Report Number: ICRR0022631

1. Operation Information

Operation ID	Operation Name
P167674	Mexico Financial Inclusion DPF
Country	**Practice Area (Lead)**
Mexico	Finance, Competitiveness and Innovation

Non-Programmatic DPF

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-89880	30-Jun-2020	500,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
18-Jun-2019	30-Jun-2020	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	500,000,000.00	0.00
Revised Commitment	500,000,000.00	0.00
Actual	500,000,000.00	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

As per the Program Document on page 14, "the Program Development Objective (PDO) is to support the government’s efforts to increase financial inclusion". The program objective was unchanged throughout the period of implementation of a stand-alone Development Policy Finance (DPF) operation.

b. Pillars/Policy Areas

The operation was underpinned by 6 Prior Actions (PAs), which were structured around the PDO or the pillar, and completed before disbursement.

Unique Pillar: To support the government's efforts to increase financial inclusion

The PAs summarized below were completed ahead of the operation's legal approval:

PA#1: The Borrower developed a new electronic payment platform ("CoDi") and issued its supporting regulations to provide safe and efficient person-to-business payments to better reach micro, small and e-commerce merchants;

PA#2: The Borrower issued regulations to create interbank mechanisms that facilitate individuals to use their payroll account as the designated source of repayment for loans with any bank in the system, to foster a broader access to credit under better terms and conditions;

PA#3: The Borrower has enacted the Law to Regulate Financial Technology Institutions, to mandate the establishment and regulate the operation of Fintech Institutions (ITFs) and technology-driven business models, products, and services to promote innovation, competition, and inclusion in the financial sector;

PA#4: The Borrower has issued regulations regarding the licensing and operation of ITFs, as evidenced by CNBV's General Rules for ITFs and Banco de Mexico's Circular;

PA#5: The Borrower has issued regulations for the operation of Regulatory Sandboxes, including eligibility criteria, oversight, and interinstitutional coordination, as evidenced by: (i) Banco de Mexico's Circular No. 5/2019; and (ii) General Rules for Regulatory Sandboxes issued by SHCP, CNBV, CNSF and CONSAR; and

PA#6: The Borrower has submitted to its Legislature, for approval thereof, a bill of law to improve BANSEFI's mandate in supporting financial inclusion and its role in the distribution of social benefits to the poorest population.

c. Comments on Program Cost, Financing and Dates

The Mexico Financial Inclusion DPF was a one-off operation funded by a US$500 million International Bank for Reconstruction and Development (IBRD) loan disbursed in one tranche. The operation was approved on June 18, 2019, became effective on August 05, 2019, and closed on schedule on June 20, 2020.

3. Relevance of Design

a. Relevance of Objectives

Country context: When this operation was approved in 2019, economic growth in Mexico was below potential and poverty reduction was moderate. Although Mexico's economic growth in recent years had been relatively pro-poor, low growth rates led to a much slower pace of poverty reduction than in comparable countries. The official poverty rate in Mexico improved only from 46.1 to 43.6 percent of the population between 2010 and 2016. Financial inclusion was identified as an instrument of reducing poverty and boosting prosperity and was at the forefront of the development agenda for Mexico. The 2018 Systematic Country Diagnostic (SCD) identified limited financial access as one of the underlying structural impediments to inclusive growth. Credit to the private non-financial sector stood at 42 percent of GDP, well below the 72 percent average for the five largest Latin American countries.

According to the ICR (paragraphs 3-5), the DPF's PDO was fully consistent with the Borrower's plan of reducing poverty. As noted already, financial inclusion was a top priority highlighted in the most recent Mexico Systematic Country Diagnostic (SCD). Advancing financial Inclusion in Mexico was intended to ensure that all adults are able to access a transaction account or an electronic instrument to store money, send and receive payments, and this required the necessary legal and payments infrastructure, adequate institutional arrangements, and strong public and private sector commitment. The electronic payments infrastructure and increased supply of financial solutions through both traditional and innovative channels were key to improving access for both SMEs and individuals. Pricing and cost of intermediation was expected to improve, as a result of reforms aimed at boosting competition in the credit and payments market. More competition, innovative solutions (Fintech) and better targeted efforts by BANSEFI would also help reduce regional and households and gender disparities. The operation was closely linked to the package of measures to boost financial inclusion announced by the Ministry of Finance and Public Credit, Banxico and ABM in January 2019, and was aligned with the preliminary discussions leading up to the National Development Plan (NDP), published in July 2019, and the National Policy for Financial Inclusion presented in March 2020.

The DPF's PDO was in line with the Country Partnership Framework 2020–25. This operation drew from the findings of the 2016 Financial Sector Assessment Program (FSAP), and was supported by the technical work developed under the thematic Programmatic Approach (PA) for Mexico and the Financial Inclusion Global Initiative Program (FIGI) funded by the Bill and Melinda Gates Foundation. The operation supported policies complementing the Rural Finance Project (P153338), which aimed at enhancing small and micro enterprises and entrepreneurs' access to finance in rural areas. The above efforts to increase financial inclusion aimed to tackle a long-standing bottleneck to reduce income inequality and boost inclusive growth in Mexico, and was also fully aligned with the WBG Maximizing Finance for Development (MFD) approach.

In the context of the Country Partnership Framework 2020-25, the first focus area intended to support more rapid, more inclusive growth, with a first objective aimed at fostering financial intermediation and inclusion. The CPF intended to support the authorities' renewed efforts to identify and eliminate bottlenecks for financial access and inclusion across the legal framework, including through the adoption of innovative solutions aimed at reaching unbanked populations. The World Bank intended to accomplish this through policy dialogue and lending that supports institutional and policy reforms, underpinned by strong analytics and the advisory work under the Financial Inclusion Global Initiative. This work was to support the implementation of more accessible electronic means of payment, the possibility of a broader range of assets that can become collateral for operations, reduced collection costs for nonperforming loans, improved financial education, capital market access among medium size firms, a solid regulatory framework for financial technology firms and financial intermediaries that target underserved market segments. The World Bank was also to support projects that would help build a strong institutional framework and platforms to foster capacity and good practice, as well as private financial intermediaries that can reach rural and underserved areas and beneficiaries to make financing scalable and establish institutional settings that are self-sustaining over the medium term.

The World Bank prepared this operation to support Mexico's reform program, aimed at deepening access to the financial sector for individuals and firms, reducing inequality in access, and enabling financial sector innovation. The program was important for World Bank operational engagement with the country, being the first financial sector DPF with Mexico in seven years, and it was decided that the DPF would be structured as a stand-alone one-year operation, assuming that the Government would continue its reforms toward greater financial inclusion and access to finance by vulnerable segments of society.

However, the PDO statement was vague, making the assessment of the operation performance difficult. The operation goal was to support the Government's efforts to increase financial inclusion. As stated, the operation goal was vague, because any level of support and increase could be considered as an achievement of the PDO. In conclusion, the PDO statement needed to be improved, in order to allow a results-based assessment of the performance achieved on the ground.

b. Relevance of Prior Actions

Rationale

The assessment of the Prior Actions draws from the material presented in paragraphs 14-25 of the ICR.

PDO: To support the government's efforts to increase financial inclusion

- **Prior Action #1 (PA#1): The Borrower has developed a new electronic payment platform ("CoDi") and issued its supporting regulations, to provide safe and efficient person-to-business payments to better reach micro, small and e-commerce merchants, as evidenced by Banco de Mexico's Circular No. 8/2019, duly published in the Official Gazette dated May 20, 2019.**
- ***Relevance Rating: Satisfactory***

The PA#1 addressed a real obstacle to business development, and aimed to expand business transactions by upgrading the payment system infrastructure of the financial sector. The goal was to enact the necessary regulations needed for the development of a new electronic payment platform ("CoDi"). Previously in Mexico, many people did not have an account and were not using electronic payments, because the latter were perceived as costly, not convenient, inaccessible and not accepted by most types of merchants with whom most Mexicans interact regularly. Advantages of the CoDI platform were that when the purchase is made, the amount will be transferred via the interbank electronic payment system, thereby making this core infrastructure available to any payer, with real-time availability of funds for the merchant, reduction of fraud, and a competitive payment system with much lower initial investment and maintenance costs.

The PA#1 was realistic and timely, it addressed a key business impediment and aimed to improve access to finance by modernizing the payment system infrastructure. The relevance of the PA#1 is rated **Satisfactory.**

- **Prior Action #2 (PA#2): The Borrower has issued regulations to create interbank mechanisms that facilitate individuals to use their payroll account as the designated source of repayment for loans with any bank in the system, to foster a broader access to credit under better terms and conditions, as evidenced by Banco de Mexico's Circular 15/2018, duly published in the Official Gazette dated October 29, 2018.**
- ***Relevance Rating: Moderately Satisfactory***

The PA#2 aimed to broaden access to credit, and payroll-backed loans represented an opportunity to expand access to credit by improving competition through upgrading regulation and creating enforceable interbank mechanisms. The regulation aimed to (i) facilitate the collection of payroll loans made by one bank from a payroll account at another bank under conditions of certainty, agility and efficiency, (ii) enable freedom of choice for the worker to find the best loan for her/his needs across the banking system using her/his payroll for payment, and (iii) permit the effective participation of any bank and its consumer credit affiliates in this market segment. The PA#2 was timely, addressed a real obstacle to business expansion, and aimed to modernize financial intermediation. However, the reform was complex and could not be completed in one year, and should have been considered in the context of a programmatic DPF.

The PA#2 was timely, and in congruence with the PDO, but this PA was a complex reform targeting the entire financial sector and required to be implemented in the context of a programmatic DPF. Moreover, the contribution of this PA to the achievement of outcome was difficult to substantiate, as the results chain associated to this PAs was weak. The relevance of the PA#1 is rated **Moderately Satisfactory.**

- **Prior Action #3 (PA#3): The Borrower has enacted the Law to Regulate Financial Technology Institutions, to mandate the establishment and regulate the operation of ITFs and technology-driven business models, products, and services to promote innovation, competition, and inclusion in the financial sector, as duly published in Official Gazette dated March 9, 2018.**
- ***Relevance Rating: Highly Satisfactory***

The PA#3 was an innovative reform aimed at revolutionizing the country's payment mechanisms by introducing technology in the delivery of financial products and services. The goal was to modernize the country's financial system, aiming at expanding businesses in general by incorporating recent acquired technology. Given the sustained and accelerated growth of the financial technology (Fintech) sector and the inherent risks associated with new firms, products and activities that lie outside of the regulatory perimeter, there was a need to regulate Fintech in Mexico. In particular, the law aimed at regulating the main Fintech companies that created disruption in the Mexican market and have an impact on consumers' and private investors. The Law comprised: (i) a legal framework for the authorization, operation and supervision of Fintech institutions (ITFs) focusing on two types: crowdfunding institutions (IFCs) and electronic payment funds institutions (IFPEs), (ii) the legal underpinnings for a regulatory sandbox environment for innovative companies, and (iii) the introduction of the concept of open data for non-confidential aggregate data and for transactional data with consumers' consent.

The design of the Fintech Law was based and guided by five public policy objectives: (i) financial inclusion and innovation in products and services, aimed at strengthening resilience of previously unbanked and vulnerable populations, (ii) consumer protection, particularly in the context of business models, systems and platforms that are new to individuals and firms, (iii) financial stability, particularly by providing prudential rules in financial risk, operational, technological, marketing, corporate governance and accounting rules, (iv) competition and access, in order to have greater diversity and reduced costs in the provision of services, and (v) pursuing anti-money laundering policies and combating the financing of terrorism.

The PA#3 was innovative, timely, revolutionary and aligned with the PDO. The relevance of the PA#3 is rated **Highly Satisfactory**.

- **Prior action #4 (PA#4): The Borrower has issued regulations regarding the licensing and operation of ITFs, as evidenced by CNBV's General Rules for ITFs and Banco de Mexico's Circular No. 12/2018, duly published in the Official Gazette dated September 10, 2018 and March 25, 2019, respectively.**
- ***Relevance Rating: Satisfactory***

The PA#4 was a complement to the PA#3 and aimed to provide a detailed regulation for the implementation of the Fintech law. The Fintech law and its implementing regulations, such as this one for Fintech institutions (ITFs) were expected to result in an increase in the number of Fintech companies operating in Mexico.

The set of regulations covered by the PA#4 were based on the following principles: (i) licensing requirements to ensure that ITFs meet well-defined ownership, internal control, governance to safely and professionally conduct their business, (ii) minimum capital requirements to help protect consumers and investors and instill confidence in markets, (iii) information sharing guidelines on prospective applicants to protect investors and ensure the legitimate use of their investments, (iv) limits on funding to ensure a level playing field with public or private securities issuance and protect consumers, (v) risk management, information security, and business continuity to warrant that comprehensive and adequate risk management, internal control, and reporting processes are in place, and finally (vi) operational requirements for electronic payments institutions (IFPEs) to ensure the safety of customer funds and operational reliability.

The PA#4 was innovative, complementary to the PA#3 and aligned with the PDO. The PA#4 relevance is rated **Satisfactory.**

- **Prior action #5 (PA#5): The Borrower has issued regulations for the operation of Regulatory Sandboxes, including eligibility criteria, oversight, and interinstitutional coordination, as evidenced by: (i) Banco de Mexico's Circular No. 5/2019; and (ii) General Rules for Regulatory Sandboxes issued by SHCP, CNBV, CNSF and CONSAR, published in the Official Gazette dated March 8, 2019, March 11, 2019, March 19, 2019, March 26, 2019 and March 8, 2019, respectively.**
- ***Relevance Rating: Moderately Satisfactory***

The PA#5 consisted of the issuance of regulations establishing the requirements and criteria for obtaining a temporary license for admission to the regulatory test environments (called "sandboxes"). Applicants were required to present a statement of fact that they intend to carry out their activities in accordance with the temporary license as allowed under the law. The framework aimed to enable the growth of innovative financial technologies with the objective of strengthening financial inclusion among the unbanked population, the majority of which are in the rural and poorest parts of the country. By enabling the growth of non-traditional financial products and services, the new legal and regulatory framework aimed to ensure greater financial resilience of individuals and economic agents affected by climate-related disasters.

The PA#5 was innovative, complementary to the Fintech law and aligned with the PDO. However, for this PA to generate tangible outcomes, it would need to be implemented in the context of a programmatic development finance operation (DPO), the latter providing enough time for the reform to generate results in contrast to the timeframe of this operation. Moreover, the contribution of this PA to the achievement of outcome was difficult to substantiate, as the results chain associated to this PAs was weak. The relevance of the PA#5 is therefore rated **Moderately Satisfactory**.

- **Prior action #6 (PA#6): The Borrower has submitted to its Legislature, for approval thereof, a bill of law to improve BANSEFI's mandate in supporting financial inclusion and its role in the distribution of social benefits to the poorest population, as evidenced by the Senate Gazette No. 114, Volume I, dated April 2, 2019.**
- ***Relevance Rating: Moderately Satisfactory***

The PA#6 supported the reform aimed at further strengthening the National Savings and Financial Services Bank's (BNSEFI's) ability to deliver social payments to the neediest in case of natural disasters, and aimed to increase the share of beneficiaries receiving social transfers via Banco del Bienestar through open loop accounts to 80 percent, of which 50 percent would be women. The medium-term goal of the reform was to contribute to greater financial inclusion of unserved populations, particularly in rural and marginalized regions.

The Mexican government created BANSEFI, based on the 2001 Community Savings and Loan Act in order to improve access to banking facilities, especially among low-income families. While small, BANSEFI was playing a critical role as the financial intermediary for government transfers and social protection programs. The proposed reform of the Organic Law of BANSEFI provided a clearer and stronger mandate for this institution to better align it with the government's priorities of poverty reduction, supporting the economic and social wellbeing of Mexicans throughout the country, especially vulnerable and excluded populations. The new institution under its new name Banco del Bienestar intended to support the authorities' strategy to make the delivery of social benefits more efficient.

The PA#6 was innovative, complementary to the Fintech law and aligned with the PDO. However, for this PA to generate tangible outcomes, it would need to be implemented in the context of a programmatic development Policy operation (DPO) as indicated above. Moreover, the contribution of this PA to the achievement of outcome was difficult to substantiate, as the results chain associated to this PAs was weak. The relevance of the PA#6 is rated as **Moderately Satisfactory**.

Table 1. Rating of Relevance of Prior Actions

PDO	**PAs**	**Rating of Relevance of Pri**
To support the government's efforts to increase financial inclusion	(i) To provide safe and efficient person-to-business payments to better reach micro, small and e-commerce merchants	Satisfactory
	(ii) To foster a broader access to credit	Moderately Satisfactory
	(iii) To promote innovation, competition, and inclusion in the financial sector through the Fintech Law	Highly satisfactory
	(iv) To regulate the licensing and operation of ITFs	Satisfactory
	(v) To regulate the operation of Regulatory Sandboxes	Moderately Satisfactory
	(vi) To support financial inclusion in its role in the distribution of social benefits to the poorest population	Moderately Satisfactory
Overall Rating of the Relevance of PAs		**Satisfactory**

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

PDO: To support the government's efforts to increase financial inclusion

To measure the performance of the this operation, five Results Indicators (RIs) were identified at appraisal, with each PA having one RI, with the exception that there was one indicator for both PA#3 and PA#4. Below is the discussion and rating of each result indicator used to assess the extent to which the PAs were achieved.

- **PA#1: The Borrower has developed a new electronic payment platform ("CoDi") and issued its supporting regulations, to provide safe and efficient person-to-business payments to better reach micro, small and e-commerce merchants, as evidenced by Banco de Mexico's Circular No. 8/2019, duly published in the Official Gazette dated May 20, 2019.**
- ***RI#1: Number of payments done using CoDi platform***
- ***Rating: Moderately Satisfactory***

The Results Indicator #1 (RI#1) was to measure the number of payments completed using the CoDi platform. This was an intermediate outcome indicator to assess progress toward safe and efficient person-to-business payments when reaching out to micro, small and e-commerce merchants. The statement of the indicator was well explained and justified in the program document (p.18). The number of payments made using CoDI was expected to increase from a baseline of zero in March 2019 to 200,000 by December 2020, and thereafter, the new electronic platform was expected to contribute to greater financial inclusion, especially among SMEs. However, while an increase in the number of transactions could possibly reflect a jump in the number of users, the change could also be attributable only to an expanded business from a few affluent customers.

Overall, the relevance of the RI#1 is rated **Moderately Satisfactory**, because an increase in the number of transactions using the CoDI platform doesn't reflect necessarily an expansion of the users of the new digital payment instrument. There was room to identify a better indicator recording additional transactions made by new customers from the less affluent categories of the business community.

- **PA#2: The Borrower has issued regulations to create interbank mechanisms that facilitate individuals to use their payroll account as the designated source of repayment for loans with any bank in the system, to foster a broader access to credit under better terms and conditions, as evidenced by Banco de Mexico's Circular 15/2018, duly published in the Official Gazette dated October 29, 2018.**
- ***RI#2: Interest rate spread of consumer loans that have payroll accounts as the designated source of repayment, using the 28-day "interbank equilibrium interest rate" as the relevant interest rate benchmark***
- ***Rating: Satisfactory***

The RI#2 was identified to assess the performance of the prior action toward the achievement of the PDO, and was stated as follows: "the Interest rate spread of consumer loans that have payroll accounts as the designated source of repayment, using the 28-day "interbank equilibrium interest rate" (TIIE) as the relevant interest rate benchmark". This was an intermediate outcome indicator and aimed to broaden access to credit by expanding the consumer loans beneficiaries by ensuring that the interest rate benchmark includes those using payroll accounts as the source of repayments. The selection of the indicator was sound and was well explained in paragraph 33 of the Program Document. The interest rate spread of consumer loans that have payroll accounts as the designated source of repayment was expected to be between 1,175 basis points and 1,325 basis points by December 2020, from 1,625 basis points in February 2019.

While the interest rate spread of consumer loans was a sound determinant of the expansion of the credit access, other factors playing a critical role in the credit expansion such as the overall economic outlook, and external shocks including the health of the financial sector were not discussed and mitigated. Although other factors impacting the broadening of the credit access were not fully discussed and considered in the context of this operation, the indicator and target were appropriate to measure the impact of the PA#2. In summary, the relevance of the RI #2 is rated **Satisfactory.**

- **PA#3: To regulate financial technology institutions, to mandate the establishment and regulate the operation of ITFs and technology-driven business models, products, and services to promote innovation, competition, and inclusion in the financial sector;**
- **PA#4**: **To regulate the licensing and operation of ITFs;**
- ***RI#3: Number of ITFs (crowdfunding institutions and IFPEs) that have formally submitted an authorization application to the CNBV and the number of such applications that were approved***
- ***Rating: Moderately Satisfactory***

The RI#3 was identified to monitor the number of ITFs (for crowdfunding institutions and IFPEs) that have formally submitted an authorization application to the National Banking and Securities Commission (CNBV) and the number of such applications that were approved. This was an output level result indicator and was well explained in the Program Document in paragraph 36. It aimed to introduce new policies favoring (i) financial inclusion and innovation in products and services, (ii) consumer protection,

(iii) financial stability, (iv) competition and access, and (v) promoting anti-money laundering policies and combating the financing of terrorism.

The Result Indicator #3 was adequate to measure the progress made toward promoting innovation, competition, and inclusion in the financial sector, but was pitched at a very low level, because targets were merely the number of authorization applications. Moreover, the results chain associated to this PA was weak. Because of the above shortcomings, the relevance of the Result Indicator #3 is rated **Moderately Satisfactory.**

- **PA#5: The Borrower has issued regulations for the operation of Regulatory Sandboxes, including eligibility criteria, oversight, and inter-institutional coordination, as evidenced by: (i) Banco de Mexico's Circular No. 5/2019; and (ii) General Rules for Regulatory Sandboxes issued by SHCP, CNBV, CNSF and CONSAR, published in the Official Gazette dated March 8, 2019, March 11, 2019, March 19, 2019, March 26, 2019 and March 8, 2019, respectively.**
- ***RI#4: Number of applications for the establishment of regulatory sandboxes.***
- ***Rating: Moderately Satisfactory***

The expected outcome from the PA#5 was a reduction in the gap in access to financial services in Mexico, especially for under-banked and unbanked sectors and enhance competition in the financial sector. The identified indicator of performance was the "number of applications for the establishment of regulatory sandboxes' from a baseline of 0 to a target of 5. While this was an output indicator with a low target for a large country like Mexico, it was consistent with the PDO. However, the indicator and the target were pitched at a very low level of ambition, and the results chain associated with this PA was weak because simple applications could not enhance competition in the financial sector. Overall, the relevance of the RI#4 is therefore rated as **Moderately Satisfactory**.

- **PA#6**: **The Borrower has submitted to its Legislature, for approval thereof, a bill of law to improve BANSEFI's mandate in supporting financial inclusion and its role in the distribution of social benefits to the poorest population, as evidenced by the Senate Gazette No. 114, Volume I, dated April 2, 2019.**
- ***RI#5: Share of beneficiaries receiving social transfers via Banco del Bienestar (BdB-Welfare Bank) through open loop accounts, and share of women among those beneficiaries***
- ***Rating: Satisfactory***

The expected outcome from the PA#6 was a contribution to greater financial inclusion of unserved populations, particularly in rural and marginalized regions. The identified indicator of performance was the "share of beneficiaries receiving social transfers via Banco del Bienestar through open loop accounts, and share of women among those beneficiaries" from a baseline of 21% March 2019 to a target of 80%, of which 50% women in December 2020. The RI#5 was an intermediate outcome indicator, measurable and consistent with the PDO. Overall, the RI#5 was sound and appropriate and this justifies a **Satisfactory** rating.

Table 2: Rating of Relevance of Results Indicators

PDO	**Prior Actions**	**Rating o Results**
To support the government's	(i) To provide safe and efficient person-to-business payments to better reach micro, small and e-commerce merchants	Moderat

efforts to increase financial inclusion	(ii) To foster a broader access to credit	Satisfac
	(iii) To regulate Financial Technology Institutions, to mandate the establishment and regulate the operation of ITFs and technology-driven business models, products, and services; (iv) To regulate the licensing and operation of ITFs;	Moderat
	(v) To regulate the operation of Regulatory Sandboxes	Moderat
	(vi) To support financial inclusion in its role in the distribution of social benefits to the poorest population	Satisfac
	Overall Rating of Relevance of Results Indicators	**Modera**

The overall relevance of the results indicators is summarized below, partially based on the ICR material presented in paragraphs 27-29.

The results framework was relevant, and the articulation between prior actions, RIs, and the PDO was appropriately based on a sound theory of change. For instance, the number of payments made using the CoDi platform (RI1) are directly attributable to the reform implemented, while also providing solid data to assess the contribution to the PDO. Similarly, the share of beneficiaries receiving social transfers via Banco del Bienestar (BdB-Welfare Bank) through open loop accounts (RI5) would reflect the outcome of improved financial access for the recipients as part of the new focus of the development bank.

The results indicators were measurable. Some indicators were readily available online, including the number of payments made using the CoDi platform (RI1), available on the Banxico webpage section on CoDi, which regularly updated data on the platform's operations. Given the importance of payroll-backed loans for the consumer loan market (RI2), Banxico provides an array of information on the segment, including the average weighted (by loan amount) interest rate of payroll loans. Finally, RIs 3 and 4 were reported in CNBV ad hoc press releases, as was the case on April 30, 2021, when the latest number of outstanding ITFs authorizations was disclosed.

Targets for RIs were overall sound, but some of them were imprecise or measured as an output. Targets were generally set at reasonable levels, although some were overly cautious, and others were arguably overly optimistic. For instance, the number of payments made using the CoDi platform was set at 200,000 transactions by December 2020, but the Mexico CPF FY2020-25 projected that by 2024 CoDI would reach 25 million users and 40 million transactions. In contrast, the indicator on the share of beneficiaries receiving social transfers via BdB through open loop accounts was too ambitious in the face of the challenges faced by the institution in terms of its capacity, federal program requirements, and geographical limitations. The targets related to the establishment and implementation of the Fintech Law were appropriate, particularly considering the innovative nature of the initiative and its associated uncertainty. Finally, some targets were output-level targets and were associated to a weak results chain, including RI#3 as it only measured the number of ITFs that have formally submitted an authorization application to the CNBV and the number of such applications that were approved. In other words the indicator demanded no results.

Overall, as shown in the table above, the relevance of results indicators is rated **Moderately Satisfactory.**

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To support the government’s efforts to increase financial inclusion

Rationale

The assessment of the efficacy toward the PDO draws from the material presented in the ICR in paragraphs 30-40 of the ICR.

PA#1: To provide safe and efficient person-to-business payments to better reach micro, small and e-commerce merchants

Rating: High

The result indicator was a sustained increase in the transactions using the CoDI platform. The target number of transactions using CoDi platform was largely exceeded by end-December 2020, reaching a total of 1,157,730 transactions against a target of 200,000. Transactions growth was sustained, because as of April 2021, their number increased up to 2,219,022, and participating financial institutions totaled 39. The introduction of the CoDi platform drove the increase in cashless transactions, which enabled the inclusion of smaller payees in the formal payment system. The platform has enrolled over 6,874,000 individuals, despite COVID-19 pandemic. The demand for cash has decreased during the pandemic because of the use of digital means of payment and the jump in remote purchases. Supermarkets and retail outlets are progressively accepting the use of the CoDi platform.

Furthermore, there was a rapid growth in the number of validated accounts reaching 9.2 million between September 2019 and May 2021, which will automatically be enrolled in the CoDi platform through their bank's mobile application. A recent survey by Banxico (Dec 2020) highlights that 65 percent (47.1 million people) make all or most payments in cash, compared to 76 percent (54.3 million people) before the pandemic. Finally, the CoDi platform has attracted local telecommunications companies and large commercial chains, which are developing cellphone applications using the CoDi platform as a form of payment.

Overall, progress made under this PA is rated as **High**.

PA#2: To foster a broader access to credit

Rating: Substantial

The result indicator aimed to make sure that the interest rate spread of consumer loans that have payroll accounts as the designated source of repayment, will be the relevant interest rate benchmark, using the 28-day “interbank equilibrium interest rate” (TIIE), and was expected that, once implemented, it will reduce the barriers to entry to the payroll-backed loan market and make it more competitive. By February 2021, the TIIE deteriorated by 553 basis points, reaching 2178 basis points against a target between 1,175 and 1,325 basis points, from a baseline of 1,625 basis points, mainly due to the higher market concentration and the disruptive effects of the COVID-19 pandemic. This outcome reflected the fact that, while the Central Bank issued regulations to facilitate the use of individual payroll accounts as the designated source of repayment for loans with any bank, the implementation was delayed due to operational difficulties and the COVID-19 crisis.

Moreover, data collected by the regulator during the year 2019 showed that loans were increasingly granted to people with higher risk profiles. The new market participants have targeted clients with significantly higher than average risk of repayment. The pandemic exacerbated the risk of clients losing their jobs, which materially affected the credit quality of the loans. Furthermore, there has been a clear increase in market concentration of payroll-backed loans in recent years, as reflected in the Herfindahl–Hirschman Index (HHI), which rose from 2,324 points in December 2018 to 2,409 in June 2020. Additionally, the flow of credit granted over the previous 12 months was significantly more concentrated in a few credit institutions than the historical portfolio of loans, with the top two banks representing 75.1 percent of the market total.

Overall, the progression of the outcome indicator was affected by events outside of the reach of the authorities, including a higher risk profile of borrowers, compounded by the COVID-19 crisis, in the context of an increasing market concentration. The higher market concentration and the disruptive effects of the pandemic led to the deterioration of the TIIE, and the expected performance of the outcome indicator of broadening access to credit was not achieved, and the performance achieved under this PA is rated as **Substantial.**

PA#3: To regulate financial technology institutions, to mandate the establishment and regulate the operation of ITFs and technology-driven business models, products, and services to promote innovation, competition, and inclusion in the financial sector;

PA#4: To regulate the licensing and operation of ITFs

Rating: Substantial

The target indicator consisted of the number of submissions and applications completed. The target was exceeded as the number of Fintech Institutions (ITFs) that have been formally submitted reached 94 against a target of 32, and the number of authorization applications to the National Banking and Securities Commission (CNBV) that were approved reached 11 against a target of 8.

Moreover, the Fintech framework excelled in attracting startups and users. There were 441 startups within the Fintech ecosystem in Mexico in March 2020, representing a 12 percent increase in comparison to the records in June 2019, when 394 Fintech startups had been identified. According to Mexico’s Fintech association, an estimated 4.6 million people or companies have been using a Fintech-based solution. Finally, the strong legal and regulatory framework has been a key element in attracting investments in Fintech startups, making Mexico a center of financial innovation in the region.

While the COVID-19 crisis disrupted the approval process, the number of Fintech startups and users has been increasing, and the outcomes in comparison to the targets are rated as **Substantial.**

PA#5: **To regulate the operation of Regulatory Sandboxes:**

Rating: Substantial

The result target aimed to strengthen regulatory sandboxes and ensure that they contribute to greater innovation in products, services and business models. The target was fully achieved as the planned 5 applications for the establishment of regulatory sandboxes was received by the operation closure. While two of these applications were withdrawn before the COVID-19 pandemic, the remaining outstanding regulatory sandbox applications were still under review for approval by CNBV. Reflecting the progress made in strengthening the regulatory sandboxes, an innovation contest ("Sandbox Challenge") was launched in late 2019 with the support of the UK Government and the CNBV. Out of the 81 registered projects, 31 were technically evaluated, and 6 were chosen as finalists and received legal and business advice and an acceleration program that would support them in the preparation of applications for regulatory sandbox authorization by the CNBV.

As five regulatory sandboxes applications had been received at the operation closure, the performance indicator is rated as **Substantial**

PA#6: **To support financial inclusion in its role in the distribution of social benefits to the poorest population**

***Rating: Modest**.*

The expected outcome was that the share of beneficiaries receiving social transfers via Banco del Bienestar through open loop accounts were to reach 80 percent by December 2020 from a baseline of 21 percent in March 2019, of which 50 percent would be women. The mandate to increase the set of financial instruments available to vulnerable populations moved the *Banco del Bienestar* (BdB) toward higher reliance on open loop accounts in social transfer provision and provoked the transition in social transfers from closed loop to open loop accounts. At the end of 2020, 62 percent of the beneficiaries served by BdB did not have access to ATMs or bank branches in their neighborhoods or within a 10 minute drive. This further limited the scope for expansion of open loop accounts and reinforced the relevance of the new set of priorities laid out in the reform supported by the Prior Action.

However, the COVID-19 pandemic was a major roadblock to BdB's efforts to expand access. The crisis limited the number of available personnel and reduced the volume of calls for beneficiaries and the capacity of bank branches due to social distancing rules. The BdB made material progress through new collaboration agreements to make transfers on behalf of other social programs and the expansion of the bank's network. By December 2020, BdB achieved 49 percent of social transfers provided through open loop accounts, with women making up 45 percent of the beneficiaries. Hence, the results target is rated as **Modest.**

Rating

Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

Toward supporting the government's efforts to increase financial inclusion, key achievements (despite the short implementation period) can be summarized as follows: (i) there was an increase in cashless transactions and participants, which enabled the inclusion of small-scale payees in the formal payment system, (ii) the Fintech framework was operational and excelled in attracting startups and users, transforming Mexico into a center of financial innovation in the region, and (iii) regulatory sandboxes applications were authorized, making more feasible the greater innovation of products, services and business models. Minor underperformances were recorded in the following areas mainly due to the COVID crisis and the short-term nature of this stand-alone DPF: (i) the expected outcome of the share of beneficiaries receiving social transfers via Banco del Bienestar through open loop accounts was not achieved, and (ii) broadening access to credit was missed.

Overall the efficacy with which the targets for this operation were achieved is rated Satisfactory

Overall Efficacy Rating

Satisfactory

6. Outcome

Rationale

The relevance of the operation's Objectives and Prior Actions for this important operation is rated **Satisfactory**. Most PAs were relevant, timely, and aligned with the PDO, although the relevance of the results indicators for the Prior Actions is assessed by this review as only **Moderately Satisfactory**. The overall efficacy with which the project's objectives were achieved is rated **Satisfactory** because all outcome targets for PAs were achieved and rated Substantial to High, except one, mainly because the PDO was vaguely stated. The overall results indicate minor shortcomings in the operation's achievements and hence a Satisfactory overall outcome.

Table 3. PDO Achievement Ratings

PDO	Prior Actions (PAs)	PA Relevance	Efficacy	Overa
To support the government's efforts to increase financial inclusion	(i) To provide safe and efficient person-to-business payments to better reach micro, small and e-commerce merchants	Satisfactory	High	
	(ii) To foster a broader access to credit	Moderately Satisfactory	Modest	

	(iii) To Regulate Financial Technology Institutions, to mandate the establishment and regulate the operation of ITFs and technology-driven business models, products, and services	Highly Satisfactory	Substantial	
	(iv) To regulate the licensing and operation of ITFs	Satisfactory	Substantial	
	(v) To regulate the operation of Regulatory Sandboxes	Moderately Satisfactory	Substantial	
	(vi) To support financial inclusion in its role in the distribution of social benefits to the poorest population	Moderately Satisfactory	Modest	
Overall Rating		**Satisfactory**	**Satisfactory**	**Satisfa**

a. Rating

Satisfactory

7. Risk to Development Outcome

The ICR identified the coronavirus crisis and the macroeconomic uncertainties as the major sources of risks to development outcome. While the coronavirus pandemic had slowed down some of the reforms initiated in the context of this DPF (for instance the outcome expected from the PA#2), the program outcomes are likely to be sustained, because the Borrower was still committed to fostering financial inclusion, especially for vulnerable and excluded populations. Moreover, the global pandemic has strengthened the focus of societies on digitalization and has underscored the emerging role of digital channels in effective government cash transfer programs.

Macroeconomic risks pose the largest threats to sustainability of the achieved outcome. There is uncertainty regarding the lasting economic impacts of the COVID-19 crisis on employment and labor incomes, which could be reflected in lower consumption levels, hampering the recovery process. In this context, measures to support liquidity in the system, regulatory support for firms and households while avoiding unintended consequences, and direct support to MSMEs have been paramount.

This review considers that the design of a stand-alone DPF to address a wide-ranging program of reforms to improve financial inclusion was not the best approach. A programmatic DPF implemented over three to four years would have been the best approach to ensure a successful and sustained development outcome.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The assessment of the Bank performance in designing this operation is based on the material presented in paragraphs 45-52 of the ICR.

The design of the operation was focused, and drew from lessons learned and an extended dialogue. The operation targeted a single key development challenge, which was financial inclusion. A key lesson was that the operation should be supported by a broader program of technical and analytical support that responds to the country’s needs and demands. Moreover, the Borrower worked with the government agencies and the Bank, and the private sector, during preparation and implementation of the program through the Financial Inclusion Global Initiative, and the Bank collaborated closely with the IMF and the International Finance Corporation (IFC).

The operation's design was also supported by strong analytical work and a comprehensive data base. Substantive analytical work which informed the design of the operation included the following: (i) the Financial Sector Assessment Program – Mexico (2016), completed jointly by the World Bank and the International Monetary Fund (IMF), and (ii) the Financial Inclusion Global Initiative Program (FIGI), which generated a list of studies supported by the TA from the World Bank. Finally, the 2017 edition of the Global Findex Database (the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk) which featured additional data on Fintech and digital financial services in Mexico.

The operation was instrumental to World Bank's reengagement with the Government. This operation was the first financial sector DPF approved for Mexico in seven years. It leveraged the opportunity provided by the alignment of the recent Systematic Country Diagnostic for Mexico (2018) and the policy priorities of a new cabinet, as signaled by the first package of reforms for the financial sector announced by the Borrower in January 2019. The operation provides a good example of the World Bank’s capacity to act promptly and be responsive to the needs of an important partner in development.

M&E design needed to be stronger at appraisal. Since the DPF was a one-year operation, there needed to be a clear and quickly implementable M&E mechanism bringing together the Borrower's institutions and the Bank team expertise to ensure that the operation could be effectively monitored and evaluated, albeit to only a limited extent. As the ICR noted, "The monitoring system did not work as expected and the tracking of the outcome indicators by the authorities did not take place through project implementation" (paragraph 47).

While the content and thrust of the operation were adequate, a programmatic DPF would have been a more effective design than a stand-alone one-year operation to address the magnitude of the challenges at hand. As discussed in Sections 3 and 4 of this review, both the PDO and the PAs were relevant but pitched at a low level of ambition consistent with the short lifetime for the operation. It was not realistic to expect substantive results in a one-year operation and this led to difficulties in the identification of a fully appropriate results framework. Results addressing the challenges of financial inclusion could only be achieved in a medium to long term timeframe in the context of a programmatic DPF.

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

The assessment of the Bank performance in implementing this operation is based on the material presented in paragraphs 55-56 of the ICR.

As the DPF was a one-year operation, the Bank decided to not conduct any supervision missions, an approach that could have been improved despite the problems associated with supervision during the pandemic. Monitoring and evaluation arrangements were to be implemented by the government, but no progress reports (as required by the Loan Agreement) were sent to the World Bank. While the program was supported by substantial and successful TA, supervision missions could have contributed to improved implementation of a program supporting challenging reforms.

During implementation, the World Bank appropriately supported the Government in addressing risks identified at appraisal. Identified risks were of a macroeconomic and institutional nature. To mitigate the identified macro risks including the coronavirus pandemic, the Borrower activated mitigating actions as follows: (i) a flexible exchange rate regime was the first line of defense against external shocks, and that proved effective when the peso posted a rapid depreciation against the US dollar in the first quarter of 2020, (ii) another mitigating strategy was the prudent monetary and financial policies of Banxico, which played a pivotal role in the stabilization efforts by lowering the policy rate and opening new swap lines and new liquidity facilities, and (iii) responsible fiscal policy management led the authorities to narrowly focus fiscal support on vulnerable households, workers, and MSMEs, when the coronavirus pandemic hit.

In order to ensure a smooth DPF implementation, the Fintech law was preceded by extensive consultation with public and private sector stakeholders. In parallel, the National Commission for Regulatory Improvement (CONAMER), carried out another set of consultations. In the context of the Fintech law and as part of the reforms supported by the DPF (Prior Actions 4 and 5), several regulators published the corresponding enabling regulations within the timeframe set in the law. In July 2019, in coordination with other entities, CONDUSEF introduced regulations aimed at improving consumer protection through greater transparency practices.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

Overall Bank performance is rated Moderately Satisfactory. Project design was informed by lessons learned and strong analytical work, and identified risks were fairly well mitigated. However, while IEG acknowledged the government's preference for a one-year standalone large programmatic DPF, and Bank management's agreement to the one-year implementation period, it was not consistent with achieving the challenging expected outcomes of the program, nor did it enlist the government's commitment to sustain effective broad-based financial inclusion.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

Beyond the results presented under the Section 5 regarding efficacy of the DPF, the ICR did not report other tangible results impacting the Mexico social and poverty situation. One should wait some years to check if there are poverty, social or other impacts resulting from this operation and even then attribution will pose problems for any definitive conclusion.

b. Environmental

Prior actions supported by this operation were not expected to have significant direct effects on the environment, forests, and other natural resources, although any indirect effects were expected to be positive. All prior actions were screened by the World Bank, and the conclusion was that they posed no significant or adverse environmental effects, and hence no environmental safeguard policies were triggered.

c. Gender

At appraisal, closing the gender gap was identified and as part of the motives for this operation. The gender gap in account ownership stood at 8 percentage points, compared to 5 percentage points in Brazil and −4 percentage points in Argentina. The DPL identified the reduction of the gender gap as one outcome of the operation. Results expected from the PA#6 was partially achieved as BdB achieved 49 percent of social transfers provided through open loop accounts, with women making up 45 percent of the beneficiaries, against a target of 80 percent by December 2020 from a baseline of 21 percent in March 2019, of which 50 percent would be women.

d. Other

The ICR indicated in paragraph 44 that the framework for Fintech achieved by this DPL was an important byproduct, which might provide a global public good in terms of knowledge that can be shared with other countries. For instance, authorities of other Latin American countries have already reached out to the Mexican government for advice on regulatory approaches to Fintech.

10. Quality of ICR

Rationale

The ICR is overall well-written and comprehensive. It provides a detailed narrative of the operation context, implementation and the achieved results, and is generally evidence-based and internally consistent. In particular, the macroeconomic context of the operation was well analyzed and monitored prior and during implementation. While the results orientation and quality of analysis were good, the design section could have discussed further the appropriateness of the results framework, and the adequacy of a stand-alone one-year DPF in the face of a challenging reform to achieve financial inclusion, for which sustainable results could only be reasonably expected in the medium to long-term. The quality of the ICR is rated Substantial.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	There were moderate shortcomings due to the one-year design of the DPL, and the tracking of indicators to assess performance did not occur.
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

This review highlights a lesson (amongst others) based on one in the ICR related to adequate M&E. IEG, suggests a lesson based on the experience of this operation but not mentioned in the ICR. Both lessons are summarized below..

(i) A one-year DPF design that does not incorporate a well-structured monitoring system with strong institutional capacity from the outset is unlikely to ensure adequate measurement of outcomes. In this operation, the Borrower designated M&E responsibility to an implementation unit (DBU), but the DBU was hampered by staff rotations and lack of resources and did not coordinate adequately with other supervisory authorities (ICR, paragraph 54). These shortfalls, together with limited Bank supervision, caused acute M&E problems for this one-year DPF.

(ii) A lesson suggested by IEG is that a stand-alone one-year DPL is unlikely to be effective in addressing wide-ranging sector reforms that are challenging to achieve in the short run. Achieving results on financial inclusion in a large country like Mexico might take years of sustained reforms. While a stand-alone one-year DPL can launch the process, achieving sustained results would require a medium to long-term programmatic DPL.

13. Project Performance Assessment Report (PPAR) Recommended?

No