**BASIC INFORMATION**

**A. Basic Project Data**

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>P167674</td>
<td>Mexico Financial Inclusion DPF (P167674)</td>
<td></td>
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<tr>
<td>Region</td>
<td>Estimated Board Date</td>
<td>Practice Area (Lead)</td>
<td>Financing Instrument Financing</td>
</tr>
<tr>
<td>LATIN AMERICA AND CARIBBEAN</td>
<td>Jun 11, 2019</td>
<td>Finance, Competitiveness and Innovation</td>
<td>Development Policy Financing</td>
</tr>
<tr>
<td>Borrower(s)</td>
<td>Implementing Agency</td>
<td>Secretaría de Hacienda y Crédito Público</td>
<td></td>
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</tbody>
</table>

**Proposed Development Objective(s)**

Support the government’s efforts to increase financial inclusion.

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

<table>
<thead>
<tr>
<th>SUMMARY</th>
<th>DETAIL</th>
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</thead>
<tbody>
<tr>
<td><strong>Total Financing</strong></td>
<td>500.00</td>
</tr>
<tr>
<td><strong>Total World Bank Group Financing</strong></td>
<td>500.00</td>
</tr>
<tr>
<td>World Bank Lending</td>
<td>500.00</td>
</tr>
</tbody>
</table>

**Decision**
The review did authorize the preparation to continue.

**B. Introduction and Context**

**Country Context**

1. **Despite some progress over the last years, Mexico has significant space to improve in terms of access to finance.** Credit to the private non-financial sector is just above 40 percent of GDP, well below the 72 percent average for the large 5 Latin American countries (LAC-5) and far below the 143.2 percent average for emerging markets worldwide. The country’s unbanked population is far larger than the country’s level of economic and financial-sector development would predict. A large share of the population still lacks access to financial services—only 37 percent of adults had an account in a formal financial institution in 2017. Among households in the bottom 40 percent of the income distribution, only one of four of adults has a bank account (Findex 2017). These gaps in access, among other factors, have a significant impact on economic inequality of individuals and on productivity, growth, and employment of MSMEs in Mexico.
C. Proposed Development Objective(s)

2. The Program Development Objective (PDO) is to support the government’s efforts to increase financial inclusion. The policies and institutional reforms and measures carried by the authorities and supported by this operation focus on: (i) facilitating electronic payments, which will improve access to payment systems for businesses (especially small merchants) and individuals (including those who do not own a credit card); (ii) reducing the cost of consumer loans, through greater competition in the provision of payroll backed loans; (iii) incentivizing the development of the fintech sector to provide flexible, transparent and innovative financial sector solutions and facilitate resource allocation to job creating productive investments particularly for small and medium scale businesses as well as for individuals; and (iv) reconfiguring some of the state financial institutions to better attend their development mandate and the population that is underserved by commercial banking. Reforms in these areas represent an important first stage in a reform agenda to expanding access to financial services, which has historically been limited in Mexico.

Key Results

3. Supported prior actions are expected to: (i) facilitate and expand the usage of electronic payments between individuals and businesses; (ii) increase competition in consumer credit market; (iii) boost financial inclusion among teenagers between 15 to 17 years old; (iv) enable the sound and safe development of the Fintech industry, which in turn will contribute to the financial inclusion and overall financial sector development agenda; and (v) reconfigure development banks to contribute to an improved financial inclusion, especially among the poor population.

D. Concept Description

4. The proposed Development Policy Financing (DPF) supports Mexico’s efforts to deepen financial inclusion as a way to foster economic activity, especially for the poor. This operation supports the authorities’ reform program aimed at deepening access to the financial sector, further developing a more accessible electronic payment system, and expanding access to financial services including through Fintech legislation (the first Fintech in the world) and institutions, while enabling innovation in the industry. This operation will also enable reforms that will facilitate the distribution of social benefits among the most vulnerable populations and areas.

5. Increased access to financial services can lead to a significant increase in income, particularly among low-income individuals and those located in areas with lower preexisting bank penetration. Financial inclusion promotes economic well-being by assisting vulnerable households to build up productive assets, manage risks, and respond to financial shocks, including those resulting from climate change. Faster progress in traditional access to financial services, together with new innovative approaches through technology, present a great opportunity to boost investments and broad-based growth.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

6. The policy measures supported under this DPF series are not expected to have large short-term poverty or social impacts. Information from several surveys on financial inclusion and the use of technology in Mexico was gathered to inform this analysis. In addition, a literature review of the empirical evidence on potential impacts of the reforms has been gathered, including academic research papers and previous evaluations by the World Bank and other
multilateral organizations.

Environmental Impacts

7. The prior actions supported under this operation are not expected to cause significant effects on the environment, forests and other natural resources. Indirect positive environmental effects are associated with reductions in GHG emissions, due to the reduction of cash, more efficient connectivity, and reduced travel times could materialize.

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APPROVAL

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<th>20-Mar-2019</th>
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Page 5 of 5