	Consultant	LCSHH	
Luis de la Plaza Bringas	Lead Financial Officer/Debt Capital Markets and CBP	FABBK	

Supervision/NCO			
Jozef Draaisma	Sr Country Economist	LCSPE	
Fabiola Altimari	Senior Counsel	LEGLE	
Juan Carlos Serrano	Sr Financial Management Specialist	LCSFM	
Natasha Zamecnik	Consultant	LCSHH	
Oscar Anil Ishizawa Escudero	Disaster Risk Management Specialist	LCSDU	
Rosa Maria Hernandez-Fernandez	Program Assistant	LCC1C	
Karina M. Kashiwamoto	Language Program Assistant	LCC1C	
Alejandra Ramón	Team Assistant	LCC1C	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD (including travel and consultant costs)
Lending		
FY11	6.78	39,353.46
FY12	42.38	227,121.20
FY13	0.00	65.89
Lending Total:	**49.16**	**266,540.55**
Supervision/NCO		
FY13	8.63	54,146.93
FY14	9.75	36,383.58
Supervision Total:	**18.38**	**90,530.51**

Annex 2. List of Supporting Documents

World Bank (2012). Fiscal Risk Management Development Policy Loan: Program Document. -- February 14, 2012. – Report No. 64652-MX.

WoldBank (2013). Fiscal Risk Management Development Policy Loan: Aide Memoire. -- March 8, 2013.

World Bank (2013). Fiscal Risk Management Development Policy Loan: Implementation Status and Results (ISR), -- January 21, 2013. Sequence No. 2.

Annex 3. Comments Received from Government

The following comments were received from Mr. Luis Cartas Paredes, Deputy Director of Fiscal Affairs with Latin American Financial Institutions from the International Affairs Unit of SHCP, on May 13, 2014 on behalf of the Government:

a) In regards to paragraph 11 of Section 2. Post-Approval Experience and Reasons for Withdrawal, the Government clarified that even though the International Affairs Unit of SHCP led the negotiations of the Loan on behalf of the GoM, the Loan Agreement has to be signed by the Public Credit Unit of SHCP.

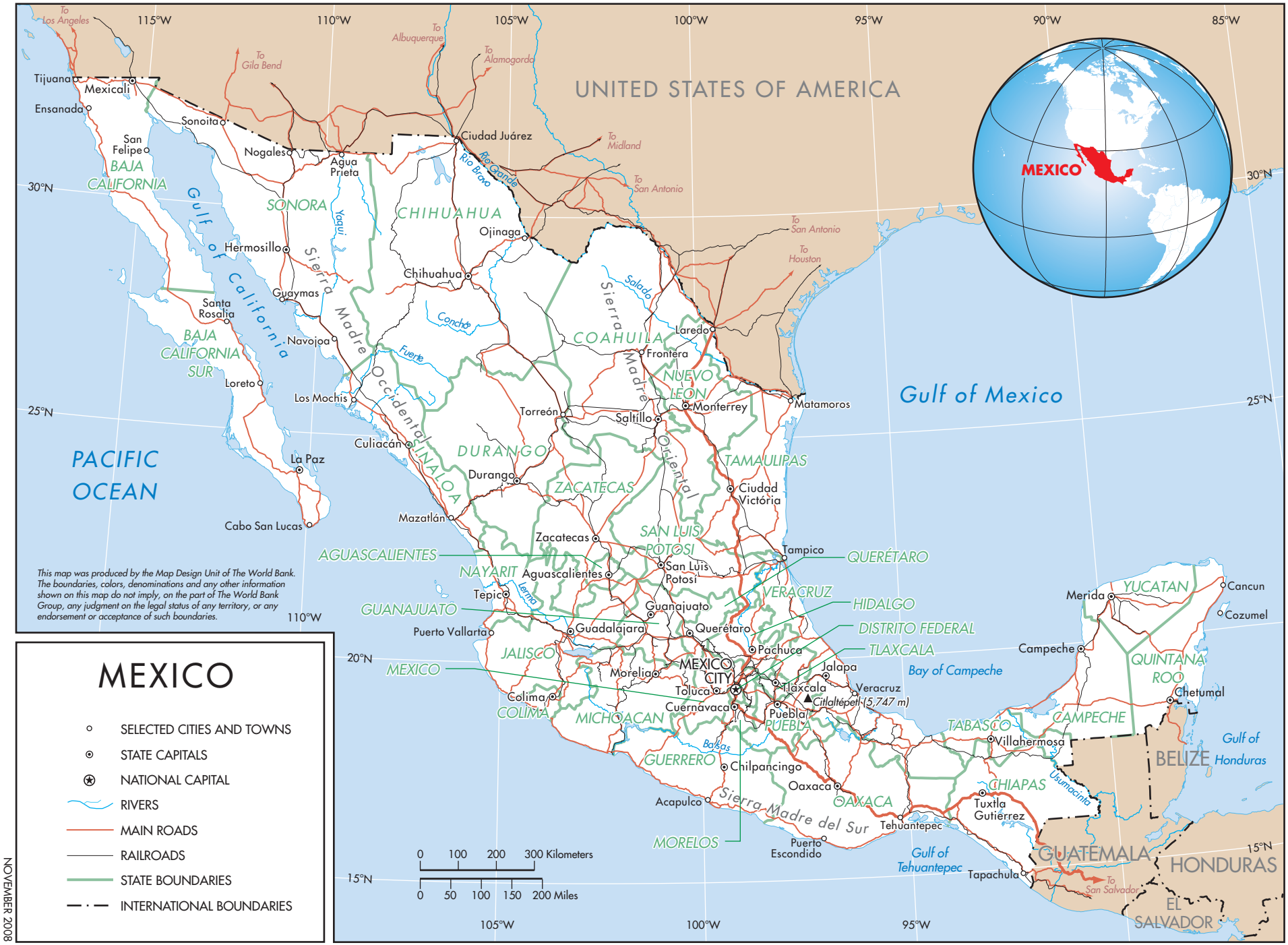
b) The Government added a comment to paragraph 12 of Section 2. Post-Approval Experience and Reasons for Withdrawal that reads as follows:

> "[…] No unit was able to meet all requirements of the internal regulations of the SHCP, so that no unit could be responsible for the project."

c) Regarding paragraph 31 of Section 4. Assessment of Borrower Performance, the Government clarified that the administrative entity within the GoM that would be responsible for overall loan implementation is designated in the "Contrato de Mandato", and that the "Contrato de Mandato" is prepared and signed after the signature of the Loan. Thus, the International Affairs Unit of SHCP proceeded with loan negotiations even though it was aware that the responsibility of loan implementation had yet to be assigned to an entity within the Mexican Public Administration.

   In view of the above, the Government suggested adding a final remark to paragraph 31 which is underlined below:

> "[…] The International Affairs Unit of SHCP proceeded with loan negotiations even though it was aware that the responsibility of loan implementation had yet to be assigned to an entity in the Mexican Public Administration, <u>as this designation is carried out in the "Contrato de Mandato."</u>



NOVEMBER 2008

IBRD 33447R