



The World Bank

Mexico Inclusive and Sustainable Economic Growth DPL (P178224)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 28-Apr-2022 | Report No: PIDA33941

**BASIC INFORMATION****A. Basic Project Data**

Country Mexico	Project ID P178224	Project Name Mexico Inclusive and Sustainable Economic Growth DPL (P178224)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date 31-May-2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) United Mexican States	Implementing Agency Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público)		

Proposed Development Objective(s)

The DPL supports policy measures of the authorities that: (a) support vulnerable groups and regions to reap the benefits of economic recovery and (b) reform key policies and institutions that enable sustainable economic growth.

Financing (in US\$, Millions)**SUMMARY**

Total Financing	700.00
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DETAILS

Total World Bank Group Financing	700.00
World Bank Lending	700.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

1. The COVID pandemic has limited the capacity of the Government of Mexico to create growth and reduce regional inequalities. Even before the pandemic, structural growth challenges had placed the country below peers on growth, inclusion, and poverty reduction. Mexico's income level masks high urban/rural, gender, and geographical divergence. The economy shrank by 8.2 percent in 2020 (the largest output collapse since the 1930s), but grew 4.8 percent in 2021, driven by demand from the US, relaxation of Covid restrictions, and a successful vaccination campaign. While 6.5 million jobs were lost between January and July 2020, by February 2022 the economic recovery had created an additional 300,000 jobs beyond pre-pandemic levels, although much of this employment remains precarious (55 percent of workers are informally employed). The pandemic has hit women especially hard: female labor force participation has yet to regain its already low pre-pandemic level. The recovery has also been uneven regionally, with some states' employment remaining below pre-pandemic levels.

Relationship to CPF

2. The proposed operation is fully aligned with Mexico's CPF discussed with the Board of Executive Directors in February 2020. Policies supported by this operation will contribute to CPF objectives 1, 4, 6 and 7.

C. Proposed Development Objective(s)

3. The DPL supports policy measures of the authorities that: (a) support vulnerable groups and regions to reap the benefits of economic recovery and (b) reform key policies and institutions that enable sustainable economic growth.

Key Results

4. The reforms supported by the operations are expected to enable more inclusive growth by enhancing fiscal and financial inclusion and strengthening participatory processes. Additionally, the operations will strengthen the country's capacity to respond to the shocks arising from climate change by enhancing disaster risk management capacities, regulating deforestation, and enhancing forest conservation.

D. Project Description

5. The first pillar of the DPF focuses on structural reforms to help vulnerable groups and poorer regions reap the benefits of the recovery. The adoption of a Simplified Regime for SMEs and self-employed individuals is a step toward reducing informality while also strengthening the tax authority's capacity to combat tax evasion and avoidance, a critical structural challenge in Mexico. The operation also supports institutional reforms to facilitate financial inclusion, with a particular focus on Mexican migrants in the U.S., remittances, and access to finance.
6. The second pillar of the DPF supports reforms to policies and institutions to enable sustainable and resilient economic growth. These reforms encourage nature-based solutions to climate change and increased resilience, strengthening capacity to (i) manage climate-induced disasters; (ii) conserve and sustainably manage forests; (iii) enhance conservation areas that store carbon and provide resilience; and (iv) increase the voice and agency of vulnerable rural populations, around natural resource management. These issues are key for sustainable income and job



creation among vulnerable rural populations. Forests in Mexico are mainly owned by local communities (*ejidos* and *comunidades*), home to more than 12 million people, most of whom depend on these natural resources to generate income, alleviate poverty, and provide buffers against shocks.

E. Implementation

Institutional and Implementation Arrangements

7. The SHCP, in close coordination with SEMARNAT and other authorities, will take the lead in monitoring the progress and implementation of this operation, with ongoing support from the World Bank. The results indicators selected to monitor and evaluate implementation progress and the achievement of program outcomes will be monitored by the institution that takes the coordination lead for the respective prior actions.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

8. The actions supported by the DPF are expected to contribute to poverty reduction and have positive social impacts in the short and longer terms. Fiscal and financial inclusion measures will help the poor and vulnerable in the short term. Policy measures for sustainable growth and resilience will help the poor and vulnerable over the longer term.

Environmental, Forests, and Other Natural Resource Aspects

9. The measures supported by this operation will have significant positive effects on Mexico's climate change agenda.

G. Risks and Mitigation

10. The overall level of risk for the proposed operation is assessed as moderate. The rating derives from strong implementation and cross sector policy capacity.

CONTACT POINT

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**Implementing Agencies**

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APPROVAL

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Approved By

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