

Document of
The World Bank

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Report No: 63734-MX

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF

US\$100 MILLION

TO THE

UNITED MEXICAN STATES

FOR THE

SAVINGS AND CREDIT SECTOR CONSOLIDATION AND FINANCIAL INCLUSION
PROJECT

October 31, 2011

Sustainable Development Department
Latin America and the Caribbean Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective August 9, 2011)

Currency Unit	=	Mexican Peso
Mexican Peso 1	=	US\$ 0.08
US\$ 1	=	Mexican Pesos 12.52

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BANSEFI	National Bank for Savings and Financial Services (<i>Banco del Ahorro Nacional y Servicios Financieros, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo</i>)
CDI	Indigenous Development Commission (<i>Comisión Nacional para el Desarrollo de los Pueblos Indígenas</i>)
CNBV	National Banking and Securities Commission (<i>Comisión Nacional Bancaria y de Valores</i>)
COFIREM	Confederation of Mexican Financial Cooperatives (<i>Confederación de Cooperativas Financieras de la República Mexicana</i>)
CONCAMEX	Mexican Confederation of Saving and Credit Cooperatives (<i>Confederación de Cooperativas de Ahorro y Préstamo de México</i>)
CONDUSEF	National Commission to Protect Users of Financial Services (<i>Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros</i>)
CPS	Country Partnership Strategy
DGABI	<i>Dirección General Adjunta de Banca Institucional</i>
DICONSA	Diconsa, S.A. de C.V. (<i>Distribuidora Conasupo</i>)
ERR	Economic Rate of Return
FIRA	Development Trust Funds related to Agriculture (<i>Fideicomisos Instituidos en Relación con la Agricultura</i>)
FM	Financial Management
FR	Financiera Rural
GDP	Gross Domestic Product
IP	Indigenous Peoples
IPPF	Indigenous Peoples Planning Framework
IT	Information Technology
LACP	Popular Savings and Credit Law (<i>Ley de Ahorro y Crédito Popular</i>)
LRASCAP	Law that regulates the activities of Savings and Loan Cooperatives (<i>Ley para Regular las Actividades de las Sociedades y Cooperativas de Ahorro y Préstamo</i>)
M&E	Monitoring and Evaluation
NGO	Non-governmental Organization
PAHNAL	National Savings Patronage (<i>Patronato del Ahorro Nacional</i>)

PATMIR	Regional Rural Microfinance Technical Assistance Program (<i>Programa Regional de Asistencia Técnica al Microfinanciamiento Rural</i>)
PEMEX	Mexican Petroleum (<i>Petróleos Mexicanos</i>)
SAGARPA	Agriculture, Livestock, Fishing, Nutrition and Rural Development Ministry (<i>Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación</i>)
SCE	Savings and Credit Entities
SCI	Savings and Credit Institutions
SHCP	Ministry of Finance (<i>Secretaría de Hacienda y Crédito Público</i>)
SOE	Statement of Expenditure
SOFOL	Investment Companies (<i>Sociedades Financieras de Objeto Limitado</i>)
SOFOM	Investment Companies (<i>Sociedades Financieras de Objeto Múltiple</i>)
TA	Technical Assistance
TESOFE	National Treasury
UDIs	Investment Units (<i>Unidades de Inversión</i>)

Regional Vice President:	Pamela Cox
Country Director:	Gloria Grandolini
Sector Director:	Ede Jorge Ijjasz-Vasquez
Sector Manager:	Ethel Sennhauser
Task Team Leader:	Pierre-Olivier Colleye

UNITED MEXICAN STATES
Savings and Credit Sector Consolidation and Financial Inclusion Project

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PAD DATA SHEET

UNITED MEXICAN STATES

Savings and Credit Sector Consolidation and Financial Inclusion Project

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND THE CARIBBEAN LCSAR

Date: October 31, 2011 Country Director: Gloria M. Grandolini Sector Director: Ede Jorge Ijjasz-Vasquez Sector Manager: Ethel Sennhauser Team Leader: Pierre Olivier Colleye Project ID: P123367 Lending Instrument: Specific Investment Loan	Sectors: Banking (45%);SME Finance (45%); Other social services (10%) Themes: Micro, Small and Medium Enterprise support (25%); Rural markets (25%); Regulation and competition policy (24%); Rural non-farm income generation (13%); Indigenous peoples (13%) Environmental Category: C - Not Required Joint IFC: Joint Level:
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Project Financing Data

[X] Loan [] Credit [] Grant [] Guarantee [] Other:

For Loans/Credits/Others:

Total Bank financing (US\$m.): 100.00

Proposed terms: Fixed spread loan with a final maturity of 15 years and a bullet repayment at maturity.

Financing Plan (US\$m)

Source	Local	Foreign	Total
Borrower	94.32	0.00	94.32
International Bank for Reconstruction and Development	0.00	100.00	100.00
Local: Beneficiaries	15.30	0.00	15.30
Total:	109.62	100.00	209.62

Borrower: United Mexican States
 Secretaría de Hacienda y Crédito Público
 Unidad de Asuntos Internacionales de Hacienda
 Insurgentes Sur 1971, Torre 3, Piso 3
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Responsible Agency:

Banco del Ahorro Nacional y Servicios Financieros (BANSEFI)

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Estimated disbursements (Bank FY/US\$m)

FY	2012	2013	2014	2015					
Annual	15.00	40.00	40.00	5.00					
Cumulative	15.00	55.00	95.00	100.00					

Project implementation period: Start December 20, 2011 End: March 31, 2015

Expected effectiveness date: December 20, 2011

Expected closing date: July 31, 2015

Does the project depart from the CAS in content or other significant respects? Yes No
Ref. PAD I.C.

Does the project require any exceptions from Bank policies? Yes No
Ref. PAD IV.G.

Have these been approved by Bank management? Yes No

Is approval for any policy exception sought from the Board? Yes No

Does the project include any critical risks rated “substantial” or “high”? Yes No
Ref. PAD III.E.

Does the project meet the Regional criteria for readiness for implementation? Yes No
Ref. PAD IV.G.

Project development objective *Ref. PAD II.C., Technical Annex 2*

The objectives of the Project are to support the: (a) consolidation of the savings and credit institutions (SCIs); and (b) deepening of financial inclusion in Selected Areas and Selected Locations.

Project description *Ref. PAD II.D., Technical Annex 2*

The project has four components:

Component 1: Consolidation and strengthening of savings and credit institutions (US\$25.75 million). This component: (i) provides training and technical assistance to strengthen savings and credit institutions; (ii) provides training and technical assistance to the Confederation, federations, Self Regulatory Bodies, Auxiliary Supervision Committees, and deposit protection funds to enhance their performance; (iii) finances studies and database creation; and (iv) finances communication and dissemination activities.

Component 2: Broadening access to financial services and products (US\$140.05 million). This component expands access to financial services through (i) technical assistance to Savings and Credit Entities to increase their membership base; (ii) expanding BANSEFI’s client base through support from Banking Agents; (iii) expanding the range of financial services to be provided to Savings and Credit Entities and individual clients; and (iv) provision of financial education.

<p>Component 3: Strengthening BANSEFI capacity (US\$26.07 million). This component aims to (i) expand the technological capacity of BANSEFI, including its platform’s mainframe; (ii) provide technical assistance and training for financial institutions that will be adopting BANSEFI’s platform; (iii) provide training for BANSEFI’s staff on topics related to this Project; and (iv) conduct a number of dissemination and public campaign operations.</p> <p>Component 4: Project management (US\$17.50 million). This component provides technical assistance, training and material support to BANSEFI’s staff and consultants in order to assist them in the implementation of the Project.</p>			
Safeguard Policies Triggered by the Project		Yes	No
Environmental Assessment OP/BP 4.01			X
Natural Habitats OP/BP 4.04			X
Forests OP/BP 4.36			X
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11			X
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12			X
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50			X
Projects in Disputed Areas OP/BP 7.60			X
Conditions and Legal Covenants:			
Loan Agreement Reference	Description of Condition/Covenant	Date Due	
Article V, Section 5.01 (a)	The <i>Mandato</i> Agreement has been duly executed by the parties thereto.	Effectiveness	
Article V, Section 5.01 (b)	The BANSEFI Guidelines have been updated in a manner acceptable to the Bank.	Effectiveness	
Article V, Section 5.01 (c)	The Borrower, through a legal opinion satisfactory to the Bank, issued by Borrower counsel acceptable to the Bank, and BANSEFI, in a separate legal opinion satisfactory to the Bank, issued by BANSEFI counsel acceptable to the Bank, indicate that the <i>Mandato</i> Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and BANSEFI and is legally binding upon the Borrower and BANSEFI in accordance with the <i>Mandato</i> Agreement’s terms.	Effectiveness	
Schedule 2, Section I, F	The Borrower shall cause BANSEFI to carry out the Project in accordance with the provisions of the IPPF	Continuous	

I. STRATEGIC CONTEXT

A. Country Context

1. The Mexican economy is starting to recover from a deep contraction of economic activity following the global economic and financial crisis. As a relatively open economy, Mexico was hard hit by the collapse of international trade at the end of 2008 and beginning 2009. As a result, annual economic growth in 2008 was down to a meager 1.3 percent and Gross Domestic Product (GDP) actually fell by 6.5 percent in 2009. In line with a global recovery in production and trade, and responding positively to the government counter-cyclical fiscal and monetary policies, economic activity in Mexico picked up in the second half of 2009 and the overall GDP grew by 5.5 percent in real terms in 2010, while agriculture, which is still a very important source of income in rural areas, grew by 8.1 percent. Real GDP growth is forecast at 4.3 percent for 2011. Presidential elections are scheduled for July 2012, with the new President expected in December 2012.

2. Since 2001, the Bank has been working closely with the Government of Mexico in the evolution of the savings and credit sector institutions under a broader partnership in support of the Mexican financial sector (Figure 1). Using a diverse range of instruments, the Bank has provided over a decade of policy advice, convening services, investments, as well as piloting of innovative rural financial services. The project is also fully aligned with the CPS objectives, and fits in well with the Bank's engagement model with Mexico which focuses on those aspects of the government program where the Bank has a comparative advantage and can bring value-added. As figure 1 shows, the BANSEFI projects combined: (a) financial support (through investment lending); (b) advisory services (through several project-financed studies which are now blossoming into new approaches to deepen access to financial services such as correspondent and mobile phone banking); and (c) coordination with other donors (such as Gates Foundation for piloting the correspondent banking initiative). The breadth and depth of the Bank-Mexico partnership in support of the Mexican financial sector is provided in Annex 8. World Bank assistance to the savings and credit sector consists of two Bank-financed projects with loans totaling to US\$240 million. The first project (P070108) closed in February 2011, and the second project (P087152) is due for closure in July 2012. The main focus of the two projects has been furthering the financial inclusion objective of the government through two main actions: (a) improving the performance of the sector institutions; and (b) improving access to financial services to population in rural marginal areas through new membership. Details on the areas of assistance, targets and achievements are provided in Annex 8.

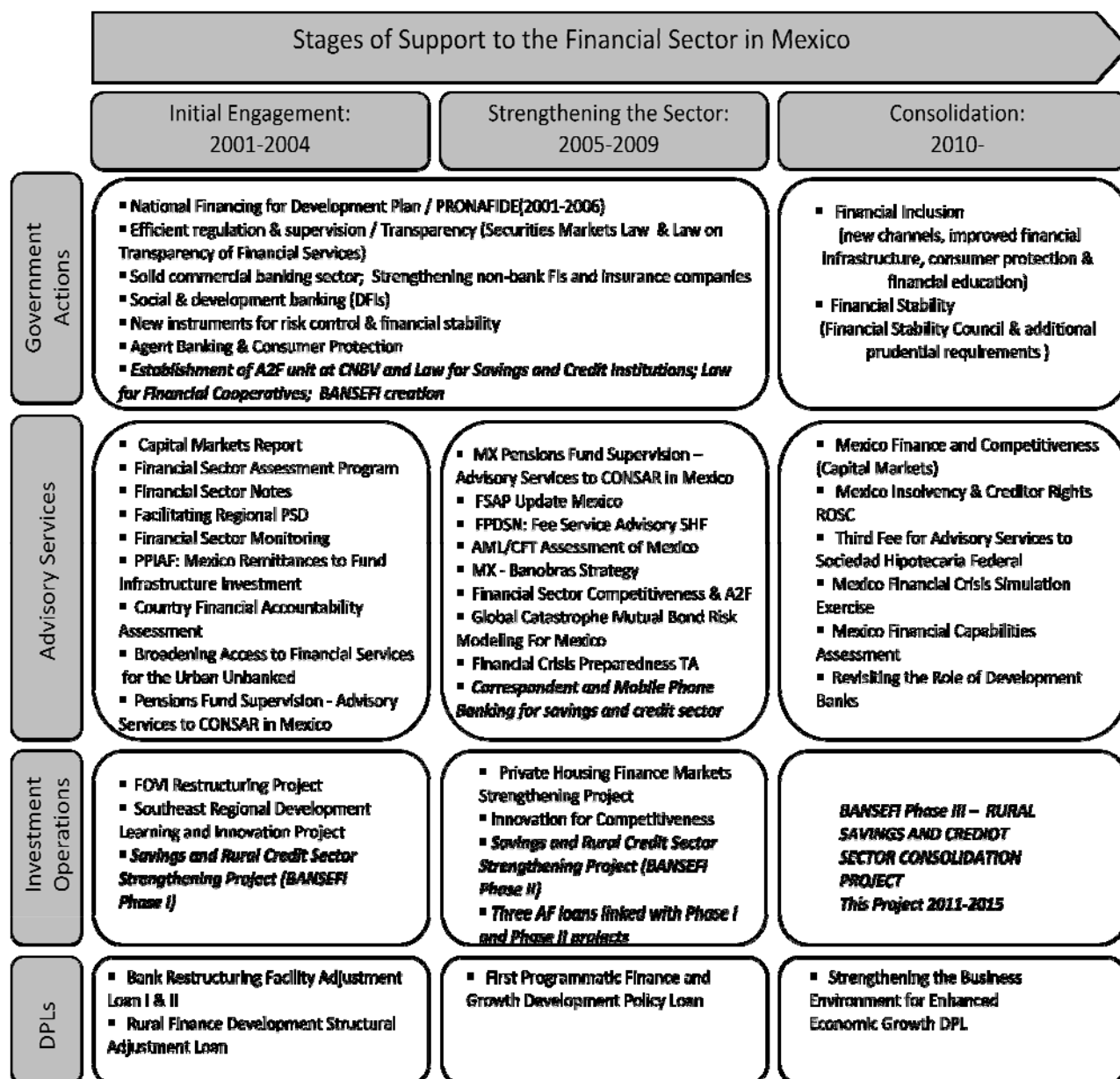
3. The project is aligned with other Bank-supported initiatives to promote financial inclusion and literacy. While the recently approved January 2011 Strengthening the Business Environment for Enhanced Economic Growth Development Policy Loan focuses more on the banking sector-related aspects such as: (a) the use of mobile phone accounts; (b) enhancing the coverage, data quality and consumer services offered by credit bureaus; (c) establishing a Financial Stability Council; and (d) provisioning requirements relating to mortgage and non-revolving consumer credit, this operation offers a complementarity by focusing on consolidation of the rural financial sector entities, and deepening financial inclusion in rural marginal areas.

B. Sector and Institutional Context

4. Access to financial services in Mexico is limited. Despite a modern regulatory framework, the Mexican financial sector remains small relative to the size of the economy. Private sector credit as a percentage of GDP amounted to 21 percent in 2008, well below that of other high-middle income countries,

such as Brazil, Chile, Malaysia, Thailand and Turkey. Commercial bank assets constitute 45 percent of GDP compared to more than 85 percent of GDP and 110 percent of GDP in Brazil and Chile, respectively.

Figure 1



5. The penetration rate is low, with 53 percent of the 2,456 municipalities having no bank branch. Lack of access is a serious issue in municipalities with less than 50,000 population (60 percent of such municipalities have no bank branch), and regional variations are intense: in south/south-east regions, 73 percent of municipalities do not have any bank branch. Of the 112 million population, about 71 million (or 65 percent of total) appear to have no access to formal financial services. More importantly, in the lowest two categories with annual incomes of less than 130,000 Mexican Pesos (MXP) (about 70 percent of the total population), the coverage is barely 20 percent, compared to almost 100 percent for the 6 percent of

the population in the two upper-most income categories. The access rate in rural areas drops dramatically to about 6 percent compared to about 25 percent for urban areas.

6. Clearly, there is a very large population unserved or underserved by financial services in Mexico. Poverty is not the only factor resulting in low levels of financial services use; inadequate education about financial products and benefits, and institution-related security and confidence issues keep potential clients away from becoming members and seeking financial services. Supply side factors such as inadequate access network, and limited menu of financial products, among others, are equally important constraints.

7. **Rural Financial Sector Structure.** Financial services are provided in Mexico by four distinct types of institutions: commercial and niche banks, development banks, micro-finance institutions, and savings and credit cooperatives. The commercial banks offer retail banking products (first-tier services) mostly for high-income clients and salaried employees. Bank branches are mostly located in business areas as well as in high-and medium-income residential areas. Offering financial services aggressively to low income population in rural areas (particularly with very high, high, or even medium marginality) on a large scale either through the traditional branch route or the new and more innovative branchless banking route has not yet been done by these institutions.

8. There are three main development banks with operations oriented to the rural sector, and these are focused on developing rural financial markets and providing training and technical assistance, with very little, if any, overlap across the functions performed by them: *Fideicomisos Instituidos en Relación con la Agricultura* (FIRA), *Financiera Rural* and the *Banco del Ahorro Nacional y Servicios Financieros* (BANSEFI). FIRA, the largest source of funding for loans to agriculture and rural enterprises operates mainly as a second-tier lender through commercial banks, credit unions, and savings and credit institutions. *Financiera Rural* provides loans directly to small farms and other rural enterprises as a first-tier lender.¹

9. BANSEFI operates only in the savings market through its branches. It inherited savings accounts from the former PAHNAL, which was closed in 2002. BANSEFI has the mandate to coordinate government initiatives in support of the non-bank savings and credit sector: (a) providing training and technical assistance to the sector institutions; (b) offering a range of services including liquidity management and risk administration, as well as capacity building to the entities and their federations, and supervision agencies; and (c) developing and offering services through a technology platform to reduce transaction costs and expand the range of offered financial products. BANSEFI serves its traditional 4 million deposit customers, and has added close to another 3 million customers, mostly recipients of government conditional cash transfer programs. It has about 500 branches, and recently established a second-tier line of credit (akin to wholesale lending) for sector entities.

10. The micro-finance institutions consist of NGOs, Banco Compartamos, and other financial intermediaries such as *Sociedades Financieras de Objeto Limitado* (SOFOLs) and *Sociedades Financieras de Objeto Múltiple* (SOFOMs), and credit unions, which operate both in rural and urban setting. Most of these institutions offer loan products, sustained by lines of credit, and offer virtually no deposit/savings products. These entities serve around 3.8 million borrowers.

¹ The government policy (Programa Nacional de Financiamiento del Desarrollo 2008-2012) indicates that public banks have the mandate to provide services to underserved communities, but that they are eventually expected to focus only on second-tier operations, as private (or non-governmental) providers become capable of serving these markets.

11. The savings and credit institutions (SCIs)² segment consists of popular societies and cooperatives, with the latter accounting for almost 85 percent of the sector. These operate mostly in rural areas through a single branch or a multiple-branch network, and offer a natural comparative advantage in expanding outreach due to their wide geographical dispersion, particularly in marginal areas. These entities have 60 percent of their branches in small, semi-urban and rural localities of up to 50,000 inhabitants. In contrast, commercial banks have only 13 percent of the branches in such localities. With approximately MXP 95 billion in assets (slightly more than 1 percent of the financial market and 0.6 of the GDP), this sector consists of about 880 entities (of which 669 are registered, close to half just in the past 18 months following the issuance of the *Ley para Regular las Actividades de la Sociedades Cooperativas de Ahorro y Préstamo* (LRASCAP) in August 2009), and 2,633 branches with a membership of about 8.0 million.

12. **Government Strategy to deepen access to financial services.** Financial inclusion has been high on the Mexican development agenda. Given the wide dispersion of the savings and credit entities, and their deep focus on rural (and marginal) areas, several measures have been taken over the last decade to provide a fillip to financial inclusion in rural areas through this segment.

13. As a first step, to regulate the Popular Savings and Credit Sector, the Congress enacted the *Ley de Ahorro y Crédito Popular* (LACP) in June 2001. This Law provided a transition period during which the sector entities were required to adjust their legal statutes, financial performance, governance structure as well as their accounting, internal control and auditing arrangements to the new regulatory environment. Due to the time required for such adjustments, and the heterogeneity of the sector entities, the deadline for certification had to be extended and has now been set at December 31, 2012. As a second step, BANSEFI was created as a development bank for this sector in April 2001 to, *inter alia*: (a) promote a culture of savings; (b) operate as a bank of the savings and credit sector; and (c) administer and coordinate financial and technical support from the federal government to consolidate the sector and to assist viable sector entities to comply with the new regulatory requirements. Third, in August 2009, the LRASCAP was issued for the financial cooperatives which were seeking a dedicated law responsive to the nature of their entities. Except for some operational differences, the two laws are aligned, do not permit regulatory arbitrage, and maintain the date of December 31, 2012 as the deadline for certification of the entities.

14. **Rationale for the Project.** The justification for the Project is embedded in the need to address issues clustered around three key aspects: (a) further consolidating the savings and credit sector institutions; (b) broadening access to financial services and products; and (c) strengthening BANSEFI's capacity for entity/sector support. These are discussed below.

15. **Consolidating savings and credit sector institutions.** The LRASCAP requires that larger cooperative to remain in business. Annex 2 details the certification status of the sector: (a) Entities that are close to certification will need limited or focused training and technical assistance to complete the certification process; (b) broader assistance for entities not yet assisted by earlier projects (about 170 entities) is also required for either certification or merger/liquidation; (c) smaller entities below the certification threshold offer an opportunity assistance to improve management performance and function under strong second-tier structures such as federations; (d) the regional supervision structure for the

² Sector institutions consist of entities, the Confederation, Federations, Self-Regulatory Body, Auxiliary Supervision Committee, and Deposit Protection Funds. registered/certified and operational, either under LACP or LRASCAP (the two applicable laws).

financial cooperatives recently put in place would require strengthening, given that federations under the LRASCAP do not have the legal mandate for supervision, and federations under the LACP will see a realignment of the supervision committees network; and, (e) given the large number of small entities recently registered, international best practice suggests that these entities be affiliated to solid federations which can offer technical advice, back-office support, training, and other services to achieve scale economies).

16. Broadening access to financial services and products. The earlier projects mainstreamed over 600,000 new members into the formal rural financial sector entities. There is still a huge unserved population in the rural marginal areas where entities are present and which could be targeted for financial inclusion using different strategies, including: (a) a piloted correspondent banking initiative using DICONSA (community stores in the remotest locations in Mexico) as banking agents, (b) increased membership in the *L@Red de la Gente*³ (*L@Red*) network that provides products such as international remittances, micro-insurance, electronic payments to the clients; (d) a new pilot of mobile phone banking service in BANSEFI, which could be extended to sector entities, when legally permitted in the future; and (e) scaled up financial education initiatives to further reduce the access gap between higher income class and the poorest socio-economic groups.

17. Strengthening BANSEFI capacity for entity/sector support. Responding to the need identified by the savings and credit sector entities (SCEs)⁴, BANSEFI has started offering lines to credit (wholesale lending) to select eligible entities to enable them to offer medium-to-longer term lending products for productive activities. Developing adequate risk assessment and due-diligence capability in BANSEFI is crucial for its success, including protecting its depositors. It will also need to maintain efficiency in its own (and sector entities') existing banking operations supported by the technology platform. Finally, BANSEFI will need to improve its staff capability to offer a higher level of support to the sector and for a better performance of the development bank.

C. Higher Level Objectives to which the Project Contributes

18. Supporting government strategies for the rural financial sector. The Project builds on the two earlier Bank-assisted projects to support key government strategies as indicated in the National Development Plan (2007-2012) for this sector: (a) promote competition in the financial sector through new entrants, new financial products and services, and provide financial education to the segments of the population accessing financial services; (b) focus actions of the development banks on those sections of the population not served by the private sector; (c) integrate the high and very high marginality areas into the development process; and (d) reduce the cost of remittances. The Project also supports key strategies of the National Program for Financing Development (2008-2012) as they relate to this sector: (a) implement programs of financial education; (b) promote electronic means of payments for services, increase efficiency of payment systems, distribute government transfers through electronic means, and expand the network of correspondents banking agents to provide banking services in rural and

³ L@Red is an alliance between BANSEFI and 286 entities, mainly to offer the following services: national and international remittances, third party payments, micro-insurance, and account-to-account transfers from Mexican remitters in USA. The network was commissioned in 2003, and is governed by the provisions of a Trust Contract.

⁴ Savings and Credit Entities (SCEs) consist of any of the following savings and credit entities: a *Sociedad Financiera Popular*, a *Sociedad Financiera Comunitaria*, an *Organismo de Intergracion Financiera Rural* or a *Sociedad Cooperativa de Ahorro y Préstamo*.

marginalized urban areas; and (c) identify segments of the population that do not receive financial services and focus on their inclusion, and provide assistance to the entities to get certified under the law.

19. **Supporting Country Partnership Strategy (CPS) Objectives.** The Mexico Country Partnership Strategy 2008-2013 (Report No. 42846-MX; P101384) and CPS Progress Report (Report No. 52776-MX; P114341), discussed by the Executive Directors on March 25, 2010, is focused on four main pillars. The project supports the competitiveness, and social inclusion and poverty reduction pillar. With a robust SCI sector, a healthy intra-private sector competition between different segments of the rural financial sector would occur, improving overall institutional efficiency and client satisfaction. Additionally, with improved access to financial services (including international remittances and electronic distribution of governmental transfer programs), the project will promote social inclusion and poverty reduction.

20. The project is also fully aligned with the CPS objectives, and fits in well with the Bank's engagement model with Mexico which focuses on those aspects of the government program where the Bank has a comparative advantage and can bring value-addition. The BANSEFI projects combined: (a) financial support (through investment lending); (b) advisory services (through several project-financed studies which are now blossoming into new approaches to deepen access to financial services such as correspondent and mobile phone banking); and (c) coordination with other donors (such as Gates Foundation for piloting the correspondent banking initiative). The breadth and depth of the Bank-Mexico partnership in support of the Mexican financial sector is provided in Annex 8.

21. The project is aligned with other Bank-supported initiatives to promote financial inclusion and literacy. While the recently approved January 2011 Strengthening the Business Environment for Enhanced Economic Growth Development Policy Loan (P112264) focuses more on the banking sector-related aspects such as: (a) the use of mobile phone accounts; (b) enhancing the coverage, data quality and consumer services offered by credit bureaus; (c) establishing a Financial Stability Council; and (d) provisioning requirements relating to mortgage and non-revolving consumer credit, this Project offers a complementarity by focusing on consolidation of the rural financial sector entities, and deepening financial inclusion in rural marginal areas.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objective (PDO)

22. The objectives of the Project are to support the: (a) consolidation of the savings and credit institutions (SCIs); and (b) deepening of financial inclusion in Selected Areas and Selected Locations.

Project Beneficiaries

23. Direct beneficiaries of the project include the following:

(a) Entity members: New members who are mainstreamed into the formal financial system under the project to deepen outreach. The threshold of the locations to be covered under the new project is predominantly 50,000 inhabitants. At least 70 percent of the new membership of 825,000 will be from medium, high or very high marginality areas. This component will also incorporate a social strategy specifically targeting indigenous population and women. Specific goals have been established for new membership: at least 10 percent indigenous population groups and at least 30 percent women. A majority

of the new membership is expected to be from income groups D/E, the lowest groups with incomes less than 130,000 Mexican Pesos (MXP) per year.

(b) Community members: These are new clients that will benefit from the correspondent banking initiative. About one million new clients will be mainstreamed into the formal rural financial system, predominantly from the 1,250 municipalities which have remained un-serviced by the formal financial sector. A majority of the new clientele is expected to be from income groups D/E, the lowest groups with incomes less than MXP 130,000 per year.

(c) BANSEFI members: Close to one million BANSEFI members that will benefit from the mobile phone banking pilot. Almost 80 percent of BANSEFI membership is from income groups D/E, the lowest groups with incomes less than MXP 130,000 per year.

(d) Sector institutions: These are sector institutions which will be strengthened through capacity-building initiatives, infrastructure support, and strategic training and technical assistance to either help them with certification, liquidation/merger, or to improve their operations. The institutions include (i) about 385 sector entities; (ii) about 13 federations; (iii) about four supervision institutions; and (iv) two deposit protection funds.

24. More generally, all existing and new member, clients and users of services provided by BANSEFI and other sector institutions will indirectly benefit from the project. These benefits will be derived from overall capacity-building of sector institutions, financial education initiatives, and improved BANSEFI efficiency in its endeavor to support to sector institutions.

PDO Level Results Indicators

25. The main PDO indicators are provided below:

(a) Consolidated Sector Entities:

- (i) 120 additional entities certified by CNBV, and show improved performance on financial and operational indicators; and 15 entities either merged/liquidated;
- (ii) 85 entities (of which 35 receiving training and technical assistance for the first time after recent registration) show improved performance on financial and operational indicators;

(b) Deepened financial inclusion:

- (i) 1.8 million new clients mainstreamed into the formal rural financial sector and using financial services; at least 70 percent from rural marginal areas, 30 percent women, and 10 percent Indigenous Peoples; of the above, about 1.0 million new clients financially included through the correspondent banking model;
- (ii) 70 additional entities offering an expanded range of financial services through L@Red de la Gente network; and
- (iii) One million new savings accounts established; about 30 percent of new savings accounts made to women (core indicator).

III. PROJECT DESCRIPTION

A. Project Components

26. The project has four main components (detailed description is provided in Annex 2):

Component 1: Consolidation and strengthening of savings and credit institutions (SCIs) (Total financing: US\$25.75 million, IBRD financing: US\$16 million). This component consists of:

1. Provision of:
 - (i) support to carry out assessments of selected SCE's financial and managerial conditions to determine, *inter alia*, whether: (i) an SCE qualifies for authorization by the CNBV to operate as a Certified SCE; (ii) an SCE requires technical assistance and training for its strengthening or restructuring in order to qualify for such authorization; or (iii) an SCE should be merged or liquidated; and
 - (ii) technical assistance and training to selected Certified SCEs and SCEs to support their overall institutional strengthening and/or services improvement.
2. Provision of goods, technical assistance and training to strengthen the Confederation, Federations, Self-regulatory Bodies, Auxiliary Supervision Committees and Deposit Protection Funds to, *inter alia*:
 - (i) allow Federations to effectively provide technical assistance and training to their member entities and supervise them;
 - (ii) allow the Confederation, Federations, Self-regulatory Bodies, Auxiliary Supervision Committees and Deposit Protection Funds to improve strategic planning, internal controls, governance aspects, supervision arrangements and procedures; and
 - (iii) allow Federations to provide legal advice, including on regulatory and tax-related matters, to their member entities, as needed.
3. Carrying out of sector-related studies and evaluation studies to establish a consolidated database on SCEs, including, *inter alia*, information related to SCEs' financial performance and status of compliance with legal requirements under the LACP and the LRASCAP.
4. Carrying out of dissemination activities related to certification and reporting requirements required under the LACP and the LRASCAP.

Component 2: Broadening access to financial services and products (Total financing: US\$140.05 million, IBRD financing: US\$56.75 million). This component expands access to financial services and products through four main lines of action:

1. (i) provision of technical assistance and training to selected Certified SCEs and selected SCEs in Transition to increase their membership base in Selected Areas⁵ and to support the design and implementation of an improvement program to allow them to increase their membership base in said areas;
- (ii) provision of technical assistance and training to BANSEFI to support the qualitative control, and the verification of the increase of the membership base of selected SCEs;
- (iii) carrying out of studies and assessments to, *inter alia*, evaluate the nature, perception and participation of the new membership in Selected Areas; and

⁵ Selected Area means any marginal area with population of less than 100,000 inhabitants within the Borrower's country.

- (iv) carrying out of dissemination activities under sub-component 2.1.
- 2. (i) expansion of BANSEFI's clients base in Selected Locations⁶ through the provision of support from Banking Agents and processing of financial transactions through the Selected Banking Agents in said Selected Locations;
 - (ii) carrying out of a study on the implementation of sub-component 2.2.1. of the Project and development of a strategy for scaling-up the activities under sub-component 2.2.1 of the Project based on said study; and
 - (iii) provision of support for the dissemination to clients of new financial services to be provided by Selected Banking Agents.
- 3. Expansion of the range of financial services to be provided to SCEs and individual clients through:
 - (i) the provision of technical assistance and training to BANSEFI to improve the operation of its lines of credit to SCEs, including, *inter alia*, the carrying out of a study related to financial sector needs and BANSEFI's strategic focus;
 - (ii) the strengthening of the *L@ Red de la Gente* Network to offer an expanded range of financial services to the members of BANSEFI and/or SCEs (including, *inter alia*, the carrying out of studies related to governance and customer relationship management), the provision of technical assistance and training to SCEs to allow them to join the *L@ Red de la Gente* Network, and the carrying out of a market study to analyze the Borrower's financial sector need for innovative financial products;
 - (iii) the carrying out of a pilot program for mobile phone banking operation targeted to BANSEFI clients, and the development of a strategy to potentially scale-up said pilot to non-BANSEFI members; and
 - (iv) the provision of support for the dissemination of the expanded range of services to be provided by the *L@ Red de la Gente* Network and the mobile phone banking pilot referred to in sub-components 2.3(ii) and (iii) of the Project.
- 4. Provision of financial education through:
 - (i) technical assistance and training, including workshops and seminars, directed to build capacity on dissemination of financial information in civil society and sector organizations;
 - (ii) (a) educating the general public on financial services, including the dissemination of information on financial services provided by BANSEFI, the Selected Banking Agents, and by other sector organizations; and (b) the maintenance of BANSEFI's website to provide guidance on financial topics (www.finanzasparatodos.org.mx);
 - (iii) the development of materials focused on financial education to be distributed at training events, workshops and seminars, including, *inter alia*, materials targeting children, women and indigenous peoples; and
 - (iv) the carrying out of studies to evaluate the impact of the financial education activities referred to in this sub-component 2.4 of the Project.

Component 3: Strengthening BANSEFI capacity (Total financing: US\$26.07 million, IBRD financing: US\$16 million). This component consists of:

- 1. (i) provision of services to expand the technological capacity of BANSEFI, including its information technology platform's mainframe, to enhance its processing and storage capacity and efficiency;
- (ii) provision of technical assistance and training to SCEs or any other financial institution that will be adopting BANSEFI's information technology platform.

⁶ Selected Location means locations to be determined based on the eligibility criteria defined in the Operational Manual.

2. Provision of training for BANSEFI's staff on topics related to this Project.
3. (i) Provision of support for the dissemination of the functional capabilities of BANSEFI's information technology platform and operational and financial benefits.
(ii) Carrying out of a campaign to strengthen the BANSEFI brand as a development bank.

Component 4: Project management (Total financing: US\$17.50 million, IBRD financing: US\$11 million). This component consists of: Provision of technical assistance, training and material support to BANSEFI's staff, consultants and providers of non-consulting services in order to assist them in the implementation of the Project.

B. Project Financing

Lending Instrument

27. Specific Investment Loan (SIL) in the amount of US\$100.0 million.

Project Cost and Financing

28. The project cost is estimated at US\$209.62 million. Bank share of the project cost will be US\$100 million (including a front-end fee of US\$250,000; 0.25 percent of the loan amount), or about 48 percent on average.

Table 1: Project Cost and Financing Table

Component and/or Activity	IBRD	Govt. of Mexico	Project Entities	Total Cost	IBRD share
Consolidation and strengthening of sector institutions	16.00	4.75	5.00	25.75	62.1%
Broadening access to financial services and products	56.75	73.30	10.00	140.05	40.5%
Strengthening BANSEFI capacity	16.00	9.77	0.30	26.07	61.4%
Project Management	11.00	6.50	0.00	17.50	62.9%
Front-end Fee	0.25	0.00	0.00	0.25	100%
TOTAL COST	100.00	94.32	15.30	209.62	47.7%

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

29. **Implementation of project components.** BANSEFI will be the implementing agency for this project. It has been the implementing agency for the two prior projects spread over eight years and has demonstrated strong capacity to implement complex projects successfully. The institutional arrangements within BANSEFI for the implementation of the project components are detailed in Annex 3.

30. **Compliance with safeguards requirement.** The BANSEFI team for the outreach component in the earlier Projects has eight years of experience in deepening outreach in rural marginal areas in Mexico. This team is fully aware of the requirements of the Bank Safeguard Policy as it relates to Indigenous Peoples, and is particularly sensitive to its compliance when dealing with the training and technical assistance providers in their strategy formulation, implementation, and reporting. This is demonstrated by the excellent results achieved under the earlier project relating to Indigenous Peoples and women groups.

31. **Implementation of fiduciary requirements.** Procurement, financial management, budgeting, accounting and payments to project beneficiaries will be managed by the Planning and Finance Department (through its budgeting and resource management teams) of BANSEFI. The procurement team in BANSEFI will be responsible for supporting project implementation following World Bank procurement guidelines. Annex 3 provides detailed information about the procurement arrangement for this project, including the assessment of the capacity of the implementing unit and the proposed action plan. The accounting and financial management requirement of the project will be managed by BANSEFI through its current organizational structure, including all the budgeting, accounting, internal control and flow of funds-related functions. The funds flow process will be as follows:

- (a) The National Treasury (TESOFE, an Undersecretariat at SHCP) will transfer funds to BANSEFI in local currency (Mexican Pesos) via its standard budget process;
- (b) BANSEFI will: (i) pay to suppliers of goods and services for the implementation of the project's components related with consultancies, training, and goods; and (ii) will reimburse 80 percent⁷ of the expenditures incurred by the project beneficiaries; and
- (c) BANSEFI will report to the Bank the expenditures incurred through the periodic presentation of Statements of Expenditures (SOEs), and at the end of the cycle, the Bank will reimburse the funds in U.S. Dollars into a commercial banking account opened by BANSEFI, which will be used, in turn, to reimburse the resources to the TESOFE.

32. While the flow of funds is relatively simple, from the operational perspective there are multiple recipients of funds who will have to comply with the requirements established in the BANSEFI Guidelines to be eligible to receive the payments. Compliance will be verified regularly.

33. **Retroactive Financing.** The project permits retroactive financing of up to 20 percent of the loan amount (US\$20 million), related to eligible expenditures incurred on or after January 1, 2011.

34. **Financial Agent.** Besides its implementing role, BANSEFI will also act as a Financial Agent. BANSEFI has a department, the Sub-directorate of International Financing, which functions as a financial agent for several international agency-financed projects in Mexico. This department is segregated from all other operational units to avoid conflict of interest.

B. Results Monitoring and Evaluation

35. The responsibility for M&E will be with BANSEFI's implementing departments. A comprehensive M&E arrangement is already in place for the training and technical assistance and the outreach components, consisting of consultant and providers of non-consulting services presentations and reports, discussions by BANSEFI with entity managements, and group discussions with members of entities. Periodic financial and other performance indicators are also aggregated based on submissions of

⁷ See description of Component 1 in Annex 2 for cost-sharing arrangements

consultants and providers of non-consulting services to measure performance for the assisted entities as a group. There are also annual workshops with participating consultants and providers of non-consulting services discussing their approaches, results, success factors, constraints, and recommendations to improve the project approach to providing assistance to the sector. Further details can be found in Annex 3.

C. Sustainability

36. Appropriate mechanisms have been built into the project design to ensure that benefits emanating from the project interventions are sustained beyond the project period. Based on the project development indicators, sustainability is addressed for the two key results: (a) sector institutions; and (b) deepened outreach.

37. **Sector institutions sustainability.** The focus of the project is to further consolidate the Bank's support and strengthen the sector through training and technical assistance, including improved operations and management practices, governance, marketing strategies, and human resource capacity building and training and technical assistance for the auxiliary supervision committees providing oversight on behalf of CNBV.

38. **Deepened outreach sustainability.** The earlier project added over 600,000 members to the sector. To ensure that the outcome under this project is sustained, several aspects tested and validated under the earlier project have been included in the design, including financial education, the use of results-based payment approaches or adapting financial products to new potential clients.

V. KEY RISKS AND MITIGATION MEASURES

39. The main risks associated with the project relate to: (a) dissenting cooperative entities not participating in the project; (b) low new membership generation, including a decimated focus on the IP population; and (c) ambitious project targets not being fully achieved.

40. **Dissenting cooperatives not participating.** A large number of cooperatives, following assistance under the on-going projects, are ready for certification. However, they were waiting for a new and more pliant cooperative legislation to decide on certification. The LRASCAP Law maintains the December 31, 2012 deadline for certification. There is now nothing for these entities to gain by delaying.

41. Low membership generation with inadequate IP focus. With the new membership target of 825,000 in remote (and mostly) low-population rural marginal areas, there is a risk that clients may not be financially literate, or there may be attitude/perception issues (for example, in case of indigenous peoples), which could impede the achievement of this target. The earlier project has demonstrated that financial education and a special focus on indigenous peoples through a well-defined strategy could effectively mitigate this risk. A comprehensive financial education program (continuing from earlier project), a communication and dissemination module, and an improved social strategy to address indigenous peoples' issues to mainstream them into the formal rural financial sector have been prepared to mitigate this risk.

42. **Ambitious project targets not being achieved.** The project has ambitious outreach target, is national in coverage, and has some innovative access to financial services approaches (correspondent and

mobile phone banking) hitherto untried in Mexico by any institution in the rural financial sector. The earlier project added 500,000 new members in three years alone, the correspondent banking pilot has been in operation since October 2009 and evaluated for scale-up, and the pilot mobile phone service is planned for commissioning in 2012.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

43. The project is mainly Technical Assistance (TA) oriented, focused on improving sector institutional performance and increasing financial inclusion. It does not provide a line of credit to the entities for on-lending. A summary of the qualitative and quantitative assessment of the expected project impact is provided below and a more detailed analysis can be found in Annex 9.

Qualitative Assessment

44. **Client Level Benefits.** Member households will gain financial and economic benefits from participating in the formal rural financial system as a result of the project. Their use of formal financial products will substitute for the most part for more expensive alternative informal market mechanisms and transactions, such as deposits, loans, the use of remittances and access to government transfer payments.

45. **Financial Implications at Entity Level.** Performance of assisted entities is expected to improve after project intervention for certification and operational improvement. Financial assessments of entities show positive margins, which, with the increased deposits and lending activity, have further enhanced entity performance.

46. **Sector Level Outcomes.** One of the key benefits of the project will be increased access of financial services to, and depth of outreach of the rural financial sector institutions, particularly in rural marginal areas of Mexico and with a focus on mainstreaming women and indigenous peoples into the development process.

Quantitative Assessment

47. The quantitative assessment uses a least-return (or break-even) analysis approach for the main components to ascertain the minimum benefits that must be generated by the project components in order to justify the investment (at least 12 percent IRR), and the feasibility of obtaining these benefits. This has been done for three main project components, which together account for around 75 percent of total project cost, namely, technical assistance, deepening outreach through working with the entities, and deepening outreach through the correspondent banking approach.

48. **Consolidation and strengthening of sector institutions.** Training and technical assistance provided under this component will mainly result in a safe, stable, financially viable, and supervised sector with adequate client savings/deposit protection. This will attract new clients and additional deposits. The quantum of deposit generation required and the return from its investment has been used to justify the training and technical assistance investment.

49. **Broadening access to financial services and products – expanding membership in existing entities.** The average investment cost per new member (payment made to the consultant/service

providers) was MXP 1,285 in the second round.⁸ Under the new project, the average cost achieved under the second round will be used as a benchmark, with a view to further decrease it as a result of the bidding process with service providers. On average, a new member deposited an amount of MXP 3,942, equivalent to about three times the amount invested to enroll him as a member. Specific information on the actual use of these savings by new members is not available. However, general data on the categorization of credits granted by entities was used to determine the extent to which new member deposits have to be re-invested to recover the cost of new member creation.

50. Broadening access to financial services and products – agency banking in un-serviced or under-serviced municipalities. This sub-component seeks to broaden outreach of the sector (through BANSEFI) by adopting the less costly branchless banking approach in municipalities that are currently un-serviced by sector entities.⁹ The first stage of this program has been confined to the distribution of government social program transfer payments. At the client level, the key economic benefits consist of a reduction in the transaction costs relating to government transfer payments, as well as remittances and payments for utilities and other services. The saving in transaction cost has been used to justify this investment. Maintaining accounts as a result of the transfer programs will also help in building credit history, making it easier for clients to access loans.

B. Technical

51. This relates to the technology intervention which will drive several components of the project – correspondent banking, mobile phone banking, electronic payment services, etc. The core technology platform is already stable from the technical and operational perspective, and is also financially sustainable. The platform has already been tested for the pilot and found to be technically and operationally functional. Likewise, for the mobile phone initiative, to reduce the level of technical complexity, in the initial phase the effort will be limited to BANSEFI clients (all of BANSEFI client accounts are already a part of the platform base). This should not pose any serious issue since the modality is well-established, and there are already other private operators implementing this business model.

C. Financial Management

52. The Bank conducted a financial management (FM) assessment in accordance with OP/BP 10.02 and the FM Practice Manual¹⁰. The overall conclusion of the assessment is that the FM arrangements as set out for this project are adequate, and the project's risk is considered Moderate.

53. BANSEFI has a strong internal control system consisting of: (a) a suitable organizational structure, which includes a financial management department with considerable accumulated experience managing Bank's financed projects, and whose performance has been adequate; (b) a well integrated IT platform to perform all the budgeting, accounting and payments functions related to the project; and (c) an adequate segregation of functions between different departments with the key objective ensuring that the process of granting payments to the beneficiaries of the project are adequately cross-checked and validated to

⁸ While the total cost per member is expected to be US\$100, US\$40 would be for technical assistance (project funds), and US\$60 would be for strengthening the entity (government funds).

⁹ The cost per new client is expected to be US\$40. This includes technical assistance, infrastructure support, training and publicity cost. While this is lower than the US\$100 per new member generated in entities, it does not really offer the entire range of banking and financial products that entities do.

¹⁰ The FM Manual was issued by the FM Sector Board in March 1, 2010.

confirm to the program's operating rules. The FM action plan consists of preparing a specific FM chapter in the Project Operational Manual¹¹. Terms of Reference will require the auditors to review a sample of program's beneficiary files and the payments made to them, in order to assess compliance with the program's operational rules.

D. Procurement

54. BANSEFI has been the implementing agency for the two Bank-assisted projects spread over the past eight years. Reporting is of good quality, and the team is proactive in identifying problems and proposing solutions. Furthermore, the procurement team has sound knowledge of the Bank procurement policies and guidelines. To improve its functioning, there is a need to enhance communication/coordination between the technical implementation teams and the procurement team in order to achieve timely implementation of the Projects. Procurement-related risks are rated Moderate.

55. The workload of the BANSEFI procurement team has significantly increased. It is responsible for implementing Bank and Inter-American Development Bank-financed projects, and grants received from other sources. If not strengthened adequately, this could generate issues relating to BANSEFI capacity to provide timely and professional procurement services. To overcome these issues, the Bank has advised BANSEFI to develop a contingency plan for staffing requirement for the entire portfolio.

56. This Project will provide training and technical assistance to SCIs under several activities identified in the components 1, 2 and 3. This TA will be provided through a range of consultants firms or individuals. The procedures for contracting these providers are further explained in the Annex 2 of the PAD. Given the demand-driven nature of the SCIs activities and on the grounds of the experience of the two previous Bank Projects, this technical assistance, including for technology platform adoption, will be provided through a range of consultants firms or individuals certified by BANSEFI under the on-going Bank Project. It is expected that SCIs select individual and firms from this roster and in accordance with BANSEFI Guidelines and World Bank procurement procedures, as stated in the Loan Agreement and further explained in the Operational Manual, including the comparison of 3 CVs (for individual consultants) and Consultants Qualifications (for firms). Thereafter, SCIs will enter into an agreement with said individual consultant or consulting firm under (i) terms and conditions acceptable to the Bank (using the model contract set forth in the BANSEFI Guidelines); and (ii) comply with the provisions of the Bank's Anti-Corruption Guidelines and the Project's Operational Manual.

E. Social (including Safeguards)

57. Component 2 (Outreach) involves between 230-260 entities to expand services to 825,000 additional new members both in rural and peri-urban areas. Although the locations to be covered under the project cover marginal groups in larger population areas, the proportion of new membership from medium, high, and very high marginality areas will be about 70 percent to continue to ensure focus on the smaller habitation areas. Based on the success of the social strategy during the earlier phases, specific membership goals have been established: at least 10 percent of new membership should hail from indigenous population groups, and at least 30 percent should be women.

58. The project triggers OP 4.10, Indigenous Peoples safeguard policy. To this end, an improved social strategy has been designed building on the experience of the previous two phases of the outreach component, and taking into account the evaluation conducted during preparation, which provided lessons

¹¹ The Operational Manual was reviewed and deemed acceptable by the Bank before negotiations.

learned and recommendations. Four separate regional consultations were held during November-December 2010 with technical service providers, indigenous members, entity staff and managements, and indigenous leaders. A follow-up national workshop was held in February 2011 in Mexico City to discuss findings of the evaluation and regional recommendations. The participants, which included indigenous beneficiaries, local promoters, entity managements, nodal IP institution (Indigenous Development Commission (CDI)), and academics, consensually prepared an improved social strategy for the project. CDI has agreed to offer any assistance required by the service providers in preparation of indigenous peoples' plans.

59. **The Project Social Strategy.** Because the project operates under a demand-driven approach, a framework approach has been adopted. IP Plans will be prepared once the alliances to provide consultancy services are established between service providers and the entities. These plans will identify measures to address barriers to indigenous peoples' participation in rural financial services sector, and will establish specific goals to benefit indigenous population following a participatory approach.

60. To ensure that adequate capacity is in place for preparation and implementation of IP Plans, the Request for Proposal for the selection of service providers will require a demonstration of such capacity. The technical assistance for membership growth and entity strengthening under the outreach component will specifically incorporate the adoption of the social strategy to provide financial services to poor rural population with a focus on indigenous groups and women.

61. The M&E will incorporate tracking progress in achieving membership goals for women and indigenous population. The project team will continue collecting and analyzing information on entities (based on financial data provided by service providers) on a quarterly basis, which will also include periodic members' satisfaction surveys. Moreover, an independent firm, focused on quality control and corroboration of new membership creation, will verify the achievements comprising names, addresses, ethnicity and gender of the new membership since these are the foundation for the service provider payment. This assessment will be useful to validate achievement of social strategy goals. Annex 7 provides details relating to the project social strategy.

62. **Disclosure Aspects.** As indicated above, the approach to technical assistance under the project will be demand-driven. At this stage, therefore, neither the technical assistance providers nor the entities to be assisted by the project or their location are known. This is expected by the end of 2011, by which time the technical assistance assignments are expected to be awarded. The procurement process has already been initiated. The section on the IPPF¹², which is embedded in the Project Operational Manual, will be disclosed at the office of each project-assisted entity before the TA assignment commences, on the website of each technical assistance provider, and on the BANSEFI website. Premature disclosure could result in disseminating the IPPF dated July 22, 2011, in areas where the project may have no intervention at all, erroneously raising IP community hopes for participation in the project.

F. Environment (including Safeguards)

63. The project has a C categorization from the environment standpoint. It aims to strengthen the savings and credit sector institutions and generate additional membership, and does not finance any activities which will have any adverse impact on environment. As such, no mitigation plan is required.

¹² The IPPF was published on the Bank and BANSEFI's website on July 25, 2011

Annex 1: Results Framework and Monitoring
MEXICO: SAVINGS AND CREDIT SECTOR CONSOLIDATION AND FINANCIAL INCLUSION PROJECT

Project Development Objective (PDO):										
The objectives of the Project are to support the: (a) consolidation of the savings and credit institutions (SCIs); and (b) deepening of financial inclusion in Selected Areas and Selected Locations.										
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**			Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition, etc.)
				YR 1	YR 2	YR3				
Indicator One: Additional Entities certified by CNBV, the regulatory agency/resolved ¹³	<input type="checkbox"/>	Number of entities	99 Certified entities	50/0	90/5	120/15	Every Six months	Technical Service Provider/Entity CNBV	BANSEFI	
Indicator Two: New Entities with improved performance on financial and operational indicators.	<input type="checkbox"/>	Number of entities	293 entities (99 certified; 16 with CNBV; and 178 already assisted and improved	40	60	85	Every Six months	Technical Service Provider/ Entities	BANSEFI	Financial and operational indicators as per CNBV
Indicator Three: New clients mainstreamed into the formal financial sector and using financial services.	<input type="checkbox"/>	Number of clients	600,000 added to sector membership; sector membership base: 8 million	500,000	1,100,000	1,800,000	Every Six months	Technical Service Provider/Entities/ Verification Firm	BANSEFI	Attributes of a “member” defined separately
Indicator Four: Additional Entities offering an expanded range of financial services through L@Red de la Gente network.	<input type="checkbox"/>	Number of entities	275 entities already a part of the L@Red de la Gente network	30	50	70	Every Six months	Entities/Study	BANSEFI	The range of financial services being offered has been defined separately
Indicator Five: (a) New savings accounts established - Microfinance (b)New savings accounts to women - Microfinance	X	(a) Number of accounts (b) Percent accounts to women	NA for sector, but 600,000 new accounts were created under the earlier project, of which 50% were for	500,000, out of which 30% are of women	750,000, out of which 30% are of women	1,000,000, out of which 30% are of women	Every Six months	Technical Service Provider/Entities/ Verification Firm	BANSEFI	

¹³ “Resolved” means merged or liquidated

			women							
INTERMEDIATE RESULTS										
Intermediate Results (Component 1)										
<i>Intermediate Result Indicator One:</i> Entities receiving training and technical assistance for certification/resolution	<input type="checkbox"/>	Number of entities	Zero	150	240	255	Every Six months	Technical Service Provider/Entity/ CNBV	BANSEFI	
<i>Intermediate Result Indicator Two:</i> Training and Technical assistance provided to entities for operational improvement	<input type="checkbox"/>	Number of entities	Zero	50	100	130	Every Six months	Technical Service Provider/ Entities	BANSEFI	Financial and operational indicators have been defined separately
Intermediate Results (Component 2)										
<i>Intermediate Result Indicator One:</i> New clients added to the formal financial sector by technical service providers under PATMIR operation	<input type="checkbox"/>	Number of clients	0	150,000	400,000	825,000	Every Six months	Technical Service Provider/Entities/ Verification Firm	BANSEFI	Attributes of a “member” defined separately
<i>Intermediate Result Indicator Two:</i> DICONSA stores operating government payments transfer ¹⁴	<input type="checkbox"/>	Number of Stores	95 already operational in the pilot but outside of the project target	400	1,000	2,000	Every Six months	DICONSA	BANSEFI	Indicators to include other financial services after system stabilizes
<i>Intermediate Result Indicator Three:</i> PEMEX points operating government payments transfer	<input type="checkbox"/>	Number of PEMEX outlets	Zero	600	1,200	2,000	Every Six months	PEMEX	BANSEFI	Indicators to include other financial services after system stabilizes
<i>Intermediate Result Indicator One:</i> BANSEFI clients using mobile phone banking services	<input type="checkbox"/>	Number of clients	Zero	100,000	150,000	250,000	Every Six months	BANSEFI/ branches	BANSEFI	
Intermediate Results (Component 3)										
<i>Intermediate Result Indicator One:</i> Technology platform operating efficiently	<input type="checkbox"/>	% Use of memory/ % use of processor capacity	NA	70/80	70/80	70/80	Every Six months	Data Center Service Provider	BANSEFI	Other indicators such as batch processing time, response time, etc. measured

¹⁴ Other banking agents may be used to achieve these goals depending on the availability of mobile connectivity, on the willingness to participate in the project by the agents and the future presence of other financial services in the preselected communities.

										separately
<i>Intermediate Result Indicator Two: Core banking application package upgraded</i>	<input type="checkbox"/>	Number	Zero	1	1	1	Every Six months	BANSEFI/ Temenos	BANSEFI	
<i>Intermediate Result Indicator Three: Entities receiving technical support to use platform services</i>	<input type="checkbox"/>	Number of entities	Zero	10	20	25	Every Six months	BANSEFI/ Entities	BANSEFI	
Intermediate Results (Component 4) – None										

** The targets are cumulative for the project but exclude the baseline.

Annex 2: Detailed Project Description

1. The project will have four main components: (a) Consolidation and strengthening of sector institutions; (b) Broadening access to financial services and products; (c) Strengthening BANSEFI capacity; and (d) Project management. Its cost is estimated at US\$209.62 million (including US\$0.25 million as front-end fee), and will be implemented over a 3.5 year period, from December 7, 2011 through March 31, 2015. The loan will close on July 31, 2015. Bank share of the project cost will be about 48 percent.

Component 1: Consolidation and strengthening of sector institutions (Total financing: US\$25.75 million, IBRD financing: US\$16 million)

2. This Component consists of the:

1. Provision of:

(i) support to carry out assessments of selected SCE's financial and managerial conditions to determine, *inter alia*, whether: (i) an SCE qualifies for authorization by the CNBV to operate as a Certified SCE; (ii) an SCE requires technical assistance and training for its strengthening or restructuring in order to qualify for such authorization; or (iii) an SCE should be merged or liquidated; and

(ii) technical assistance and training to selected Certified SCEs and SCEs to support their overall institutional strengthening and/or services improvement.

2. Provision of goods, technical assistance and training to strengthen the Confederation, Federations, Self-regulatory Bodies, Auxiliary Supervision Committees and Deposit Protection Funds to, *inter alia*:

(i) allow Federations to effectively provide technical assistance and training to their member entities and supervise them;

(ii) allow the Confederation, Federations, Self-regulatory Bodies, Auxiliary Supervision Committees and Deposit Protection Funds to improve strategic planning, internal controls, governance aspects, supervision arrangements and procedures; and

(iii) allow Federations to provide legal advice, including on regulatory and tax-related matters, to their member entities, as needed.

3. Carrying out of sector-related studies and evaluation studies to establish a consolidated database on SCEs, including, *inter alia*, information related to SCEs' financial performance and status of compliance with legal requirements under the LACP and the LRASCAP.

4. Carrying out of dissemination activities related to certification and reporting requirements required under the LACP and the LRASCAP.

Sub-component 2.1: Training and Technical assistance to sector entities (US\$18.5 million).

3. LRASCAP requires that cooperative entities with assets of more than UDIs¹⁵ 2.5 million be certified by December 2012 to continue to remain in business. Of the 215 entities already diagnosed (see table 2), 178 are classified as B/B+¹⁶ entities requiring very limited assistance for certification. Thirty-seven C/D

¹⁵ UDI is Mexico's Unidad de inversion (MXV), a credit system based on a price-level-adjusting unit of account. As of October 28, 2011, UDIs 2.5 million corresponded to approximately US\$530,000.

¹⁶ This refers to the entity classification based on the consultant diagnostics which determines their readiness for certification. The classification process is complex, covers an array of factors across which the entity is graded, and

classified entities require assistance with merger/liquidation. Of the 338 registered cooperatives not yet assisted by the earlier projects, about 170 entities are above the certification threshold, and would require training and technical assistance either for certification or merger/liquidation. The remaining 168 smaller entities below the certification threshold offer an opportunity for assistance to improve management performance and function under strong second-tier structures such as federations. The regional supervision structure for the financial cooperatives recently put in place would require strengthening, given that federations under the Cooperative Law do not have the legal mandate for supervision, and federations under the LACP will see a realignment of the supervision committees network. Given the large number of small entities recently registered, international best practice suggests that these entities be affiliated to solid federations which can offer technical advice, back-office support, training, and other services to achieve scale economies (effectively serving as their “headquarters”) while the entity management focuses on the viability of their operations.

4. This component therefore focuses on the sector entities, and will depend on the classification of the entity, its registration status, and whether it above or below the threshold for certification as per law. A breakdown of the sector entities is provided below, along with the nature of assistance that will be offered under the project.

Table 2: Nature of Training and Technical Assistance for Different Segments of the Sector

Segments	Scope of Technical Assistance
Entities governed by LACP (Savings and Credit Law)	64 entities with MXP 17.4 billion in assets (18 percent of sector) and 2.3 million members (28 percent of sector)
Entities Authorized (with support from earlier Bank projects): 40 entities	All 46 entities to receive TA go beyond authorization, including market analysis, identification of new financial products to be developed, branch operation improvement, risk administration, strategic planning, addressing issues emerging from Supervision Committees, among others (30 expected to seek assistance; 20 targeted for further improvement support)
Entities under review by CNBV (with support from earlier Bank projects): 6 entities	
Entities in transition (already assisted under earlier Bank projects): 18 entities	All 18 entities are B/B+ entities, and will receive limited and focused TA to obtain certification, including semestral opinions by consultants (all 18 targeted for certification)
Entities governed by LRASCAP (Cooperative Law)	816 entities with MXP 78.0 billion in assets (82 percent of sector) and 5.8 million members (72 percent of sector)
Entities Authorized (with support from earlier Bank projects): 59 entities	All 69 entities to receive TA go beyond authorization, including market analysis, identification of new financial products to be developed, branch operation improvement, risk administration, strategic planning, addressing issues emerging from Supervision Committees, among others (50 expected to seek assistance; 30 targeted for further improvement support)
Entities under review by CNBV (with support from earlier Bank projects): 10 entities	
Entities in transition (already assisted under earlier Bank	160 entities are B/B+ entities, and will receive limited and focused TA to obtain certification (such as strengthening internal controls,

results in a numerical score. The classification structure is as follows: 80-100 points: B+; 60-80 points: B; 40-60 points: C; and <40 points: D. Entities already certified are classified as A.

projects): 197 entities	governance, planning, operational improvement), including semestral opinions by consultants relating to their classification and readiness for certification (all 160 expected to seek assistance; 107 targeted for certification); and Remaining 37 entities are C/D entities which would be eligible to receive TA for merger/liquidation only; no other support will be offered (all 37 expected to seek assistance; 15 targeted for resolution)
Entities registered under the Law (in addition to the above): 338 entities	Of these 338 entities, about 170 are above the asset threshold for certification. Forty entities have already sought TA for diagnostics, and only should these be classified as B/B+ entities would they be eligible for TA for certification; C/D classified entities will be eligible for TA for merger/liquidation only (30 targeted for certification); and Of the remaining 168 entities below the asset threshold for certification, only limited and theme-focused TA for operational and managerial improvement will be offered (50 expected to seek assistance; 35 targeted for improvement)
Entities without registration: 211 entities (estimation)	No TA will be provided
TOTAL	880 entities with MXP 95.4 billion in assets and 8.1 million members

5. Going by the law, the certification deadline is December 31, 2012, and therefore the authorization-related TA will end by December 2012¹⁷. However, the TA related to merger, liquidation, and sector strengthening post-certification will continue up to March 31, 2015.

6. The TA for about 295 financial entities, including those already certified financial entities, those under CNBV review, and those in transition, will be provided through a range of technical assistance providers (consultancy firms or individuals) certified by BANSEFI under the on-going project. Given the demand-driven nature of this operation and on the grounds of the experience of the previous projects, the best and available way to carry out this component will require that the financial entities have the flexibility to choose the technical assistance provider (consultant), and enter into a contract following World Bank procurement and Anti-Corruption guidelines. The financial entities will pay their 20 percent contribution towards the consultancy fee. BANSEFI will release its 80 percent share after confirmation of deliverables. This approach was successfully piloted under the additional finance of the previous project. BANSEFI has developed and been implementing under this previous Project an efficient and transparent procedure for providing support to these entities that require small (up to USD18,000), specific and short-term (up to two months) assistance on specialized areas or themes. The project will continue to finance this training and technical assistance. Features of these procedures, which are clearly documented, made public and have been reviewed by the Bank, include:

¹⁷ Under this component, BANSEFI only provides support to entities interested and/or required to obtain certification from CNBV but it does not provide the certification itself.

- Participating entities will need to meet a number of eligibility criteria, including having been operational for a number of years and belonging to a Federation;
- Interested entities must have gone through an outside diagnostic and developed an “improvement plan” which clearly identifies the areas which the institutions need to strengthen;
- These improvement plans will then need to be endorsed by the Federation which they belong to;
- Once this endorsement has been provided, the entities may seek support from BANSEFI;
- BANSEFI has certified potential consultants, both individuals and firms with the expertise to provide these services to the entities. Under the BANSEFI Guidelines, agreed with the Bank, any company and individual that meet sound criteria could be certified by BANSEFI to provide this technical assistance;
- BANSEFI has developed standard terms of reference, standard contracts to be used, and determined a maximum amount it will contribute towards the consultant’s invoice, for each area/theme and for different sizes of entities;
- BANSEFI will then enter into an agreement with the entities under terms and conditions acceptable to the Bank, including, inter alia, the obligation of these entities to comply with the provisions of the Anti-Corruption Guidelines and the provisions of the Bank’s Procurement Guidelines to select and contract the eligible consultants for these services, using the standard contract and terms of reference;
- Upon confirmation of completion of the assignment, either the entities pay their consultant and obtain reimbursement for 80% of the invoice (up to a pre-determined amount, as indicate above) or the entities pay their 20% share and instruct BANSEFI to pay the balance directly to the consultant;
- BANSEFI then will use a feedback mechanism to regularly update the list of eligible consultants.

7. While other procurement methods were considered during preparation, including a global contract directly by BANSEFI for all entities, these methods were eventually discarded as only the BANSEFI procedure allowed for a demand-driven approach, whereby each entity would be able to select the most appropriate consultant for this targeted assistance based on a number of factors, including proximity, experience with the specific theme and type of entities.

8. Of the 338 entities registered under the LRASCAP, a number will require a broader range of support and in order to obtain economies of scale, this TA could be provided on a global basis. About 40 entities are expected to seek support for certification, and 50 for improvement. In case of a global basis TA, following an expression of interest to seek certification, BANSEFI would aggregate the demand and solicit request for proposals from consultancy firms, and contract with them, to provide this support.

9. Additionally, given the large number of entities in this group, a further consolidation may take place with cooperatives getting merged. Given the uncertainty about the number of possible mergers and the timing, a global TA approach could end up delaying the process for desiring entities. Therefore, this support could be provided on a case-by-case basis, under individual contracts. Likewise, for entities seeking improvement support, this would be provided through a range of consultancy firms and individuals certified by BANSEFI. The recipients will have the flexibility to choose the consultant, enter into a contract, and pay their 20 percent contribution towards the consultancy fee. BANSEFI will release its 80 percent share after confirmation of deliverables.

10. Finally, it is foreseen that under exceptional circumstance BANSEFI could directly contract the technical assistance providers observing procurement procedures established in the loan agreement and further spelled in the Operational Manual.

11. Also included in this sub-component is training for entity staff in areas such as accounting, prevention of money laundering, risk management, internal controls and governance, strategic planning, compliance with the requirements of secondary regulation, treasury management, senior management training, among others. In most cases (for example, sector-wide training, or training for entities classified as “basic level” below threshold entities), BANSEFI would take the initiative to put together training courses in areas of common interest to achieve economies of scale. Entity managements seeking specific training assistance would have to contribute their 20 percent share of the training cost.

Sub-component 1.2: Training and Technical assistance and support to federations, supervision committees, and deposit protection funds (US\$5.0 million).

12. The sector is expected to have three federations under the LACP and 18 under the LRASCAP. These federations will need to be strengthened not only for effective supervision but also to evolve as training and technical assistance providers to their member entities (acting in case of smaller entities, as their headquarters), and function as their representatives. Some cooperative federations have been recently established. The federations under the LACP will have their own Auxiliary Supervision Committees. The cooperative federations cannot supervise; this is the responsibility of the national level Auxiliary Supervision Committee with six regional offices. The supervision arrangements will need to be strengthened to ensure that the regulatory requirements are being complied with. Additionally, there are two deposit protection funds under the two parallel laws which will need guidance and expert advice for their operation. There are other institutions (Confederation and integration organizations) which could also be supported under this sub-component.

13. The TA to these sector institutions (about 20) will consist of support in the areas of: (a) strategic planning, internal controls, governance aspects, improved supervision arrangements and procedures; specifically strengthening federations to become solid institutions supporting smaller member entities, among others; and (b) providing legal and tax-related advice to the member entities, as and when required.

14. Additionally, one-time support would be provided to the institutions in the form of office equipment and computers to ensure their effective operation. This portion of equipment support is expected to cost about US\$500,000 in aggregate.

Sub-component 1.3: Studies and database creation (US\$2.0 million).

15. Apart from TA, sector-related and evaluation studies are crucial to inform strategy. BANSEFI will establish a consolidated database on entities which are being supported under the project or working with BANSEFI through its different departments. Such database (pieces of information may already exist in different departments) should consist of the entity financial performance, their compliance with legal requirements, supervision issues, their capacity to become regulated (in the case of the entities in transition), their credit-worthiness (whenever an assessment is being undertaken by the credit promotion and the credit analysis departments), their participation within the outreach program (total and new

additional membership created), the nature of training and technical assistance received from BANSEFI over the years, support from any other agency, and outcome of any external assessment. This will be a rich information database on the sector.

Sub-component 1.4: Communication and dissemination (US\$250,000).

16. There have been many changes to the law, including the introduction of the new law for financial cooperatives. There is a need to disseminate the certification and reporting requirements under the new law for different operating levels of institutions, the deadline for certification and the consequences for non-certification for entities above the certification asset threshold, the structuring of the project TA to support the sector entities, and the benefits from certification (some case studies) are some of the aspects that could be disseminated. The media used would predominantly be print.

Component 2: Broadening access to financial services and products (Total financing: US\$140.05 million, IBRD financing: US\$56.75 million)

17. This component expands access to financial services and products through four main lines of action:

1. (i) provision of technical assistance and training to selected Certified SCEs and selected SCEs in Transition to increase their membership base in Selected Areas and to support the design and implementation of an improvement program to allow them to increase their membership base in said areas;
(ii) provision of technical assistance and training to BANSEFI to support the qualitative control, and the verification of the increase of the membership base of selected SCEs;
(iii) carrying out of studies and assessments to, *inter alia*, evaluate the nature, perception and participation of the new membership in Selected Areas; and
(iv) carrying out of dissemination activities under sub-component 2.1.
2. (i) expansion of BANSEFI's clients base in Selected Locations through the provision of support from Banking Agents and processing of financial transactions through the Selected Banking Agents in said Selected Locations;
(ii) carrying out of a study on the implementation of sub-component 2.2.1 of the Project and development of a strategy for scaling-up the activities under sub-component 2.2.1 of the Project based on said study; and
(iii) provision of support for the dissemination to clients of new financial services to be provided by Selected Banking Agents.
3. Expansion of the range of financial services to be provided to SCEs and individual clients through:
 - (i) the provision of technical assistance and training to BANSEFI to improve the operation of its lines of credit to SCEs, including, *inter alia*, the carrying out of a study related to financial sector needs and BANSEFI's strategic focus;
 - (ii) the strengthening of the *L@ Red de la Gente* Network to offer an expanded range of financial services to the members of BANSEFI and/or SCEs (including, *inter alia*, the carrying out of studies related to governance and customer relationship management), the provision of technical assistance and training to SCEs to allow them to join the

L@Red de la Gente Network, and the carrying out of a market study to analyze the Borrower's financial sector need for innovative financial products;

(iii) the carrying out of a pilot program for mobile phone banking operation targeted to BANSEFI clients, and the development of a strategy to potentially scale-up said pilot to non-BANSEFI members; and

(iv) the provision of support for the dissemination of the expanded range of services to be provided by the *L@ Red de la Gente Network* and the mobile phone banking pilot referred to in sub-components 2.3(ii) and (iii) of the Project.

4. Provision of financial education through:

(i) technical assistance and training, including workshops and seminars, directed to build capacity on dissemination of financial information in civil society and sector organizations;

(ii) (a) educating the general public on financial services, including the dissemination of information on financial services provided by BANSEFI, the Selected Banking Agents, and by other sector organizations; and (b) the maintenance of BANSEFI's website (www.finanzasparatodos.org.mx) to provide guidance on financial topics;

(iii) the development of materials focused on financial education to be distributed at training events, workshops and seminars, including, *inter alia*, materials targeting children, women and indigenous peoples; and

(iv) the carrying out of studies to evaluate the impact of the financial education activities referred to in this sub-component 2.4 of the Project.

18. This component will therefore expand access to financial services and products through four main lines of action: (a) expanding membership base in existing entities (825,000 new members); (b) mainstreaming new clients in municipalities where there are no others points of access to financial services through agency banking (5,000 access points covering about one million new clients); (c) expanding the range of financial products offered to members by entities (an additional 70 entities), and to entities by BANSEFI (about 20 entities); and (d) creating a demand for financial services through a financial education initiative.

Sub-component 2.1: Expanding membership base in existing entities (US\$87.8 million).

19. This component builds on the outreach approach that was successfully implemented under the recently completed project (P070108) which added over 600,000 new members over a seven year period. This initiative plans to mainstream an additional 825,000 new members to the membership base of already operating entities.

20. The effort will be led by consultants or service providers who would be required to form an alliance with the entities (between 230-260 entities), having a mix of entities that had participated in the earlier project (about 130 entities), and the first time participants in their alliance (about 130 entities).

21. Even though the earlier project was implemented in entities in locations less than 15,000 population, there is still a large unattended market of rural clients in these locations. Additionally, these are under-serviced and un-serviced populations in habitations with between 15,000-100,000 population concentration. Therefore, while the threshold of the locations to be covered under the new project has been increased to 100,000 population to be able to cater to marginal groups in larger population areas,

the strategy for new membership generation (shown in matrix below) has been formulated to ensure that about 70 percent of the new membership comes from <15,000 population localities, with a focus on very high, high, and medium marginality.

Table 3: Marginality Range¹⁸

Localities (population)	Range of Marginality				
	Very High	High	Medium	Low	Very Low
< 2,500	60%				
2,500 to <15,000					
15,000 to <50,000	20%			20%	
50,001 to 100,000	Very few exist		Focus only on South/South-eastern States with limited presence of formal financial service providers		Excluded Strategically

22. Thus, the new membership target under the component will be as follows:

- (a) At least 60 percent from all locations with less than 2,500 inhabitants, or from locations between 2,500 and 15,000 inhabitants classified with very high, high and medium marginality;
- (b) Maximum of 20 percent from locations between 15,000 and 50,000 inhabitants classified with high, medium and low marginality, or from locations between 2,500 and 15,000 inhabitants with low and very low marginality; and
- (c) Maximum of 20 percent from locations between 50,000 and 100,000 with medium or low marginality level in states with low presence of financial services (focused on south or southeast states), or from locations between 15,000 and 50,000 in very low marginality areas. This percentage can be smaller if the previous two blocks are larger than 80 percent together.

23. In the implementation of this sub-component, the following guiding principles would be followed:

- (a) the agency banking initiative will be introduced predominantly in those municipalities that have no entity presence. This will avoid potential conflict between entities strengthened under this sub-component and the DICONSA store and PEMEX outlets, functioning as BANSEFI agents to deepen outreach in hitherto un-serviced areas.
- (b) only those entities that are authorized or in transition for certification (B/B+) would be eligible for this support. The certification TA would be available in a very focused and limited manner under the TA window, and not be a part of this new membership generation effort.
- (c) since membership expansion in transition entities is included, these entities should provide a clear expression of their desire to get certified through a General Assembly decision, which should be a key selection criteria for the entity participation. A second requirement would be an endorsement of such decision by the federation to which the entity is affiliated.
- (d) the small “basic level” below threshold entities and “newly registered” cooperative entities would be excluded from this sub-component since these have not been diagnosed for their status and

¹⁸ Source: CONAPO/BANSEFI

performance. Should these entities want this assistance, they would first have to get themselves assessed through the TA window, and only should the assessment classify them as B/B+ entities, will they enter the pool for participation in this sub-component.

(e) The project will adopt an "alliance-based" approach where the service providers and entities agree mutually to participate and work towards a common objective. This will allow cross-learning between medium and large entities, remote and larger locations, old and new entities, etc. and make the outcomes rich and rewarding. This will also yield economies of scale which will allow a larger number of service providers to participate, and reduce the burden of individual provider monitoring by BANSEFI. Prior experience has demonstrated that smaller consultancy teams have difficulty in achieving large targets, and therefore there may be a need for larger and solid service providers to participate over a long (3.5 year) duration to achieve significant results. The selection will be done through an International Bidding process for the Acquisition of Non Consultancy Services.

(f) The sub-component will incorporate a social strategy specifically targeting indigenous population and women. The application of this social strategy would be incorporated into consultant's Terms of Reference and contract to promote participation of these target groups such that specific membership goals are established: new membership to have at least 10 percent from indigenous population groups, and 30 percent of the new membership should be women.

To prepare a social strategy relevant to the area of assignment coverage (including IP and women focus), *Comisión de Desarrollo Indígena* (CDI) has agreed to offer any assistance and support required by the consultants by: (a) providing information about ethnic groups' potential to participate in this sub-component; (b) facilitating access to CDI's community radio network to support outreach strategy; and (c) coordinating with Fondos Regionales, that have the resources but not the instruments to offer financial services to indigenous population.

24. Payment for results approach. The technical assistance is expected to cost (and be paid) at about US\$100 per new member, and consist of the following two areas of support:

(a) Payment to the service provider for its services for membership generation (expected at about 40 percent of the contract value). This includes preparing a strategy with the entity for this initiative, the actual time and effort devoted by the service provider to membership generation, and the preparation of an Entity Strengthening Action Plan.

(b) Resources for entity strengthening (about 60 percent of the contract value) based on the Entity Expansion and Strengthening Action Plan prepared by the service provider, which will include investment and support required by the entity over the contract duration to expand the membership, investment required to strengthen the entity operation with higher membership level, payment related to promoters' operation, use of media, branch improvement, purchase of office equipment, enhancing mobility, among others. These resources, which are provided through government budgetary allocation, will be channeled under the project to become an integral contributor to the financial inclusion effort by assisted entities in a systematic manner for membership expansion.

25. The contracts will be global in nature, between BANSEFI and the service providers, amounting to about US\$86 million, and include both areas of support. The Bank reimbursement will be based on the

share of the payment to the service provider under (a) above, expected at about US\$35 million (40 percent of total expected contract value). The remaining US\$51 million will be made available through local/counterpart contribution from budgetary allocation.

26. Every invoice by the service providers based on new membership created, after due verification, will be paid out by BANSEFI as follows: (a) 40 percent of the invoice, to become the basis for Bank reimbursement at applicable disbursement percentage; and (b) 60 percent of the invoice, to become the basis for counterpart contribution to the financing of the Action Plan. The total invoiced amount received by the service provider will be deposited in a bank account separately created for the assignment. The service provider would retain the amount relating to (a) above, and transfer the amount relating to (b) to an account maintained separately by the assisted entity in its books of accounts. This transferred fund would then be used by the entity for the investment approved under the Action Plan. Twenty percent contribution from the entity would be required as a demonstration of its commitment. Funds not used at the end of the contract would be returned to the government. There are a range of internal controls and monitoring and reporting mechanisms in place to ensure that the funds would be appropriately used by the entity.

27. **Verification of incremental membership for payment to service providers.** Given the results-based payment approach, it is critical to verify the creation of incremental membership at the entity level by the service provider. Criteria such as new member contribution, consistent savings account operation for a defined number of months, average saving, among others, need to be monitored, as do the names, addresses, ethnicity, and gender of the new membership since these would constitute the basis for the service provider payment. This assignment, focused on qualitative control and verification of achievements, will be done by an independent firm.

28. **Learning and knowledge management.** This initiative will be focused exclusively on the new membership creation, and will finance evaluation studies, focus group discussions, and thematic assessments, among others. Such studies will review the participation of the new membership in the formal financial sector, membership perception of entity managements, nature and use of financial services offered, disaggregation of new membership by gender and IP and an assessment of project impact on these groups, among other aspects, and provide lessons for program improvement and contribute to the knowledge base about the sector entities assisted under the component.

29. **Communication and Dissemination.** The service providers or consultants with the assignments for generating additional membership would be doing the dissemination for this sub-component. Since the service providers will be forming an alliance with the entities that they will be working with, and since their payment depends on creating and sustaining new members, they will be developing an appropriate communication strategy to meet their targets. Additionally, to support this sub-component, there will be a host of complementary communication initiatives such as radio, caravans, printed materials, and local newspapers, through the Communication and Dissemination Department for which US\$1.2 million has been allocated. The earlier project was preparing a bulletin, which will continue. Periodic experience sharing workshops will also be encouraged both at the consultants and the entity levels.

Sub-component 2.2: Expanding membership base through agency banking in unserved or underserved municipalities (US\$39.3 million).

30. Given that almost half of the 2,456 Mexican municipalities do not have any point of access to financial services, BANSEFI plans to expand the sector client membership through agency banking arrangement in these municipalities through DICONSA stores, PEMEX gas outlets and potentially other Selected Banking Agencies.

31. Agency banking through DICONSA stores. BANSEFI initiated a DICONSA pilot in 2009 to distribute funds under *Oportunidades* (a government cash transfer program), and is now working through 95 of these stores which are functioning as its banking agents under a BANSEFI-DICONSA agreement. An evaluation of the implementation of the model after several months of operation identified measures to further strengthen the already well-defined operational modality, and also actions that would be required to make the model financially more attractive. It plans to scale up to about 3,000 DICONSA stores in the next 3.5 years to reach out to about 600,000 new clients. Additionally, the government has assigned *Setenta y Mas*, a cash transfer program, to BANSEFI for distribution through this modality. This program covers 2 million recipients for whom special cards will be required (as in the case of the *Oportunidades* program).

32. Based on the implementation experience and the recommendations of the evaluation, the following five actions emerged as the main pillars of success for the DICONSA model:

- (a) the client base should be expanded beyond *Oportunidades* recipients. This would, as a first step, include extending this service to existing BANSEFI clients. Additionally, the caravans could be used to promote opening of new accounts, and offering the option of opening bank accounts using debit cards distributed through government programs in a simple manner at the DICONSA store itself;
- (b) the range of products offered to the users through this route has to be expanded to bring value-addition to the clients, and could include remittances, addition of air-time for mobile phones, payment of electricity bills, among others;
- (c) an option to retain the government program transferred amount in the account should be offered, rather than requiring a necessary withdrawal and a re-deposit as this increases the frequency of transactions by the client (and the fees to be paid);
- (d) a solid image of the DICONSA and BANSEFI partnership should be created through adequate publicity; and
- (e) operational aspects relating to alignment of the technology platform, management of funds, information flow, and security issues would need to be addressed adequately at the three levels: DICONSA warehouses, en-route, and stores.

33. DICONSA participation is expected to increase once the incremental revenue generation capacity for DICONSA products through this agency banking model becomes clearer during implementation.

34. With a target of close to 3,000 DICONSA stores by the end of the project (March 31, 2015), the cost of this component would be about US\$30.6 million, consisting of the following:

- (a) cost of client and store operator cards: At about US\$5 per biometric card, and assuming an average population coverage of 800 per store, about 200 cards per store would be required. Operator

cards could cost about US\$10,000. The cost of new client cards with fingerprinting storage facility would be about US\$5.0 million. Additionally, the two million Setenta y Más recipient cards (and possibly PROCAMPO replacement cards) would cost about US\$10 million;

(b) lease cost of the POS equipment. At about US\$70 per unit per year, the cost of the equipment would be about US\$500,000 given the phasing in of the addition of the DICONSA stores over a three year period;

(c) connectivity: This consists of two parts. First, given the remote locations of the stores, there is a need to test the availability of connectivity in the pool of stores identified for the program. This will also require identifying the best solutions possible to operate the POS equipment (antennas, dial-up, satellite connection, etc.). This assessment will be carried out by an external technical firm and is estimated to cost about US\$500,000. The second aspect covers costs related to obtaining the connectivity which would be about US\$1 million for the project period;

(d) training: This sub-component will cover training both the DICONSA staff and the community to the use of the agency banking approach and the associated technology. Assuming two DICONSA staff to be trained for every store, and one community associated with each store, the training cost could be about US\$2 million.

(e) An independent firm, external to BANSEFI, will be engaged to certify that the store and the community are technically ready for the introduction of the agency banking initiative, including an endorsement by the DICONSA store manager and the community council. This could cost about US\$3 million;

(f) platform readiness for CB component: This is based on the number of transactions that the platform will have to support, which will require an operational expense (for example, connectivity, datacenter) based on the level of transactions. Assuming a growth to 24 transactions per card annually, and the phased addition of stores, an operating expense of about US\$6.0 million is expected; and

(g) help desk: This is required to provide ready assistance and support to the users of the agency banking service (one million clients in about 5,000 DICONSA and PEMEX stores/outlets). This is expected to cost about US\$2.6 million over the project period.

35. Agency banking through PEMEX gas station outlets. BANSEFI proposes to add 2,000 *PEMEX* outlets as its agents over the project period, again in locations which are underserved or unserved. This will add about 400,000 new clients. A key consideration would be the appointment of an experienced contract administrator, either as BANSEFI staff or as a consultant, since BANSEFI will have to enter into a separate contract with each franchised PEMEX outlet (unlike DICONSA, where it would have a single global contract).

36. The main areas of expenditure would be: (a) cards cost (about 200 users per PEMEX outlet): US\$2.0 million; (b) POS equipment: US\$400,000; (c) publicity and community education and training: US\$1.6 million; and (d) platform readiness (assuming an average of 12 transactions per year, for example, for connectivity, data center): US\$3.3 million. The total cost for the PEMEX outlets sub-component is expected to be about US\$7.3 million.

37. Strategy study for future scaling-up. For both initiatives, an evaluation would be financed under the project to distill lessons learned, and develop a strategy for the post-project expansion phase.

38. Agency Banking Marketing - Communication and Dissemination. The first stage of the program would be confined to a distribution of government transfer program payments, including

Oportunidades and *Setenta y Más*. After stabilization, the range of financial services offered would be expanded. Thus, the program will initially have a focused implementation plan with select stores/outlets, select clients, and limited financial products offering.

39. As such, a wide-ranging publicity/communication could create unreasonable expectations among the clients. The government plans to distribute all transfer payments electronically by end-2012. Thus, once the stores/outlets are selected which serve defined communities, there will be a need to: (a) inform those communities about the new electronic transfer payment alternative that is being put in place; (b) ensure that the DICONSA/PEMEX outlet prominently displays the BANSEFI-DICONSA/PEMEX alliance information; (c) prepare fliers/brochures which indicate the process of disbursement; (d) utilize this alternative to bank the recipients; and (e) market the expanded range of financial services. Since the initiative will also extend to new clients other than *Oportunidades* beneficiaries, and will also offer other financial services such as remittances, electronic payments, there will be a need for information dissemination in this regard too.

Sub-component 2.3: Expanding the range of financial services to entities and clients (US\$8.35 million).

40. This sub-component has four main sub-components: (a) providing TA to recipient entities to improve BANSEFI's operation of its second-tier lines of credit program; (b) strengthening *L@red de la Gente* network to offer an expanded range of financial services to BANSEFI/entities; (c) piloting a mobile phone banking operation with BANSEFI clients; and (d) communication and dissemination.

41. **Improved operation of BANSEFI's Lines of Credit – Second Tier Program.** The Bank will not be financing any line of credit. It will support developing a strategy relating to the BANSEFI's already existing lines of credit to sector entities, best practices that could be adopted by BANSEFI or entities, and TA to participating entities to improve their lending operational systems to be able to access these lines of credit. The project will provide financing for the following initiatives:

(a) a study which is strategic in nature relating to the BANSEFI lines of credit covering topics such as the sector needs, alternative sources of lines of credit, their focus and limitations, BANSEFI's strategic focus, eligibility of the borrowers, end use of the lines including the eventual loan size, harmonization across other development banks such as FIRA and FR, best practice recommendations for this activity, and such other topics. This study could cost about US\$200,000, including a dissemination workshop where the findings are discussed with other lending agencies to possibly start a dialogue for harmonizing practices relating to lending to entities; and

(b) TA to entities that seek this assistance to incorporate best practice aspects into their credit operation, both towards the lender (BANSEFI), and towards the borrower (eventual clients). This need was identified by BANSEFI during its supervision process of the actual recipients which indicates areas of improvement that are necessary to mitigate BANSEFI's vulnerability to entity deficiencies. Once the entity's participation in the lines of credit is approved by BANSEFI, the TA would finance an external firm to review the entity's credit processes - diagnostics, identification of deficiencies, improvements required - and introduce these upgrades in the entities' operating procedures. Procurement of technical assistance for specific entities may follow the same procedure as under the first component.

It is expected that over the next 3.5 years, BANSEFI could end up with about 20 additional entities receiving this support. Much will depend on the resources available with BANSEFI since these lines of credit are financed from BANSEFI's deposits rather than through budgetary resources. Over the last 15 months since the introduction of this support, five entities have signed a contract for this support, and more are being evaluated for consideration by BANSEFI's Credit Committee. Funding for the TA, totaling to about US\$400,000 has been provided under the project.

42. **Strengthening L@red de la Gente network.** *L@red* is a network of entities that has evolved over the last 8-9 years, and is supporting the sector by offering a range of financial services that otherwise would not have been possible, such as international and national remittances, third-party payments, micro-insurance, among others. It has a membership of about 285 entities with about 2,300 branches serving about 9 million clients. There is a need to take this network to the next stage of growth, and extend the range of services already offered to a larger user base. This will be supported through:

(a) a market study relating to the needs of the sector for newer and innovative financial products, opportunities that *L@red* could exploit given its comparative advantage, specific products that could be developed and offered, dissemination material about *L@red* to incorporate additional membership into the network, among other aspects (US\$150,000);

(b) Hiring a consultant services firm to develop an information and administration system to assist *L@Red* community as a tool which will facilitate customer relationship management (CRM). Most of the information should be available given that *L@red* has been operating for several years now. This will therefore be a one-time exercise which would feed into the strategy for *L@red* as it moves into the future along with the market study (US\$100,000); and

(c) a study focused on developing a revised governance framework for the network, including brand management aspects. This study would cover identifying best practices being adopted by members, lessons learned, replication across membership, participatory planning for the network's future operation, among other things (US\$100,000).

43. Additionally, the on-going capacity building program oriented to those entities agreeing to participate in *L@red* will continue to be funded by the project. This covers assistance relating to the following two core areas: (a) ensuring that the requirements for *L@red* participation are in place at the entity level (legal, financial, operational, infrastructure, and human resources). The consultancy is expected to cost about US\$2,500 per entity; and (b) ensuring that appropriate software is installed, adequate capacity is in place to be able to operate the services offered through *L@red* network, and the administrative processes are in operation to support this service. As in previous components, it is expected that SCIs select individual and firms from this roster and in accordance with World Bank procurement procedures and BANSEFI guidelines, as stated in the Loan Agreement and further explained in the Operational Manual. Thereafter, SCIs will enter into an agreement with said individual consultant or consulting firm under (i) terms and conditions acceptable to the Bank (using the model contract set forth in the BANSEFI Guidelines); and (ii) comply with the provisions of the Anti-Corruption Guidelines and the Operational Manual. This consultancy is expected to cost about US\$3,500 per entity. About 70 additional entities are expected to join the network. The consultancy is expected to cost US\$400,000, and would be managed by the Strategy and Planning Department.

44. **Mobile Phone Banking.** A small pilot is planned during the initial year of the project to finalize the operating modalities of a mobile phone banking initiative. The pilot will focus on introducing the service to the existing BANSEFI clients through an SMS messaging approach to initiate simple banking transactions. An evaluation of this pilot will be carried out to further refine the operational aspects of the pilot. A strategy to scale up the pilot to customers outside of the BANSEFI clients will also be funded by the project. Such a strategic study would cover, inter alia, aspects such as the system and operational changes necessary to be able to scale up the service to non-BANSEFI clients effectively, communication aspects to be considered to get the entities to participate in this initiative, the extent to which the entities will have to embrace the overall technology platform to offer this facility to their clients, issues to be considered to support the processing of additional mobile phone initiated banking services and other types of financial transactions, the role that a Mobile Network Operator will play in this scenario, among others. The implementation and operation of the pilot would require about US\$350,000 to enable the technology platform to support this service through incremental operating costs (to be financed entirely through counterpart funding), and the two studies are expected to cost another US\$350,000.

45. **Communication and Dissemination.** The governance structure for the L@red network arrangement is going to be revised. The studies proposed to review the market for L@red and to develop a strategy, identification of service user profile for better targeting, new products development, and evolving a new improved governance structure. These will require some dissemination and should be attempted in the annual national L@red gathering. Additionally, given the range of services offered by L@red, the widely dispersed user base, the coverage required in USA to better inform the immigrant population in USA to channel their remittances through L@red, etc., the mix of media proposed appears to be reasonable. Use of TV, radio, and printed material in USA seem to be a good mix. In Mexico, the focus should be less on TV, while keeping the emphasis on the caravan method, which in the last couple of years, has been used extensively in areas which are serviced by entities which are members of L@red network. A provision of US\$6.2 million has been made for this component.

46. The mobile phone banking component will start off as a small pilot and will be restricted to BANSEFI branches and clients. The reason is that the initiative will not be using a Mobile Network Operator as the institution holding the client bank accounts. Since BANSEFI client accounts are already in the platform data center, it will be easy to initially introduce this measure to BANSEFI clients only with limited incremental cost. Additionally, the package will be offering simple SMS-messaging based banking solution and a limited range of functionalities.

47. Given the limited implementation scope, the focus would be to communicate with BANSEFI clients only. This could be done by placing printed material at the branches, or even attaching a brochure highlighting the facility offered along with periodic bank statements that may be sent to the clients. There could be a link provided to the BANSEFI web which could have a video clip indicating the process and the modalities. Should there be a desire to expand the user base by attracting new clients to BANSEFI, this can be then be attempted through the BANSEFI corporate communication for image building. An amount of US\$100,000 has been provided for this component.

Sub-component 2.4: Financial Education Initiative (US\$4.6 million).

48. Financial education (FE) has been found to be very useful in enabling existing and potential users of financial services to take informed decisions and is one of the priorities of the government of Mexico.

Recipients of financial education initiatives under the on-going project through caravans provided encouraging feedback on the richness and the usefulness of the information, particularly relating to savings, credit, remittances, and micro-insurance. These initiatives are now proposed for scaling up.

49. BANSEFI strategy for FE has two broad lines of action: (a) build capacity in trainers who could then disseminate the agenda relating to financial services further: and (b) disseminate directly to existing users and potential users of financial services. Additionally funds have been provided for content development, and workshops and studies for evaluation of this sub-component. A collaborative study (with CONDUSEF and CNBV as Mexico counterparts) on Measuring Financial Capabilities in Mexico is underway and recommendations on FE are expected in April 2012. These would be considered to shape the project FE strategy for the remaining project period.

50. **Build Capacity in trainers.** BANSEFI will carry out workshops to build capacity in civil society organizations as it has in the past two years to further disseminate financial services information in their area of operation to have a multiplier effect. There are also a range of institutions which function as providers of specialized services who require assistance in these aspects. An amount of US\$500,000 is provided for this initiative.

51. BANSEFI has been working with a number of *entities* which has demonstrated an interest in financial education to help them prepare a strategy for FE to be implemented on their own. The materials already developed, including a DVD, provide guidance on the process of FE strategy preparation to the entities. To be able to achieve FE for the largest possible numbers, this initiative has to be decentralized and carried out at the entity level. Following the preparation of the strategy at the entity level, implementation would be done by the FE consultancy experts, and individual experts who would be certified by BANSEFI based on the materials approved by the Ministry of Education. In case of PATMIR entities, the FE strategy would be developed jointly by the FE consultants and the member-generating consultants to ensure consistency in message, which would then be implemented by the respective consultants as a part of their assignments – PATMIR consultants to generate new membership, and FE consultants to educate the existing membership. This sub-component is expected to cost about US\$2.1 million.

52. An interesting development has been BANSEFI discussions with a number of state governments and municipalities to disseminate information on financial services (including financial education) among their citizenry, combining with initiatives under their other state/municipal level programs. This initiative would be implemented in the form of pilots in two distinct ways: (a) working with 3-4 state governments through their education department; and (b) working through 10-12 municipalities (in other than (a) states). Here, the key implementation arrangement would be based in the agreements reached with the states and municipalities to incorporate the FE component into their local programs. This pilot is expected to cost US\$250,000.

53. **Disseminate directly to existing and potential users of financial services.** BANSEFI has close to 7 million clients, and has finalized an agency banking arrangement with DICONSA/PEMEX to offer a range of services covering payments for services, account saving, withdrawal of cash, information on account balances, etc. to an additional one million users. Financial education of these BANSEFI clients has been allocated US\$400,000.

54. It also has a website which has been very active and now should be re-designed to become more interactive rather than just providing information, and it proposes to use print media to share financial services information more generally with the public. This would be achieved through two specific initiatives: (a) continuation of the website “*finanzasparatodos*” which can be accessed by any member of the general public for information and guidance on financial topics; and (b) opinion creators such as journalists, who would be invited to workshops from time to time to build knowledge and learning about BANSEFI, sector, membership, entities, financial topics, financial products, new innovations, and who would then be encouraged to write a series of articles in the local papers to inform and educate the public in general about financial aspects. This will cost about US\$250,000.

55. There is indeed a strong justification for a small pilot sub-component focused on children’s financial education given two important findings: (a) close to half of BANSEFI membership is women, and these members have children who would eventually develop into BANSEFI clients; and (b) at least 8-10 percent of BANSEFI membership consists of children who can make meaningful financial decisions when given appropriate financial education. This sub-component will include development of children-oriented financial education material, and its dissemination through the entities, BANSEFI branches, and “*finanzasparatodos*” website, among others. About US\$300,000 is provided for this initiative.

56. **Content Development.** This will specifically focus on development of FE content materials (printed, radio content, other capsules, etc.), which will include materials for specifically targeting children, women, and indigenous peoples (in native language). This is expected to cost about US\$400,000.

57. **Studies and workshops.** This would include any studies and workshops that may be required to further improve the financial education initiative, and also includes an impact evaluation of the FE component. These have been allocated US\$400,000.

Component 3: Strengthening BANSEFI capacity (Total financing: US\$26.07 million, IBRD financing: US\$16 million)

58. This component consists of:

1. (i) provision of services to expand the technological capacity of BANSEFI, including its Information Technology platform’s mainframe, to enhance its processing and storage capacity and efficiency;
(ii) provision of technical assistance and training to SCEs or any other financial institution that will be adopting BANSEFI’s IT platform.
2. Provision of training for BANSEFI’s staff on topics related to this Project.
3. (i) Provision of support for the dissemination of the functional capabilities of BANSEFI’s IT platform and operational and financial benefits.
(ii) Carrying out of a campaign to strengthen the BANSEFI brand as a development bank.

Sub-component 3.1: Maintaining the efficiency of the platform operation (US\$23.07 million).

59. The platform achieved near-financial sustainability in 2010, ahead of the July 2012 target date, should the revenues generated by the platform be compared with its operating costs. However, it has not

generated reserves enough for its infrastructure update at this stage. Given that the platform has helped: (a) BANSEFI to deepen financial inclusion by expanding its membership base by over 2 million; (b) the entities using the platform to open up new branches and enhance financial inclusion, adopt internationally accepted accounting standards, submit regulatory reports, and expand outreach and the range of financial services offered to its rural, low-income, and members in the marginal areas; (c) to systematize the government transfer payments program such as *Oportunidades* to introduce transparency and reduce transaction costs; and (d) to launch agency banking which will enable a further one million new members to be incorporated into the formal rural financial system, there is a huge social agenda that is being served by the platform. As such, while the operating expenses of the platform are being met by BANSEFI, there are four areas where additional one-time capital investment support is now required and is justified as a “public good” investment. These are discussed below.

60. Platform infrastructure maintenance. The platform as it exists today has been functional for several years, and some of its equipment has a vintage dating back to 2000. BANSEFI's mainframe is now almost 10 years old, way beyond the industry standard of 5-6 years, and is due for replacement. Additionally, the increase in the number of transactions required to be processed has been huge, up from just 26 million in 2006 to close to 60 million in 2011, with on-line transactions growing from 22 million to 43 million during the same period. This has obviously stretched the utilization of the mainframe capacity, and the memory and processing capacity of the midrange servers. Two indicators of this pressure are the use of the central processor (99 percent versus industry best practice standard of 80 percent), and the use of the memory (80 percent versus industry best practice standard of 70 percent). Clearly, this poses a potential danger of system collapse. This upgrade, which is a normal requirement in any industry resulting from business growth, is a priority need for the platform. The one-time capital investment required would cover the following:

(a) replacing the mainframe. The proposal is to lease the mainframe rather than own it. The lease fee over a three year period would be about US\$9 million. The IBM proposal (assuming an outright purchase of the mainframe by BANSEFI) is in the order of US\$17 million, and includes the costs of both the new and old mainframe during a transitional period. This is an unexpectedly large cost. A specific study of this proposal against normal industry best practice to provide BANSEFI with a justified basis for minimizing the costs of mainframe replacement would be required and funded on a retroactive basis from the proposed loan. The Bank has already provided the No Objection for this service costing US\$66,000.

(b) enhancing the processing capacity and memory of other architectural components (windows and UNIX Servers). This is expected to cost about US\$3.5 million over three years;

(c) improving the efficiency through optimization of on-line and batch processes, and maintenance/upgrade of the core banking package. While optimization of on-line and batch processing is required and could be accomplished at a reasonably acceptable cost, the need for a full-scale TCB upgrade needs to be carefully evaluated. One of the key reasons that this has emerged as an operating constraint is due to processing capacity limitations. With enhanced capacity through the mainframe upgrade, the existing TCB package may continue to create some noise in the system, but will most likely not overwhelm the new mainframe. The limited TCB upgrade, focused on optimization on on-line and batch processing and key functionalities such as check processing is expected to cost about US\$7 million; and

(d) optimizing the switching infrastructure, which facilitates electronic payments, at a cost of about US\$2 million. This is a requirement by the BANXICO, the central bank of Mexico.

61. **Technical Assistance for platform adoption by entities.** This support will not be offered to entities already using the platform and will be limited to only new platform embracing entities. No more than 30 additional entities are expected to join the platform during the project period, and at US\$50,000 per entity for parameterization, data migration, installation, operation, and post-implementation support, the total outlay will be about US\$1.5 million. The entities pay 20 percent of the cost of such support. The project will therefore be providing about US\$1.2 million only. This amount should be such that it could be recovered over a 24 month period through full costing of the service, requiring about 3 million transactions from these 30 additional entities in one year. This principle should be applied to individual entities to become eligible for the support. As in previous components, it is expected that SCIs select individual and firms from this roster and in accordance with World Bank procurement procedures and BANSEFI guidelines, as stated in the Loan Agreement and further explained in the Operational Manual. Thereafter, SCIs will enter into an agreement with said individual consultant or consulting firm under (i) terms and conditions acceptable to the Bank (using the model contract set forth in the BANSEFI Guidelines); and (ii) comply with the provisions of the Bank's Anti-Corruption Guidelines and the Project's Operational Manual.

Sub-component 3.2: Training of BANSEFI staff (US\$500,000).

62. BANSEFI staff needs to be exposed to higher level education which will facilitate their improved functioning and knowledge development. Courses (local and international) for select BANSEFI staff would be financed under the project with a cost-sharing arrangement with the benefiting staff and an agreement for a dedicated period working with BANSEFI post-training. The selection of the academic institutions will be in accordance with BANSEFI guidelines and acceptable to the World Bank.

Sub-component 3.3: Communication and dissemination (US\$2.5 million).

63. It is clear now that in the next 2-3 years, the technology platform would end up servicing about 100 sector/non-sector entities at most. It will be useful to disseminate the achievement of the platform by focused user-entity information being converted into a couple of case studies. This could be used as "marketing materials" to sell the platform to potential users. More will not yield any benefit as the platform business model has really undergone a change since 2008. Thus, about US\$200,000 has been provided for this component.

64. Given the range of financial services that BANSEFI is providing, directly to its clients (e.g., secure savings), to sector entities (e.g., certification and compliance with law), and to sector clients directly and through entities (e.g., remittances, third party payments, and micro-insurance), it will be useful to strengthen the BANSEFI brand as a strong development bank through corporate-level campaign. Additionally, the initiatives of correspondent banking and mobile phone banking, deepening financial inclusion, and promoting financial education, all need to be disseminated. This will complement the individual component level communication and dissemination efforts. For this, US\$2.30 million has been provided.

Component 4: Project management (Total financing: US\$17.5 million, IBRD financing: US\$11 million)

64. This component consists of: Provision of technical assistance, training and material support to BANSEFI's staff, consultants and providers of non-consulting services in order to assist them in the implementation of the Project. It will finance expenditures relating to the core project management and implementation teams for the various components. Given the expansion in the outreach program and the addition of the knowledge and learning initiative, there will be a need to strengthen the core team of the outreach component. The project will continue to support the implementation team for the training and technical assistance component, and strengthen the technology team to effectively implement the agency banking and mobile phone banking components.

Annex 3: Implementation Arrangements

Project institutional and implementation arrangements

1. BANSEFI has been the implementing agency for the two prior projects spread over nine years, with five loans, totaling about US\$240 million. It has developed and demonstrated strong capacity to implement these complex projects successfully. It has a capable management team, with different departments charged with the responsibility of implementing specific components. The project team is very well-informed about the sector developments and project requirements. Reporting is of exceptionally high quality, and the teams are pro-active in identifying problems and proposing solutions. Schedule 2 to the Loan Agreement details BANSEFI's role as the project implementing agency, the implementation arrangements for specific project components, fiduciary and safeguard aspects, and monitoring and reporting.

2. **Technical Implementation Teams.** The arrangements within BANSEFI for the implementation of the sub-components will be as follows:

- (a) Training, Technical Assistance and Financial Education, including BANSEFI staff capacity-building: Dirección de Atención al Sector de Ahorro y Crédito Popular y Cooperativo;
- (b) Outreach Component: Core Team housed within the Dirección de Atención al Sector de Ahorro y Crédito Popular y Cooperativo;
- (c) Correspondent Banking: Dirección General Adjunta de Banca Institucional (DGABI);
- (d) BANSEFI Lines of Credit: Dirección General Adjunta de Banca Institucional;
- (e) L@red de la Gente: DGABI L@red;
- (f) Mobile Phone Banking: Technology Platform Department and Dirección General Adjunta de Banca Institucional;
- (g) Technology Platform: Technology Platform Department; and
- (h) Communication and Dissemination: Social Communication Department.

3. **Safeguards Team.** The core team for the outreach component in the earlier Project was housed in SAGARPA, but given the strategic link with BANSEFI's other operations, it was moved (with corresponding budget) to BANSEFI in late 2010, bringing with it eight solid years of experience of deepening outreach in rural marginal areas in Mexico. This team is fully aware of the requirements of the Bank Safeguard Policy as it relates to Indigenous Peoples, and is particularly sensitive to its compliance when dealing with the technical assistance providers in their strategy formulation, implementation, and reporting. This is demonstrated by the results achieved under the earlier project relating to IP and women group inclusion in the project initiatives.

4. **Fiduciary Team.** Procurement, financial management, budgeting, accounting and payments to project beneficiaries will be managed by the Planning and Finance Department (through its budgeting and resource management teams).

Financial Management and Disbursement

5. **Summary.** The Project will be entirely implemented by BANSEFI through its current organizational infrastructure including all the budgeting, accounting, internal control and flow of funds related functions. The flow of funds is relatively simple, as BANSEFI will receive its standard budget from the TESOFE and will pay directly to the beneficiaries of the project, or to the providers of goods and services; however, from the operational perspective the project is complex, because there will be multiple beneficiaries which, in order to receive any payment, will have to comply with a range of requirements established in the operating rules. As a result of the FM Assessment, the project's risk is considered Moderate.

6. To carry out the above mentioned processes, and mitigate the risks associated with them, BANSEFI has a strong internal control system in place, based on the following: (a) a suitable organizational structure, which includes an FM department with considerable accumulated experience managing Bank-financed projects, in which the performance of FM related aspects has been adequate; (b) a well integrated IT platform to perform all the budgeting, accounting and payments functions related to the project; and (c) an adequate segregation of functions between different departments, whose objective is to ensure the adequacy of the process of granting payments to the beneficiaries of the project by cross-checking and validating the information required under the operating rules.

7. **Implementing entity and project description from the FM perspective.** BANSEFI, a Government- owned development bank, was created by Law Decree in 2001, with the main objective of promoting the access to financial services among the population. BANSEFI's activities are performed mainly through the provision of technical assistance, training and Information Technology (IT) infrastructure equipment to the "Sociedades de Ahorro y Crédito Popular" (SACP), for which BANSEFI has created different programs subject to specific operational rules, which establish among other aspects: the objectives of the program, guidelines for the application of resources, targeted beneficiaries, and eligibility criteria.

8. Although there are diverse types of support for the beneficiaries of the program, in general terms BANSEFI contributes with up to 80 percent of the supported amount and the beneficiaries contribute with the remaining 20 percent. The payments are made from BANSEFI to the beneficiaries' commercial banking accounts, after the presentation of the required supporting documentation as established in the operating rules.

9. There is a strong internal control system in place, based on the segregation of functions between BANSEFI's different departments, which objective is to cross check and validate the information related to payments to beneficiaries, which is carried out by the following departments: (a) from the administrative perspective, by the Budgeting Control department, and the Resource Management department, whose responsibilities are to review the sufficiency of budget, and to ensure that the processes of procurement were duly complied, respectively; and (b) from the technical perspective, depending on the type of support and program, payments need to be authorized by each of the responsible departments within BANSEFI.

10. **Staffing.** The FM functions of the project will be performed through BANSEFI's existing organizational infrastructure under the General Directorate of Planning and Finance (Dirección General

Adjunta de Planeación y Finanzas), which has considerable experience managing Bank funds, and includes the following departments: (a) Directorate of Finance, responsible for the accounting and budgeting functions of the project; and (b) Directorate of Treasury, responsible for making final payments to the beneficiaries of the project. Both departments are adequately staffed and have capabilities to discharge the FM requirements under the project.

11. **Financial Agent.** BANSEFI will be also the financial agent for this project through the “Subdirección de Financiamiento Internacional” (Sub-directorate of International Financing), which is segregated from the other implementing areas of BANSEFI participating in the project to avoid any possible conflict of interest. Among other functions, it will manage the loan disbursement processes, review the eligibility of expenses, and also will provide implementation support and oversight, based on its many years of experience with Bank-financed projects.

12. **Internal Control and internal auditing.** BANSEFI has a set of policies and procedures that regulate the administrative processes of the entity, including internal control guidelines. It also has a preliminary FM Operational Manual which was used for the previous projects¹⁹, which includes detailed policies for Budgeting, Accounting, External Audit, and Disbursements. Depending on the conclusions of the FM Assessment, the manual might require slight adjustments to reflect the revised FM arrangements agreed for this project. The internal audit function of BANSEFI is carried out by the Internal Control Unit (OIC), which reports to the Ministry of Public Administration (*Secretaría de la Función Pública - SFP*) and follows the Public Audit Standards and Guidelines issued by SFP.

13. **Accounting.** For the accounting of this project, BANSEFI will use its institutional IT platform named System for the Administration of Business Management (SARE, by its acronym in Spanish), which is an integrated IT system (similar to SAP) used for budget, accounting, payments, and all other operational processes. The system is quite robust, as all the above mentioned processes are automatically interfaced, and it is capable of managing the accounting records prepared on cash and accrual bases, under economic, administrative, and functional/programmatic classifications. Financial reports are issued on a timely basis.

14. **Periodic Financial Reporting.** For reporting the use of loan proceeds, BANSEFI will prepare semi-annual unaudited Project Interim Financial Reports (IFRs) and the annual audited Project financial statements. These will be prepared on a cash basis using the standard formats agreed with the SFP) for the Mexico portfolio. The IFRs will be prepared in local currency (i.e., Mexican pesos), after loan effectiveness. The following financial reports will be presented to the World Bank:

Report	Due date
Semi-annual unaudited Project IFRs	Within 45 days after the end of each six-month calendar period.

¹⁹ BANSEFI is currently implementing the following two projects: Mexico Savings & Rural Finance (BANSEFI) Project - Phase II, and LN 7592 Mexico Savings & Rural Finance (BANSEFI) Project - Phase II (P087152), which will close in July 31, 2012. It also implemented two projects that closed in February 28, 2011: Savings and Credit Sector Strengthening and Rural Microfinance Capacity Building, and Savings and Credit Sector Strengthening and Rural Microfinance Capacity Building (P070108).

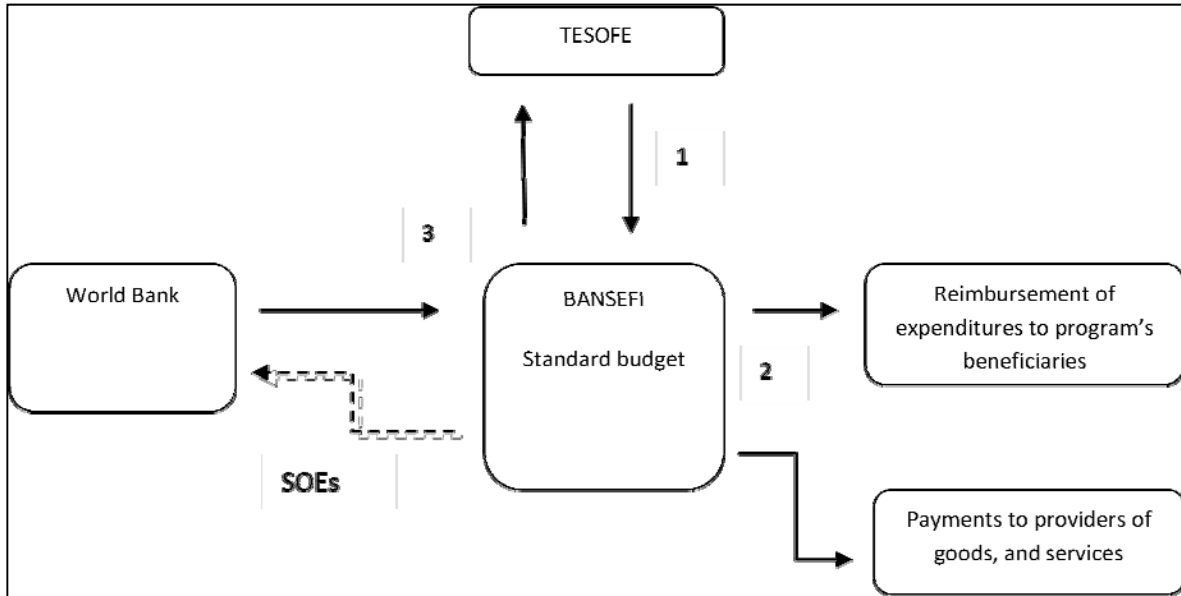
Annual audit report on Project financial statements and eligibility of expenditures	Within six months after the end of each calendar year of loan disbursements (or other period agreed with the Bank).
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15. **External audit.** Annual audits of Project financial statements and eligibility of expenditures will be performed by an independent audit firm selected by SFP and acceptable to the Bank in accordance with Bank policy, as reflected in the audit terms of reference and memorandum of understanding agreed between the Bank and SFP. Because of the nature of this project, specific TORs will be added to those already agreed with the SFP with the objective of requiring the auditors to review a sample of files of the beneficiaries of the program and the payments made to them, to assess the compliance with the operational rules in the following matters: (a) eligibility of the selected beneficiaries; (b) adequate integration of the documentation required to the beneficiaries; and (c) payments according to the parameters established in the operating rules. The audit reports for the projects currently under implementation have been delivered on time, present an unqualified opinion, and were considered satisfactory as a result of our review.

16. **General flow of funds and information.** The primary disbursement method for this project will be the reimbursement of eligible expenditures, by which the Secretaría de Hacienda y Crédito Público (SHCP, by its Spanish acronym) will pre-finance the total project spending passing through the standard budget of BANSEFI. The description of the funds flow is as follows:

- (a) The National Treasury (TESOFE, an Undersecretariat at SHCP) will transfer funds to BANSEFI in local currency (Mexican Pesos) via its standard budget.
- (b) BANSEFI will: (i) pay to suppliers of goods and services for the implementation of the project's components related with consultancies, training, and goods, and, (ii) will reimburse 80 percent of the expenditures incurred by the project beneficiaries.
- (c) BANSEFI will report to the Bank the expenditures incurred through the periodic presentation of Statements of Expenditures (SOEs), and at the end of the cycle, the Bank will reimburse the funds in USD into a commercial banking account opened by BANSEFI, which will be used in turn to reimburse the resources to the TESOFE.

Figure 1: Schematic Chart Depicting Funds Flow Process



17. **Disbursement arrangements.** The loan disbursement arrangements²⁰ are summarized below. These arrangements need to be confirmed by SHCP and BANSEFI, and will be updated in the Disbursement Letter.

Table 4: Summary Loan Disbursement Arrangements

Disbursement method	The disbursement method for the project will be the reimbursement of eligible expenditures (pre-financed by the Government).
Supporting documentation	Statement of Expenditure. ²¹
Limits	Different aspects such as the minimum value of applications for direct payments, ceiling of the Designated Account, and thresholds to deliver SOEs versus records, will be determined and agreed with BANSEFI and confirmed with Loans Department.
Retroactive expenditures	If retroactive expenditures are required under the project, these must fulfill the following conditions: <ul style="list-style-type: none"> ▪ Eligible expenditures that do not exceed 10 percent of the loan amount. ▪ Made by the Borrower within one year prior to the date of the Loan Agreement. ▪ The retroactive expenditures will be subject to the same systems, controls and eligibility filters described above in this Annex. These expenditures will also be subject to the regular Project external audit.

²⁰ For details, see the Disbursement Handbook for World Bank Clients.

²¹ All SOE supporting documentation would be available for review by external auditors and Bank staff at all times during Project implementation, until at least the later of: (i) one year after the Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Loan Account was made; and (ii) two years after the Closing Date. The Borrower and the Project Implementing Entity shall allow the Bank's representatives to examine these records.

18. **Retroactive Financing.** The project permits retroactive financing of up to 20 percent of the loan amount (US\$20 million), related to expenditures incurred on or after January 1, 2011.

19. **Disbursement Table.** The allocation of loan proceeds is provided below.

Table 5: Allocation of Loan Proceeds

Expenditure Category	Amount in US\$	Financing Percentage
(1) Goods, Operating Costs, Training, Consultants' Services and non-consulting services (except for non-consulting services and Consultants' Services under Components 2.1 (i) and 2.1(iv) of the Project),	65,350,623	53%
(2) Consultants' services and non-consulting services under Components 2.1(i) and 2.1(iv) of the Project	34,400,000	40%
(3) Front-end Fee	249,377	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Interest Rate Cap or Interest Rate Collar premium		Amount due pursuant to Section [2.07(c)] of this Agreement]
TOTAL AMOUNT	100,000,000	

20. **FM Action plan.** The FM arrangements are currently in place. At this stage, the FM action plan consists of updating the existing Project Operational Manual, which will include a specific FM chapter and must be provided for the Bank's review and no objection prior to negotiations. The external audit TORs mentioned in the External Audit section of this annex will be agreed each year between BANSEFI, SFP and the Bank.

21. **Supervision strategy.** The Bank's FM supervision strategy will consist of the following: (a) a minimum of one full FM supervision mission per year, which will look into the operation of the control systems and the arrangements described in this Annex, including but not limited to the beneficiary payments system, the reconciliation process and the eligibility filters; and (b) Desk reviews of IFRs and audit reports.

Procurement

22. **General Provisions.** Procurement for the proposed Project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004, revised October 2006 and May 2010; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised October 2006 and May 2010, and the provisions stipulated in the Loan Agreement. The various items under different expenditure categories are described

in general below. For each contract to be financed by the Loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

23. **Procurement of Works.** This Project will not finance works.

24. **Procurement of Goods.** Goods procured under this Project will include the acquisition of IT equipment and software. The procurement will be carried out using harmonized Bidding Documents (SBD) agreed between the Government of Mexico and the Bank for International Competitive Biddings (ICB) and National Competitive Biddings (NCB). Contracts for small purchases in individual contracts to cost less than \$100,000 could be carried out through shopping.

25. **Procurement of non-consulting services.** Non-consultant services in particular under Components 1, 2, 3 and 4 of the Project will cover connectivity, training, communication, including preparation and production of dissemination and training materials, etc. As in the case of Goods, the procurement for non-consulting services will be carried out using harmonized Bidding Documents (SBD) that the World Bank has agreed with the Government of Mexico for International Competitive Biddings (ICB) and National Competitive Biddings (NCB). Contracts for small purchases in individual contracts to cost less than \$100,000 could be carried out through shopping.

26. **Selection of Consultants.** The Project will require a variety of consultant services under all the investment components. Short lists of consultants for services estimated to cost less than US\$500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Universities, government research institutions, public training institutions and NGOs in some specialized fields of expertise could participate in the provision of consulting services as per Bank procurement guidelines and policies.

(a) **Firms.** Most contracts for firms are expected to be procured using Quality and Cost Based Selection Method (QCBS). Consultant assignments of specific types as agreed previously with the Bank in the Procurement Plan may be selected with the use of the following selection methods: (i) Quality Based Selection (QBS); (ii) Selection under a Fixed Budget (SFB), especially for works supervision contracts; (iii) Least Cost Selection (LCS); (iv) Selection Based on Consultants' Qualifications (CQS), for contracts estimated to cost below US\$ 200,000 equivalent; and, exceptionally (v) Single Source Selection (SSS), under the circumstances explained in paragraph 3.9 of the Consultants' Guidelines.

(b) **Individuals.** Individual consultants will be hired to provide technical advisory and project support services and selected in accordance to Section V of the Consultant Guidelines. All sole source selection of consultants will be subject to prior review. Other specific procedures for the selection of these consultants will be described in the Operation Manual.

27. **Operating Costs.** The Project will be financing core project implementation team operating costs: the incremental expenses incurred on account of project implementation and training events, among other eligible activities, including office equipment and supplies, operation and maintenance, communication and insurance costs, office administration costs, utilities, travel and per diem, and supervision costs.

28. **Retroactive financing.** GoM has requested the use project funds to finance retroactively some payments relating to a number of contracts awarded observing World Bank procurement procedures under a current loan under implementation, and for new activities that were required to be launched and awarded before this project was declared effective. The Bank will conduct a technical and procurement review of the contracts when processing the requests for retroactive payments. Contracts that have been already proposed to be eligible for retroactive financing, totaling to about US\$6 million are as follows: (a) GARTNER contract for US\$66,000; (b) Core Outreach Implementation Team operating expenses of US\$140,000; (c) Outsourcing expenses of US\$900,000; (d) Uninet contract for US\$3 million; and (e) technical service provider contracts under the outreach component of US\$2 million.

29. **Assessment of BANSEFI capacity to implement procurement.** BANSEFI has been the implementing agency for the two on-going projects spread over the past eight years. Reporting is of good quality, and the teams are pro-active in identifying problems and proposing solutions. Furthermore, the procurement team has a sound knowledge of the Bank procurement policies and guidelines. In addition, BANSEFI has a suitable management team, with different departments charged with the responsibility of implementing specific components.

30. In addition, BANSEFI project team is very well-informed about the sector developments and project requirements; however, there is a need to enhance communication/coordination between the technical and the procurement teams in order to achieve good and timely implementation of the current and the future Projects. Finally, the workload of the procurement team has significantly increased. They are now responsible for implementing Bank and Inter-American Development Bank-financed projects and grants from other sources. This risk, if not mitigated adequately, could generate implementation issues related to BANSEFI capacity to provide timely and professional procurement services to an increasing number of projects.

31. This Project will provide training and technical assistance to SCIs under several activities identified in the components 1, 2 and 3. This TA will be provided through a range of consultants firms or individuals certified by BANSEFI under the on-going Bank Project. These procedures are further explained in the Annex 2 of the PAD. Given the demand-driven nature of the SCIs activities and on the grounds of previous experience of BANSEFI II and the Additional Finance (both financed by the World Bank), this technical assistance, including for technology platform adoption, will be provided through a range of consultants firms or individuals certified by BANSEFI under the on-going Bank Project. Therefore, it is expected that SCIs select individual and firms from this roster and in accordance with World Bank procurement procedures and BANSEFI guidelines, as stated in the Loan Agreement and further explained in the Operational Manual, including the comparison of 3 CVs (for individual consultants) and Consultants Qualifications (for firms). Thereafter, SCIs will enter into an agreement with said individual consultant or consulting firm under (i) terms and conditions acceptable to the Bank (using the model contract set forth in the BANSEFI Guidelines); and (ii) comply with the provisions of the Anti-Corruption Guidelines and the Operational Manual. Finally, in exceptional cases, BANSEFI could select these TA consultants as needed.

32. **Action Plan.** To overcome these above referenced issues, the following actions are proposed:

Table 6: Procurement Action Plan

Risks	Mitigation actions	Responsible	When
Increase of fiduciary responsibilities beyond current capacity to respond to new activities	A contingency plan for calculating financing and staffing requirements should be developed for the entire portfolio Bank supervision should pay close attention to the capacity of the procurement unit, assessing responsibilities beyond this project	BANSEFI Bank	During project implementation During project implementation
Coordination between technical and procurement units that could generate delays and quality issues in the implementation of key procurement activities	Roles and responsibilities should be clearly defined in the Operation Manual Procurement plan should be closely monitored, addressing possible delays	BANSEFI and the Bank BANSEFI and the Bank	At negotiation (completed) During project implementation
Lack of experience of financial institutions (SCIs) to select TA consultants.	Procedures are not complex but will be clearly defined in the Operational Manual. These processes will be further disseminated; and appropriate support will be provided, as needed.	BANSEFI and the Bank BANSEFI	At negotiation (completed) During project implementation
Highly specialized goods and services may require a close review of the technical specifications, terms of reference and contract conditions to avoid issues that may affect the basis of competition and lead to cost overruns	The procurement plan will flag contracts of goods and services incorporating the design of complex/ specialized technical specifications or terms of reference As needed, external consultants will support the review of these technical specifications	BANSEFI and the Bank BANSEFI and the Bank	During project implementation During project implementation

33. The overall Project risk for procurement is Moderate. This rating will be reviewed during the first year of Project implementation.

34. **Procurement Plan.** The Procurement Plan, prepared by BANSEFI, dated October 26, 2011, provides the basis for the procurement methods. This plan will be available in the project’s database and on the Bank’s external website. It will also be available in SEPA. The procurement plan will be updated in agreement with the project team annually or as required to reflect actual Project implementation needs and improvements in institutional capacity.

35. **Frequency of Procurement Supervision.** In addition to the prior review supervision to be carried out from Bank offices, the Bank fiduciary team will carry out a post review of procurement actions twice a year.

36. Details of Procurement Arrangements Involving International Competition

1. Goods and Nonconsulting Services:

List of contract packages to be procured following ICB and direct contracting procedures:

Table 7: List of Contract Packages to Be Procured Following ICB and Direct Contracting Procedures

Components PAD	Description	Procurement method	Estimated Cost (USD)	P-Q	Domestic Preference (yes/no)	Pre Review by Bank (YES, NO)
3	Enhancing BANSEFI IT platform (Red Privada Virtual) (2010-2013) (Contract was reviewed and cleared by OPRC in Nov 2011)	Direct contracting	10,279,352.09	NO	NO	Yes
3	Enhancing the memory and processing capacities of the Midrange Servers	ICB	3,500,000.00	NO	NO	Yes
3	Replacement and update the SIA/SAT systems (Sistema Autorizador de Tarjetas y Transacciones Electrónicas)	ICB	2,000,000.00	NO	NO	Yes
3	Replacement and update equipment (MAINFRAME) data center	ICB	9,000,000.00	NO	NO	Yes
2	Help desk providing technical support to correspondientes.	ICB	2,600,000.00	NO	NO	Yes
2	Increase affiliations of correspondientes DICONSA (DICONSA are community stores in the remotest locations in Mexico)	ICB	5,000,000.00	NO	NO	YES
2	Producing 2 millones de cards for the correspondientes DICONSA	ICB	10,000,000.00	NO	NO	YES
2	Arrending POS equipment for correspondientes DICONSA	ICB	500,000.00	NO	NO	YES
2	Connectivity for correspondientes DICONSA	ICB	500,000.00	NO	NO	YES
2	Cards and services for correspondientes PEMEX	ICB	2,000,000.00	NO	NO	YES
2	Arrending POS equipment for correspondientes PEMEX	ICB	400,000.00	NO	NO	YES
2	Correspondientes Bancarios. Publicity outside Mexico ext- Several contracts	Shopping and Direct contract	1,600,000.00			YES (All direct contracts)
2	Correspondientes Bancarios. Publicity/broadcasting using sound truck (Perifoneo)	Direct contract	150,000.00	NO	NO	YES
2	La Red de la Gente. Publicity covered by T.V.	Direct contract	3,200,000.00	NO	NO	YES
2	La Red de la Gente. Publicity/broadcasting y in Radio	Direct Contract	1,200,000.00	NO	NO	YES
2	La Red de la Gente. Publicity/broadcasting in magazines	Direct contract	75,000.00	NO	NO	YES
2	La Red de la Gente. Publicity/broadcasting outside Mexico. Several Contracts	Shopping and Direct contracts	1,350,000.00	NO	NO	YES (All direct contracts)
2	La Red de la Gente. Publicity/broadcasting using sound truck (Perifoneo)	Direct Contract	75,000.00	NO	NO	YES
2	Financial education. External publications– Several Contracts	Shopping and Direct	180,000.00	NO	NO	YES (All direct

		Contracts				contracts)
2	Financial education. Alternative publicity	Direct Contracts	60,000.00	NO	NO	YES
2	Micrositio Internet	Direct Contracts	360,000.00	NO	NO	YES
3	BANSEFI IT platform. Publicity in magazines.	Direct Contracts	50,000.00	NO	NO	YES
1	BANSEFI. Publicity in TV	Direct Contracts	1,425,000.00	NO	NO	YES
1	BANSEFI Publicity in Radio	Direct Contracts	625,000.00	NO	NO	YES
1	BANSEFI Publicity in magazine	Direct Contracts	75,000.00	NO	NO	YES
1	BANSEFI, Publicity/broadcasting using sound truck (Perifoneo)	Direct Contracts	75,000.00	NO	NO	YES
2	PATMIR Publicity/broadcasting in radio	Direct Contracts	675,000.00	NO	NO	YES
2	PATMIR (Publicity/broadcasting outside Mexico)– Several Contracts	Shopping and Direct Contracts	180,000.00	NO	NO	YES (All the direct contracts)
2	Provision of Technical Assistance and training to selected certified SEC and selected SCEs in transition to increase their membership in selected areas	ICB / NCS	86,000,000.00	YES	NO	YES
4	Outsourcing for Dirección de Tecnología y Dirección de Atención al SACP y C/ several contracts	NCS	17,500,000.00	YES	YES	YES
2	PATMIR Publicity/broadcasting using sound truck (Perifoneo)	Direct Contract	130,000.00	NO	NO	YES

ICB contracts for goods and non consulting services estimated to cost above US\$3,000,000.00 per contract and all direct contracting will be subject to prior review by the Bank as agreed in the procurement plan.

2. Consulting Services

(a) List of consulting assignments with short list of international firms and sole source awards:

Table 8: List of Consulting Assignments with Short List of International Firms and Sole Source Awards

Components PAD	Description	Procurement method	Estimated Cost (USD)	Pre Review by Bank (YES, NO)
3	Implementation of the recommendations from the studies RSI al TCB	QCBS	7,000,000.00	YES
2	Studies of Movil Bank (Banca Movil)	QCBS	700,000.00	YES
2	Training to corresponsales DICONSA	QCBS	2,000,000.00	YES
2	Certification of corresponsales DICONSA	QCBS	3,000,000.00	YES
2	Design the broadcasting strategy for community financial education and training targeting PEMEX corresponsales	QCBS	1,600,000.00	YES
2	Strategic study to increase PEMEX corresponsales	QCBs	200,000.00	YES
1	Global projects for certification	QCBS	2,507,272.73	YES
1	Study to increase competition in the SCIs entities and to determine/identify the best practices	QCBS	2,272,727.27	YES
1	Technical assistance to strengthening of supervision	QCBS	1,170,000.00	YES

1	Audis	SSS (by SFP)	56,000.00	YES
1	Consulting firms to provide financial education to clients from BANSEFI and banking correspondence (Corresponsales Bancarios)	QCBS	2,100,000.00	YES
1	M&E studies of the BANSEFI programs	QCBS	1,000,000.00	YES

(b) Consultancy services estimated to cost above US\$200,000.00 per contract and all single-source selections of consultants (firms) will be subject to prior review by the Bank as agreed in the procurement plan.

(c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$500,000.00 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Environmental and Social (including safeguards)

37. **Environmental Assessment (OP/BP 4.01).** The project has been provided a C classification from an Environmental Assessment standpoint (OP/BP 4.01), implying that it is likely to have no adverse environmental impacts.

38. **Indigenous Peoples (OP 4.12).** The project triggers the safeguard policy relating to Indigenous Peoples, and follows a framework approach. Therefore, IP Plans will be prepared during implementation to ensure that indigenous peoples in the project areas benefit from the project and their rights are respected as established on the Mexico's National Constitution, the Indigenous Peoples Law and the ILO 169 Agreement signed by Mexico.

39. **Project Social Strategy.** An improved social strategy has been designed building on the experience of the previous project and taking into account the evaluation conducted during preparation, which provided with lessons-learned and recommendations, and the outcomes of the four regional consultations and one national level consultation. As established in the evaluation of the outreach component in the earlier project: (a) close to 30 percent of the new membership hailed from IP communities; (b) the program has benefited indigenous population without causing any negative impacts; and (c) the program has designed products specifically appropriate for indigenous peoples' needs, and are culturally suitable. The consultations provided indigenous peoples' perspective on the project activities relating to outreach, certification, financial education, and financial products.

40. Because the project operates under a demand-driven approach, IP Plans will be prepared once the alliances to provide formal financial services are established between TA consultant and the entities. These plans will identify measures to address barriers to indigenous peoples' participation in financial services and will establish specific goals to benefit indigenous population following a participatory approach.

41. To ensure that adequate capacity is in place for preparation and implementation of IP Plans, the Request for Proposal for the selection of TA consultants will require such capacity to be demonstrated. This activity will be incorporated into the project's implementation plan. The TA to strengthen financial institutions will incorporate the adoption of the social strategy to provide financial services to poor rural population with a focus on indigenous groups and women.

42. The social strategy will consist of the following elements:

- *Consultant ToR:* The Terms of Reference of the TA consultants working with the selected entities will have preparation of IP Plan and women actions as a specific area of work to reach the proposed new membership goal, with shares of at least 10 percent IP and 30 percent women.
- *Alliances:* In establishing alliances with entities, the TA consultants will identify entities predominantly in rural localities within established population threshold of less than 100,000 inhabitants to achieve at least 70 percent of new membership target from medium, high and very high marginality areas.
- *Indigenous Peoples Plan:* The TA consultants will prepare IP Plan covering their respective alliances. The IP Plan preparation will incorporate a consultation process with potential IP members as well as their local leaders and authorities. For this purpose, they may consult CDI too, which has agreed to provide support as would be feasible. The IP Plan will be implemented by the consultants based on the outreach strategies prepared by them, including the design of culturally compatible financial products and appropriate technical tools. The consultants will also provide training, financial education and dissemination materials.
- *Women Actions:* The TA consultants will support the assisted entity in the development and implementation of women actions including: group creation, special services, and financial education and dissemination materials for each one of these activities.
- *Financial Education:* The TA will include the establishment of methods and tools to inform the communities and potential members about the benefits of becoming a member, their obligations, the role of the financial entities, the financial products offered, and their advantages, among others. Appropriate programs will be developed for financial education of indigenous peoples and women.
- *Training Promoters:* Men and women in rural areas prefer direct communication because it facilitates their understanding of financial services, rights and responsibilities, and favors trust-building. Bilingual promoters, knowledgeable of the local culture and capable of speaking indigenous languages, would be trained by the TA consultants to perform this task.
- *Communication:* The project's communication component will support social strategy through broad communication initiatives such as radio, caravans, printed materials, and local newspapers. The project team will continue publishing its monthly bulletin on the component to disseminate results and share field experiences.
- *Institutional Coordination:* The recent moving of the outreach component core implementation team from SAGARPA to BANSEFI will facilitate coordination and complementarity with other financial programs in BANSEFI servicing poor population such as L@ Red de la Gente.
- *Monitoring and Evaluation:* The M&E will incorporate tracking progress in achieving membership goals for women and indigenous population. The project team will continue collecting and analyzing information on entities (based on financial data provided by the consultant) on a quarterly basis, which will also include periodic members' satisfaction surveys. Moreover, an independent firm, focused on

quality control and corroboration of new membership creation, will verify the achievements comprising names, addresses, ethnicity and gender of the new membership since these are the foundation for the consultant payment. This assessment will be useful to validate achievement of social strategy goals.

43. **Disclosure Aspects.** As indicated above, the approach to technical assistance under the project will continue to be demand-driven. The institutions in the marginal rural areas and technical service providers are required to communicate and interact with each other to reach a mutual agreement on the working arrangements for each TA contract. The work plan provided in the proposal of each technical service provider will include a list of institutions with whose management it has reached an agreement to work. At this stage, therefore, neither the technical assistance providers nor the institutions to be assisted by the project or their location are known.

44. The locations are expected to be known by June 30, 2012 when the technical assistance assignments are expected to be awarded. This date is almost firm since the procurement process has already been initiated. The section on the IPPF, which is embedded in the Project Operational Manual, will be disclosed at the office of each project-assisted entity before the TA assignment commences, on the website of each technical assistance provider, and on the BANSEFI website. Premature disclosure could result in disseminating the IPPF in areas where the project may have no intervention at all, possibly raising IP community hopes for participation in the project.

Results Monitoring and Evaluation

45. The responsibility for M&E will be with BANSEFI's implementing departments. A comprehensive M&E arrangement is already in place for the training and technical assistance and the outreach components, consisting of consultant presentations and reports, discussions by BANSEFI with entity managements, and group discussions with members of entities. Periodic financial and other performance indicators are also aggregated based on submissions of consultants to measure performance for the assisted entities as a group. There are also annual workshops with participating consultants discussing their approaches, results, success factors, constraints, and recommendations to improve the project approach to providing assistance to the sector.

46. The correspondent banking initiative, piloted under the on-going Project, was followed by an assessment of user perception, benefits, average number of transactions by the member, reduction in transaction cost, and issues relating to the success of the initiative. This component will be implemented primarily in municipalities with no access to financial services. Therefore, the outcomes are all expected to be incremental. Studies in selected municipalities will assess the results of this initiative.

47. The mobile phone banking initiative is essentially being pilot-tested, and only for BANSEFI clients. A post-pilot implementation study is planned to ascertain the results of the pilot, and also to identify the factors that would need to be addressed to extend the pilot beyond BANSEFI to cover other entities.

48. The results of the communication and dissemination initiatives will be evaluated as a part of the assessment of each component that receives this support.

Annex 4: Operational Risk Assessment Framework (ORAF)

Project Development Objective(s)	
<p>The objectives of the Project are to support the: (a) consolidation of the savings and credit institutions (SCIs); and (b) deepening of financial inclusion in Selected Areas and Selected Locations.</p>	
<p>PDO Level Results Indicators:</p>	<p><i>Consolidated Sector Entities:</i></p> <ul style="list-style-type: none"> (j) 120 additional entities certified by CNBV, and show improved performance on financial and operational indicators; and 15 entities either merged/ liquidated; (ii) 85 entities (of which 35 receiving training and technical assistance for the first time) show improved performance on financial and operational indicators; <p><i>Deepened financial inclusion:</i></p> <ul style="list-style-type: none"> (iii) 1.8 million new clients mainstreamed into the formal rural financial sector and using financial services; at least 70 percent from rural marginal areas, 30 percent women, and 10 percent Indigenous Peoples; of the above, about 1.0 million new clients financially included through the correspondent banking model; (iv) 70 additional entities offering an expanded range of financial services through L@red network; and (v) One million new savings accounts established; and about 30 percent of new savings accounts made to women (core indicators).

Risk Category	Risk Rating	Risk Description	Proposed Mitigation Measure
Project Stakeholder Risks			
Stakeholder	LOW	<p><u>Dissenting cooperatives may not participate in the project.</u> A large number of cooperatives, following assistance under the on-going projects, are ready for certification. However, they were waiting for a new and more pliant Cooperative Law to decide on certification. These dissident cooperatives shunned assistance under the on-going projects, and continued to operate outside the law. The Cooperative Law of August 2009 is as stringent as the law for non-cooperatives and also maintains the December 31, 2012 deadline for certification.</p> <p><u>Perception issues relating to financial services could hinder new membership growth.</u> With a rather large new membership target in remote low-population rural marginal areas, there is a risk that the target population may not be financially literate, or there may be attitude issues (for example, in case of indigenous peoples).</p>	<p>A specific sub-component has been developed as a part of the Communication and Information Dissemination component to focus on: (a) messages relating to the certification requirement to operate legally; (b) the limited time available to meet the deadline; (c) the benefits of certification; and (d) the relatively high member confidence level and the enhanced growth pattern observed for certified versus un-certified entities; and (e) the training and technical assistance offered under the project. This is expected to create a bottom-up pressure from entity membership on management to move towards training and technical assistance for certification and performance improvement.</p> <p>A comprehensive financial education program (continuing from earlier project), a communication and dissemination module, and a further improved social strategy to address indigenous peoples' issues to mainstream them into the formal rural financial sector have been prepared to mitigate this risk. Implementation performance and its results will be closely monitored during the project period to initiate additional measures as may become necessary.</p>
Implementing Agency Risks (including fiduciary)			

<p>Capacity (Component Implementation Teams/ Financial Management/ Procurement)</p>	<p>MED-I</p>	<p><u>BANSEFI implementation teams may not be able to effectively manage or implement the project.</u> While BANSEFI has the capacity to implement various project components, some of which are a continuation of the two on-going projects, there are three key areas which will need to be adequately staffed as we proceed towards implementation – correspondent banking, mobile phone banking, and offering line of credit to eligible sector entities to introduce medium-to-longer term lending. The technology involved would require strengthening of the platform to be able to handle the expected huge increase in transaction volumes.</p> <p>Also, with the widely dispersed outreach component and the huge target for membership creation, the team may not be able to address IP issues satisfactorily.</p> <p><u>Financial Aspects.</u> The project requires payments that may be of considerable amounts to providers of goods or services, and to eligible beneficiaries. If any of the identified FM risks materializes, it may have a high impact; however, the probability is low due to the adequacy of the internal control systems and</p>	<p>The scale of the new components, and the staffing and platform upgrade requirement have been carefully ascertained and actions already initiated. For example, the outreach and the training and technical assistance component implementation teams are already getting strengthened. There is already a small team for correspondent banking and for the line of credit activities. As the scale-up will occur during implementation, most of the adaptation will take place during the project period. Implementation support is to be focused specifically on the correspondent and mobile phone banking to address any critical implementation issues that may arise.</p> <p>An improved social strategy (and IPPF) has been developed for the project with contributions from experiences of earlier project, recommendations from training and technical assistance providers, indigenous leaders, indigenous community members, entity promoter staff working with such groups, entity managements, nodal Mexican IP development institution, among others. Compliance will be monitored during implementation.</p> <p>Specific TORs will require the auditors to review a sample of program beneficiary files, and the payments made to them, to assess the compliance with the program operational rules in the following matters: (i) eligibility of the selected beneficiaries; (ii) adequate integration of the documentation required to the beneficiaries; and (iii) ensure that payments were made according to the parameters established in the operating rules.</p>
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	<p>procedures in place in BANSEFI, which among other aspects include a FM department with considerable accumulated experience managing Bank's financed projects, and a well-integrated IT platform to perform all the budgeting, accounting and payments functions related to the project.</p> <p><u>Procurement Aspects.</u> The workload of the procurement team has significantly increased. BANSEFI is now responsible for implementing Bank and IADB financed projects and grants from other sources. This risk, if not mitigated adequately, could generate implementation issues related to BANSEFI capacity to provide timely and professional procurement services to an increasing number of projects.</p> <p>Coordination issues between the technical implementation teams and the procurement team may affect timely implementation of the current and the future operations.</p> <p>Highly specialized goods and services may require a close review of the technical specifications, terms of reference and contract conditions to avoid issues that may affect the basis of competition and lead to cost overruns.</p> <p>Lack of experience of financial entities to select TA consultants under Sub-Component A, Component 1: Training and technical assistance</p>	<p>The Bank's supervision strategy will continue to include at least one full FM supervision mission per year, which will look into the operation of the control systems and arrangements, including but not limited to the FM systems and the operational processes, desk reviews of IFRs and audit reports.</p> <p>A contingency plan calculating the financing and staffing requirements would be developed during implementation for the entire BANSEFI portfolio. Bank supervision would pay close attention to the capacity of the procurement unit, assessing responsibilities beyond this project.</p> <p>Roles and responsibilities would be clearly defined in the Operation Manual. Procurement plan would be closely monitored, addressing possible delays.</p> <p>The procurement plan will flag contracts of goods and services incorporating the design of complex/specialized technical specifications or terms of reference. In addition, as needed, external consultants will be recommended for BANSEFI to review these technical specifications.</p> <p>Procedures are not complex but will be clearly defined in the Operational Manual. In addition, these procedures will be further disseminated; and appropriate support will be provided,</p>
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		of rural financial entities	as needed.
Project Risks			
Design	MED-L	<p>The project is complex and the targets are ambitious, consisting of a range of components, being national in coverage, and has some new access to financial services approaches hitherto untried in Mexico by any public sector entity or in the rural financial sector. Although BANSEFI will be the only implementing agency, it will need to work with several other nodal contracted agencies such as DICONSA, PEMEX, mobile service operator, a range of technical assistance providers, and platform-related service providers.</p>	<p>The earlier project added over 600,000 new members in eight years, the correspondent banking pilot has been in operation since October 2009 and evaluated for scale-up, and the pilot mobile phone service is planned for commissioning 2012. In a way, therefore, although some of the sub-components are ambitious and innovative, these either have been (or would be) pilot-tested before being scaled up under the project.</p> <p>Implementation demand on BANSEFI teams would be managed by consolidating the technical assistance support at the level of the consultants, and correspondent and mobile phone banking at the level of the nodal agencies. The effectiveness of the implementation teams will be monitored during the project period to determine any additional organizational support that may be necessary to ensure implementation success. This is an area of specific focus under the Implementation Support Plan for the project.</p>
Social & Environmental	LOW	<p>Indigenous Peoples issues may not get adequately addressed given the size of the outreach component (825,000 additional new members mainstreamed into the formal rural financial sector) and the proportion of IP members (about 10 percent).</p>	<p>An improved Social Strategy has been developed based on an evaluation of the outcomes of the earlier two phases of the outreach component, recommendations from four regional consultations, and a national level consultation on the proposed mechanisms to ensure better results in outreach in relation to IP and women.</p> <p>The application of a Framework Approach to the preparation of Indigenous Peoples Plans, and the role that the technical assistance providers will play has already been highlighted in the Social Strategy. Compliance will be monitored during implementation by the outreach component implementation team in BANSEFI.</p>

Delivery Quality	MED-L	<u>BANSEFI may not be able to sustain project initiatives in the post-project period</u> , particularly those relating to correspondent and mobile phone banking.	As a part of the on-going operation, an evaluation of the correspondent banking initiative was carried out to determine success factors, and also the prerequisites for its sustainability. These have been incorporated into the project design and will be monitored during implementation. The mobile phone banking initiative has been deliberately introduced as a pilot for BANSEFI clients. Following a detailed evaluation of the pilot, a scale-up could be attempted to extend this initiative to other sector entities as well.
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Overall Risk Rating During Implementation	Comments
Medium-Likelihood	The Medium-Likelihood risk rating during implementation has been provided essentially as a result of weighting issues relating to: (a) the unregistered cooperatives not participating in the project; (b) a relatively complex project innovative components and ambitious targets; and (c) the need for BANSEFI capacity for implementation of new components to be adapted during the implementation period; and (d) fiduciary risk impacts.

MED-L: Medium risk, driven by likelihood

MED-I: Medium risk, driven by impact

Annex 5: Implementation Support Plan

Strategy and Approach for Implementation Support

1. The Implementation Support Plan (ISP) describes how the Bank will support the implementation of the risk mitigation measures (identified in the ORAF) and provide the technical advice necessary to facilitate achieving the PDO (linked to results/outcomes identified in the result framework). Discussed below are the specific areas of support by the Bank component-wise.

Implementation Support Plan

2. **Training and Technical Assistance component.** (a) BANSEFI accredits or approves the consultants that have the required capability to provide the training and technical assistance through short consultancy assignments in specific thematic areas such as governance, internal controls, addressing supervision issues, training and capacity building, among others. The Bank team will work with BANSEFI to ensure that this process is rigorous to be able to get the desired results; (b) A key risk that has been identified is the possible non-participation of smaller and unregistered cooperatives in seeking training and technical assistance for operational improvement. The Bank team will work closely with the Cooperative Federation and also CNBV (the regulatory agency) in an attempt to get as many of such entities to participate as would be possible.

3. **Outreach component.** (a) There are two approaches being explored in seeking technical assistance from service providers – a large number of small firms, or a few large firms. The Bank team will work closely with BANSEFI to develop an Expressions of Interest approach to determine the depth of the consultancy capacity available; (b) To ensure that the focus on IP and women is maintained, the Bank team’s social specialist will specifically collaborate with BANSEFI to determine the scope of the Terms of Reference to reflect the main themes and guiding principles of the Social Strategy for the project; and (c) The Bank team during supervision will seek presentations from the consultants to ensure adequate progress and focus.

4. For the **correspondent banking component**, the Bank team will: (a) specifically include a specialist in this area who will work closely with the BANSEFI team to guide them, address any critical issues that may arise; (b) maintain its focus on the sustainability aspects relating to the initiative; and (c) work with BANSEFI to ensure how value-addition can be made to this model to make it more attractive to the rural clients.

5. **Expanding financial services component.** (a) Mobile phone banking is being attempted for the first time by BANSEFI, and this initiative has not yet been piloted, unlike correspondent banking. As such, the Bank will bring to the project expertise in mobile phone banking to support BANSEFI in this initiative.

6. **Technology Platform component.** (a) The Bank team has been providing key technical advice over the past several years to the BANSEFI platform team. Given the need to upgrade the mainframe and core banking package, and introduce the switching arrangement for electronic payments, the services of the technical expert will continue to be offered to BANSEFI; (b) A key area of support to BANSEFI will be the decision to purchase or lease the mainframe, and the location for its placement;

and (c) Another key area of support to BANSEFI will be the decision to upgrade the core banking application package, keeping in mind the additional entities that may embrace the platform services.

7. **Communication and Dissemination/Financial Education components.** During preparation, the Bank team specifically provided the services of a communication specialist who worked closely with the BANSEFI communication team to draw up the strategy and media to be used based on the target audience. This was found to be very useful and the Bank supervision team will continue to provide this support to BANSEFI during implementation.

8. **Project Management.** The Bank will work closely with BANSEFI to ensure that there is adequate advance planning to visualize the requirement of appropriate skills to implement the new components effectively, and that the adaptation is timely to keep the project implementation on track.

9. Additionally, support would also be provided for the fiduciary aspects relating to financial management and procurement as follows:

(a) **Financial management.** The two proposed mitigation measures are part of the standard process of project supervision, and for that reason the timing for mitigation will be during implementation. The specific audit TORs will be agreed at the beginning of each year between the Bank, BANSEFI and the Ministry of Public Administration, while the Bank’s supervision strategy will include at least one full FM supervision mission per year, desk reviews of IFRs and audit reports; however, in case of an increase or a decrease in the FM assigned risk, this strategy will be reviewed accordingly; and

(b) **Procurement.** The demand on the BANSEFI implementation teams would be carefully monitored during the project period to determine support in terms of capacity and skills-mix that may become necessary to successfully implement project components. Additionally, the aspects indicated in the Action Plan agreed with BANSEFI would be monitored regularly to determine any additional procurement-related support that is required. Finally, the Bank will closely supervise the implementation of those technical assistance and training activities to SCIs scheduled to be financed under components 1, 2 and 3. These activities will be carried out under agreed Bank procurement methods (consultants qualification, 3CVs, etc), aligned with BANSEFI established guidelines. The Operation Manual, which the Bank approved during Negotiations, underlines these procedures.

10. Skills Mix Required.

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader (Supervision)	12	3	HQ-based
Procurement Specialist	4	2	HQ-based
Financial Management Specialist	3	2	Country-based
Banking IT Specialist	3	3	Consultant
Social Specialist	3	3	Country-based
Monitoring/Evaluation Specialist	3	3	Country-based
Correspondent Banking Specialist	3	3	HQ-based/Consultant
Mobile Phone Banking Specialist	3	3	HQ-based/Consultant
Knowledge Management Specialist	3	3	HQ-based

Annex 6: Team Composition

World Bank staff and consultants who worked on the project

Name	Title	Unit
Harideep Singh	Task Team Leader (until 9/20/2011)	LCSAR
Pierre-Olivier Colleye	Task Team Leader (from 9/20/2011)	LCSAR
Robert Keppler	Banking IT Specialist	Consultant
Maria-Elena Castro Munoz	Senior Social Specialist	Consultant
Erika Vargas	Communication & Knowledge Specialist	Consultant
Juan Buchenau Hoth	Senior Financial Sector Specialist	LCSPF
Viviana Mariela Maya Iglesias	Counsel	LEGLA
Juan Carlos Serrano-Machorro	Financial Management Specialist	LCSFM
Diomedes Berroa	Senior Procurement Specialist	LCSPT
Liliana Vendevre	Team Assistant	LCSAR
Gloria Dehaven	Senior Program Assistant	LCSAR

Annex 7: Social Strategy: Targeting Indigenous Peoples and Women

Background

1. The Savings and Credit Sector Consolidation Project aims to strengthen the savings and credit sector entities in marginal areas that serve lower income segments of the market, and to improve access of rural communities to sustainable financial services. To achieve this objective the project consists of the following components: (a) Training and technical assistance for sector consolidation and strengthening of sector entities; (b) Deepening outreach to improve access to financial services; (c) Extending an expanded range of financial services to entities and clients; (d) Financial education; (e) Technology platform; (f) Communication and dissemination; and (g) Project management.
2. To provide sustainable financial services to poor rural population the project will continue supporting the successful model developed under the PATMIR outreach component which was a key component of the first phase of the BANSEFI project. This program, now integrated into BANSEFI, will scale up to deepen outreach to incorporate up to 825,000 new members, while maintaining its social focus.
3. In PATMIR phase I, launched in 2001, the project focused on marginal areas (as defined by CONAPO²²) in 10 states which were grouped into seven regions for technical assistance service as follows: (a) Chiapas (and adjacent marginal areas in the State of Tabasco); (b) Huasteca (marginal areas in the states of Hidalgo, San Luis Potosi and Veracruz); (c) Oaxaca; (d) Veracruz, excluding the Huasteca region of this state; (e) Guerrero; (f) Michoacan; and (g) Puebla (and adjacent marginal areas in the state of Tlaxcala). At the end of the first phase, the project generated about 200,000 new members.
4. In phase II, the project moved nation-wide scaling up coverage to cover rural communities with less than 15,000 inhabitants. At the end of this phase, PATMIR had been implemented in 25 states and had incorporated more than 400,000 new members in three years, taking the total new membership added to 600,000 under both phases.
5. PATMIR incorporated a large proportion of indigenous population of various ethnic groups into the formal financial sector. This population is not only poor, but has been subjected to different types of social exclusion that have limited their opportunities to participate in developmental projects.

Approach and Outcomes under Phase I (parent project) and Phase II (Additional Loan)

Phase I Approach

6. The parent project aims to strengthen the savings and credit sector entities in marginal areas that serve lower income segments of the market, and to improve access of rural communities to sustainable financial services.
7. The geographical area covered under Component 2 of the parent project (Expanding Financial Services in Rural Marginal Areas) consists of marginal areas (as defined by CONAPO) in 10 states

²² Consejo Nacional de Población (National Population Council)

which were grouped into seven regions for technical assistance service procurement, as follows: (a) Chiapas (and adjacent marginal areas in the State of Tabasco); (b) Huasteca (marginal areas in the States of Hidalgo, San Luis Potosi and Veracruz); (c) Oaxaca; (d) Veracruz, excluding the Huasteca; (e) Guerrero; (f) Michoacan; and (g) Puebla (and adjacent marginal areas in the State of Tlaxcala).

8. According to CONAPO data on rural marginal areas, a large proportion of the population in these areas consists of indigenous peoples of various ethnic groups (e.g., indigenous groups are between 70-90 percent of the population in Chiapas and Huasteca region). This population is not only poor, but has been subjected to different types of social exclusion that have limited their opportunities to participate in developmental projects.

9. In accordance with the earlier OD4.20, Indigenous Peoples Participation Plans were prepared for each region on the basis of a social analysis and a consultation process. This process takes into account the following factors: (a) there is no expected negative project impact; on the contrary the project will offer alternatives to access sustainable financial sector services under culturally suitable conditions; (b) there are no land tenure aspects involved in project activities; (c) the project provides technical assistance to rural financial institutions; therefore many of the traditional sections of IPDP are not relevant; (d) there are no IP lands or related natural resource issue; (e) there is no commercial development of IP natural or cultural resources; and (f) there is no physical IP relocation.

10. Given the demand-driven nature of the project, the IP Participation Plans were prepared during project implementation by the technical assistance providers following the IPPF approach, and considering the matrix provided below.

Table 9: IP Participation Plans

Item	Relevance
Legal Framework	Indigenous peoples' rights are protected under the Mexican Constitution and specifically detailed in the Indigenous Peoples Law. Mexico has signed the ILO 169 Agreement.
Baseline Data	Relevant information about socioeconomic conditions and cultural background are incorporated in the social analysis section.
Land Tenure	The legal framework protects indigenous peoples land tenure rights. The project does not involve land tenure.
Participation	The social strategy would propose alternatives to address social issues that can hinder indigenous peoples' participation and will design mechanisms to promote participation. However, participation is an option under the project's demand-driven approach.
Mitigation	No negative impacts are foreseen.
Institutional Capacity	Bidding documents for technical assistance consultants will include expertise in dealing with diverse ethnic groups.
Schedule	IP Participation Plans will be prepared for each region as scheduled in the project implementation plan.
Monitoring and Evaluation	Outcome reports will include a section on indigenous peoples' participation in the project.

11. **Social Analysis and IP Consultations.** The IP Participation Plans were the result of two very specific processes: (a) social analysis for each of the seven regions; and (b) consultations with IP communities in each region.

(a) **Social analysis.** This included: (i) a regional overview, pointing out the importance of the project in the region and an overview of its main features; (ii) socio-economic and cultural analysis, comprising analysis of basic demographic data, indigenous population, poverty conditions, productive activities, and social organizations; and (iii) ethnographic characterization, comprising an analysis of main ethnic groups in the region, their organizations, traditions and cultural perspectives.

(b) **Consultations with IP communities.** Consultations with IP groups were carried out in each region using the workshop format, materials prepared, and lessons learned from the experiences in studies relating to predecessor regions. The consultations identified potential beneficiaries' perspectives on savings, credit, and technical assistance, as well as their perspectives on the mechanisms identified to enable their participation. The potential beneficiaries were also asked for their suggestions as to how materials and targeting mechanisms might be made more effective in achieving their participation in the project.

12. The specific objectives of the above two processes were: (a) to identify mechanisms to ensure that indigenous populations can benefit from the project taking, into account its demand-driven approach; (b) to identify opportunities and overcome obstacles for the poorer and vulnerable population segments in marginal rural areas to participate in the project; and (c) to guide the efforts of the consultants providing technical assistance for the Expanding Financial Services in Rural Marginal Areas component.

13. **Preparation of IP Participation Plans.** Following consultations, the recommendations were encompassed into actionable plans. This was done during project implementation through technical assistance providers. The TOR for the international technical assistance providers included: (a) a requirement to have team staff with experience in working with indigenous peoples; and (b) an annex with the Social Analysis, and results of the consultations held in each region. The consultants used these inputs to prepare IP Participation Plans to define and implement actions to promote indigenous participation. These plans were expected to consist of activities under three broad heads: (a) a communication campaign to make the rural population aware of the project and encourage participation; (b) an outreach strategy to link poor communities to rural financial entity services; and (c) identification of and support for community-based savings efforts.

Phase II Approach

14. The process of social analysis and consultations during the parent project preparation, and the preparation and implementation of IP Participation Plans at the entity level has been tested, found to be responsive to the needs of the IP populations, and has successfully integrated them into the formal rural financial sector. This process was focused on the seven regions covered under the parent project, and which house 72 percent of the Mexican IP population.

15. During implementation of the parent project, indigenous representatives routinely participated in meetings and consultations with technical service providers and entity staff, and their concerns have

been reflected in the refinements of the IP Participation Action Plans in the areas of market penetration, training, and outreach aspects.

16. The Phase II scaled-up project had three very specific attributes: (a) theoretically, it covered the entire country, and therefore added another 22 states with 28 percent of the remaining IP population to the project area “generally”; (b) practically, it was demand-driven with an offer of training and technical assistance to about 80 entities whose locations were yet to be determined (about 35 entities were expected to belong to the seven regions already covered under the parent project – these could include some entities that were late entrants under the parent project and would continue to receive training and technical assistance under the proposed additional financing project; and about 45 new entities could be from any of the new 22 states); and (c) the concentration of IP population in the new 22 states was thin and widely dispersed.

17. Given the complexity of the project, and the nature and scale of the proposed project’s potential effects on IP, the project did the following:

(a) at the macro level, it continued to use the detailed and comprehensive social analyses carried out for, and the consultation outcomes from, the seven regions covering 72 percent of the Mexican IP population; and

(b) at the micro/entity-level, the project followed an IPPF approach discussed below.

18. **IPPF.** The approach had the following main features:

(a) Entities in states covered under the parent project. These states continued to use the detailed and comprehensive social analyses carried out for, and the consultation outcomes from, the seven regions covering 72 percent of the Mexican IP population. Indigenous Peoples Participation Plans were updated for existing parent project entities, and prepared for new entities located in these regions, where there was a presence of IP population in the new entity’s area of operation. The process incorporated best practices already tested under the parent project to ensure that the Phase II project continued to benefit the IP population.

(b) Entities in states outside the parent project regions. Entities in these states used the parent project social analyses, consultation outcomes, some sample IP Participation Plans with an evaluation of achievements as parent project experience to enrich their understanding of the social and IP aspects, and prepared Indigenous People Participation Plans where there was a presence of IP population in their area of operation. The process involved doing an incremental social analysis and IP consultations.

(c) Terms of Reference for the training and technical assistance support. These clearly indicated to the prospective training and technical assistance providers the need to: (a) incorporate staff in the assignment team with the capacity to carry out social analysis and prepare IP Participation Plans; (b) do a quick screening to ascertain the presence of IP populations in the entity’s operational territory; and (c) if IP population was present, carry out an incremental social analysis and consult with the identified potential indigenous beneficiaries to prepare an IP Participation Plan which would include output and outcome indicators. The implementing agency was to provide appropriate guidance to the training and

technical assistance providers to carry out the incremental social analysis and also prepare the IP Participation Plans.

(d) Implementation and monitoring of IP Participation Plans. The training and technical assistance consultant implemented the IP Participation Plans, and presented progress reports every six months. The implementing agency reviewed these reports and suggested remedial actions, where necessary. The core team in the implementing agency, as established under the parent project, continued to undertake field visits and, in consultation with indigenous communities, reviewed implementation of the IP Participation Plans. The Bank team, as a part of its regular review process, also assessed compliance.

Table 10: Outcomes under Phase I and II

Phase	Number of States	Financial Entities Assisted	Points of Access	Duration (years)	Membership	Budget Million US Dollar
PATMIR I	10	33	193	5	200,000	37.5
PATMIR II	25	121	600	3	426,000	60.0

Source: PATMIR Unit

19. IP Participation. The strategy of having Indigenous Peoples Participation Plans prepared by the technical service providers working with project-assisted entity managements and IP groups to focus on IP populations within the entity operational territory has worked very well. Some interventions used by the entities to secure better IP and vulnerable groups' participation are provided below:

- (a) To deploy bilingual promoters who understand IP practices and customs; many of the branches located in majority indigenous zones have bilingual staff and in some cases the manager hails from an IP community;
- (b) To adapt products to better respond to the needs of these specific groups;
- (c) To use bilingual radio stations and materials in native languages as a part of the promotional effort, and participate in community festivals and fairs as part of the awareness strategy;
- (d) To have recourse to mobile banking and design of new routes to penetrate the marginal and isolated areas;
- (e) To establish alliances with Federal and State social programs for rural and marginal areas, such as Instituto Estatal de la Mujer in Chiapas, SEDAFOF in Tabasco, Oportunidades in Huasteca, Comisión Nacional para el Desarrollo de los Pueblos Indígenas (Guerrero), SEDESOL (Guerrero), Secretaría de la Mujer (Guerrero), and FOMMUR (Puebla);
- (f) To introduce life insurances with a special focus on housewives;
- (g) To promote women savings through an incentive regime;
- (h) To design strategic plans with traditional indigenous base cooperatives;
- (i) To develop strategic alliances with social and producers organizations to convert these into a new financial entity with IP membership base (Oaxaca).
- (j) To create audio material in indigenous languages, and disseminate through tapes, local bilingual radio, and community loudspeakers;

- (k) To design of credit scoring tools in indigenous languages (Michoacan);
- (l) To establish new group savings and credit approaches such as (Veracruz and Michoacan); and
- (m) To carry out training on saving and credit products through bilingual staff.

20. In all cases, existing traditional and cultural structures have been incorporated in operating mechanisms and in mechanisms to promote savings and credit: community committees are agencies of representation in the financial institutions; the community assembly is the principal agency in charge of decision making; and the culture of the “tequio,” another form of community support, has, in many cases, enabled the implementation of branches or other types of installations of the savings and rural credit system. Consultants have taken into account these typical characteristics of potential members and this has helped in meeting targets for IP population participation, reaching an average 26 percent of the total.

21. **Women's Participation.** In all regions, the target for assisting women, originally set at 30 percent, has been exceeded, and is consistently above 50 percent. Strategies for assisting women include home visits and agreements with agencies and/or programs that specialize in assisting women: in Chiapas, Oaxaca, and Guerrero, the state institutes for women were also involved. Small gifts have been used as incentive for savings. The modalities for assisting women include credits for productive activities, commercial activities and consumption and to expand micro-businesses. The gender equity strategy has motivated the development of incentives to increase men’s participation in support-based groups typically considered “feminine;” there are currently mixed groups and in some cases groups of men only, which operate successfully.

22. **Capacity Building.** Training covers two target groups: (a) training and technical assistance of consultants to savings and credit agencies; and (b) training to beneficiary organizations so that they can manage their own savings and credit mechanisms, especially support-based groups and community organizations.

(a) *Organizations:* Training given to cooperatives (many IP-based) and other organizations to give them guidance on savings and credit activities was successful, resulting in: (i) the creation of sections specializing in savings and credit in productive cooperatives; (ii) expansion into rural areas and assistance to indigenous communities by several agencies that formerly operated only in urban areas; (iii) expansion of the number of members and opening to customers; and (iv) consolidation of specialized instruments and products to assist target groups.

(b) *Communities:* With regard to support-based groups and community organizations, training has enabled their creation and development. However, a focused effort is required in aspects of co-responsibility and appropriation by these organizations. The next stage would carry out training aimed at the beneficiaries themselves so that they can understand their role as members and the obligations and rights that this entails, and reinforcing an understanding of the rules of the cooperatives, especially regarding interest charged to members for productive activities and assistance to “clients” who are not members of the cooperative.

Social Strategy for the Project

23. The Phase I and Phase II project social strategies proved to be successful in benefiting poor population and achieving targets, with women representing more than 50 percent of new members and indigenous 20 percent. For the third phase, the already successful social strategy was further improved using inputs from the outcomes under Phase I and II (as provided in the earlier section), and from the four regional consultations and a national level consultation.

Regional Consultations

24. Regional consultation included financial institutions (FI) under the project with a high percentage of indigenous members (men and women), management and promoters of these institutions were interviewed. Indigenous members and not-members as well as community leaders were consulted. Four FE, one from each consultant in the project were selected: Zongolica (WOCCU); Caja Solidaria Mulmeyah (Sparkassen); Caja Chinde' Etanyo y Cooperativa Suljaa' (DGRV); and Caja Tosepantomin (DID). This selection allowed consultation of a variety of indigenous communities comprising Nahuatl, Maya, Mixteco and Amuzgo peoples.

Table 11: Indigenous Members of Financial Institutions Selected for the Consultation

Consultant	Financial Institution	Total Membership	Customers	Indigenous Members	% of Indigenous Members
WOCCU	Caja Zongolica	11,853	1,893	9,452	80%
SPARKASSEN	Caja Solidaria Mulmeyah	3,173	65	2,587	82%
	Chinde' Etanyo	2,220	895	1,740	56%
DGRV⁽¹⁾	Cooperativa Suljaa'	6,020	3,492	3,938	41%
DID	Caja Tosepantomin	7,802	3,146	6,798	87%

⁽¹⁾ The calculation of percentage indigenous considered the members and customers of indigenous population.
Source: Operations Technical Unit of PATMIR, September 2010

25. All entities visited have introduced financial services specifically targeting women, who represent on average around 50 percent of total membership. These products include saving accounts for housewives, saving accounts for pregnant women, credits at a preference rate to develop small businesses, among others. General opinions of those consulted were very positive and all parties acknowledged PATMIR's contribution to expanded financial services to poor population. A detailed report of regional consultation is included in PATMIR Evaluation Report available in the project's file. Main results are summarized here by categories of respondents.

26. **Members.** (a) Financial entities under PATMIR are reliable and responsive to members' needs, including those from indigenous descent and women; (b) having a safe place to keep savings is as important as obtaining credits; (c) having access to formal financial sector services has dramatically reduced the use of the more expensive informal credit options; and (d) learning how to use savings and manage credits has been very useful in better financial planning.

27. **Non-members.** Those interviewed knew about PATMIR and had a good opinion of the program. The reasons mentioned for not joining were: (a) one family member is already in the program; (b) insufficient income to pay the social contribution up-front. As opposed to members, non-members continued to use informal credit sources, which were found to be usually very expensive.

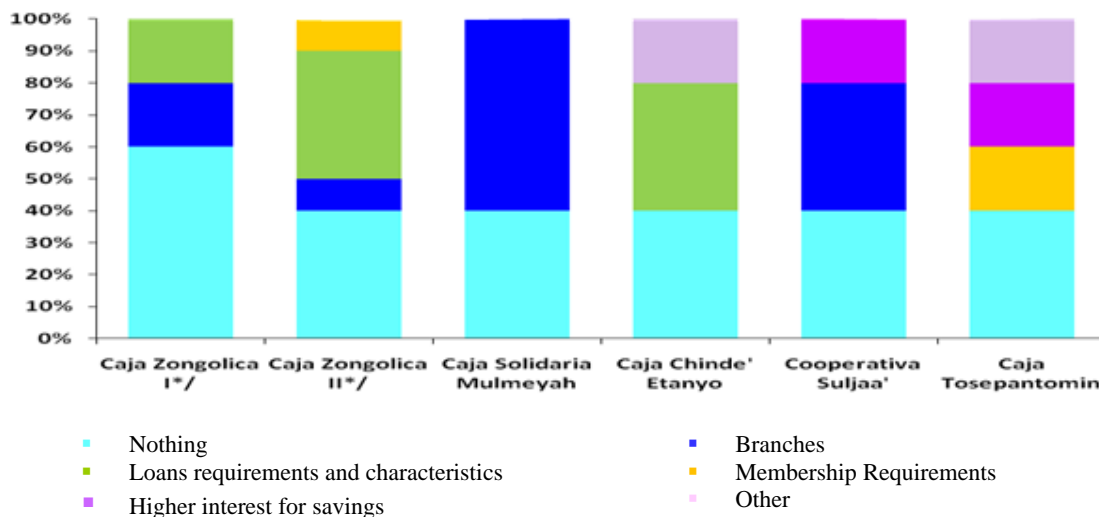
28. **Management of financial entities.** Managements recognized that PATMIR had contributed to better financial management, facilitating their expansion. With respect to the IP, the managements expressed the following: (a) indigenous population represent an opportunity for expansion and growth; however, this groups are usually difficulty to reach (physically and culturally) which increases costs; (b) women represent a high percentage of the membership in all entities; therefore they constitute a solid basis for expansion; however women’s savings and credit in average are lower than men; (c) most credit is used for productive purposes mainly to invest in small businesses and house construction or improvements; and (d) direct promotion and has been critical to successfully expand, particularly in the case of women and indigenous members who value personal contact and access to entity staff.

29. **Promoters.** Promoters also deemed direct contact necessary to build trust and provide financial education. In their opinion the training provided by the TA consultants was critical to achieve this goal. According to promoters’ perception, having access to financial services has improved living conditions of indigenous population and women.

30. **Community leaders.** Leaders consulted were aware and had a positive opinion of the program. In their opinion, PATMIR entities are more reliable and have had a positive influence in the community because of the financial services offered and the help they provided to their members.

31. Recommendations offered by members of PATMIR institutions are presented in Figure 2.

Figure 2: Membership Survey – Is there something you would like the Caja to improve, change or offer to its membership? / Information by Caja



32. On average, about 50 percent of the members expressed satisfaction with financial services as they are. However, members expressed the following desires: (a) to improve accessibility was the highest

priority, and this could be achieved by establishing a branch or an ATM within or near their communities; (b) to facilitate conditions to become full member came next, particularly reducing the amount of social contribution; and (c) to ease access to credit was also recommended. Many entities are already responding to these demands expanding branches and/or establishing ATMs. Some have also reduced the minimum amount required to become members.

33. With regard to outreach strategy, both members and non-members in indigenous communities stated their preference for direct interaction with promoters who speak their own language, which in their opinion facilitates understanding and trust building. This strategy requires special training and materials to be fully satisfactory. This support has been provided as part of the TA.

34. Sharing experiences with actual members is also a good way to promote financial services. Written materials are not preferred because many indigenous persons do not read well or not at all. Finally radio programs were mentioned as an effective way of promotion in some communities, as well as special events (raffles, fairs, etc.) organized by entities to promote affiliation. The main results of the consultation are summarized in Table 12.

Table 12: Members Survey – How did they know about the Caja? Information by Caja

Caja	Caja Zongolica I*	Caja Zongolica II*	Caja Solidaria Mulmehyah	Caja Chinde Etanyo	Cooperativa Suljaa	Caja Tosepantomín
Rural Marketing/ financial executive	50%	40%	100%	40%	-	20%
Other Members	30%	40%		40%	60%	20%
Ads, brochures, posters	-	20%		20%	40%	20%
Other	20%	-		-	-	20%
TOTAL	100%	100%	100%	100%	100%	100%

(c) * Caja Zongolica I is referred to the branch in Atlahuilco, and the Caja Zongolica II is referred to the branch in Zongolica.

National Consultations

35. A national consultation workshop was held on February 28, 2011, to discuss main findings of evaluation, recommendations of the regional consultations, and to obtain suggestions for the design of the social strategy and preparation of the Phase III of PATMIR. Around 30 persons participated, including indigenous and women. The group included financial entity representatives and promoters, representatives of the four consultants currently providing technical assistance, representatives of federal organizations related to rural financing and the National Indigenous Commission (CDI), BANSEFI executives linked to the project and staff in PATMIR Technical Operative Unit, and a social specialist consultant on behalf of the World Bank. The main conclusions of the workshop corroborated, and in some cases complemented, the findings of regional consultations.

36. **Suggestions for the Social Strategy Design.** The most important suggestions emanating from the consultation are summarized below (the detailed report is available in the project's file).

- ***Promoting indigenous peoples' participation:*** A large proportion of indigenous population lacks access to financial services. Therefore, they present a high potential for the expansion of financial entities. A special outreach strategy has to be designed to achieve this objective, including the generation of financial products meeting their needs and compatible with their culture. Communication should be direct and conducted in indigenous peoples' languages by local promoters familiar with the local culture. Staff in the entities should also be aware and respectful of indigenous members' culture and preferably be speakers of indigenous languages.
- ***Enhancing the quality of women's participation:*** Women represented on average around 50 percent of the new membership added under PATMIR phases I and II. This high level of participation is expected to continue during phase III. However, the amount of their per capita savings and credits are lower than those of men. This is particularly so in the case of indigenous women. Therefore, social strategy in phase III should aim at maintaining and even enhancing quality of women's participation with a focus on indigenous women.
- ***Direct communication is the best option:*** Men and women in rural areas prefer direct communication because it facilitates their understanding of financial services rights and responsibilities, and favors trust-building. Bilingual promoters knowledgeable of the local culture and capable of speaking indigenous languages have been identified by all parties as the best communication option.
- ***Consultation:*** Consultation is necessary to better understand indigenous peoples' views about financial services, with products being adapted to indigenous peoples' needs. Therefore, preparation of IPP should incorporate consultation process of potential members as well as local leaders and authorities as the best way to obtain this information.
- ***Promoting commitment among financial entities:*** Promoting ownership and commitment among entities to support IPP is critical to achieving established goals. To overcome access difficulties and cultural barriers that usually limit reaching indigenous communities, the project should include specific incentives and support. Accordingly, TA consultants will incorporate training and support for the design of the outreach strategy, financial products, communication campaigns and financial education methods and materials.
- ***Knowledge sharing:*** The building of a learning platform is necessary to capitalize on the experience of the consultants and the financial institutions operating in rural and indigenous communities. This platform would help build a portfolio of "good practice approaches" for financial services in rural and poor communities that could be expanded.
- ***Institutional coordination:*** During the workshop CDI offered its assistance in the preparation of indigenous peoples' plans including: (a) providing information about ethnic groups' potential to participate in PATMIR; (b) facilitating access to CDI's community radio network to support outreach strategy; and (c) linking PATMIR with Fondos Regionales (Regional Funds) that have resources but not means to offer financial services to indigenous population. The project should attempt to promote institutional coordination to materialize this support.

37. **Challenges to be addressed.** Participants of the national workshop discussed some of the challenges that microfinance institutions are still facing. Most of these are related to the sector such as the uncertainty still remaining around the legal framework that has delayed decision-making relating to expansion in some entities. Managements of some certified entities expressed this situation has led to unfair competition from of those entities that have skipped regulation. Recommendations to consolidate the sector included: (a) to improve sustainability and promote a long-term business vision among entities; (b) to further improve access to new technology offering financial services; and (c) continue TA to improve financial management, service quality and governance.

38. Another issue affecting the microfinance sector is the prevailing mistrust towards “cajas” as a result of the lack of effective regulations at the local level to control entities that are have entered the sector in the last few years without the financial and technical capacity. The collapse of some of these “cajas” in recent times (particularly after the global financial crisis) has affected the reputation of the entire sector. To address this issue, workshop participants recommended the following: (a) improve regulations and move toward certification expeditiously; (b) implement a national level process to make it easy for rural clients to recognize reliable financial entities; and (c) BANSEFI to launch a national communication campaign to support entities under the PATMIR program in this third phase.

39. The insufficient human resources capacity at the local level also limits expansion. This is particularly the case in relation to recruiting and retaining financial promoters who require both local knowledge and international standards. To address these issues, the Terms of Reference of the TA consultants under the new project should incorporate strengthening institutional capacity and financial education methods and materials.

40. Finally, the high level of insecurity was mentioned as a major obstacle to expand financial services in certain vulnerable regions of the country.

Lessons Learned and Recommendations for Project Design and Social Strategy

41. The most important lesson from PATMIR is that delivering financial services to poor population is feasible and sustainable, including those more vulnerable like women and indigenous population. Cooperatives have proven to be the best alternative because they use their own resources to expand membership and services. The technical assistance provided by PATMIR through specialized consultants has helped to strengthen entities by offering financial management training, better tools and methods in the establishment of adequate outreach strategies and access to new technologies. To consolidate the microfinance sector, it is recommended to incorporate a long term business perspective, to take measures to ensure sustainability, and to move steadily towards certification.

42. Social strategy has been a factor of success of PATMIR, specifically targeting indigenous population and women. These two groups have been very important in the expansion of formal financial in poor rural areas: women represent 50 percent of new membership and indigenous 20 percent. Social strategy has been an effective tool in reaching these particularly vulnerable groups. For the third phase of PATMIR, a further improved social strategy should be incorporated building on the lessons learned in the last 10 years of PATMIR’s implementation experience.

43. Social assessment and consultation to prepare indigenous peoples plan and women programs should be a part of the social strategy. The establishment of groups sharing common interest, tested and expanded under PATMIR, to engage women and indigenous groups should be strengthened with financial education and better trained promoters. Bilingual promoters directly interacting with these groups and rural members in general has been identified as a key factor for success.

44. TA consultants have supported social strategy incorporating specific tools to strengthen financial institutions in the design of outreach strategies and products intended for women and indigenous. The training of promoters in group integration and management, financial education and materials has been very useful. TA has also facilitated incorporating technical tools (electronic banking, for instance) to facilitate service delivery to poor rural population. This should be continued.

45. Social strategy will continue to operate in the third phase of PATMIR under the new project taking into account lessons learnt and recommendations from the previous phases namely:

Promotion: Direct promotion designed to interact with rural population will be established specifically in the case of women and indigenous population. Entity staff accessibility plays an important role in building ownership and trust among this type of members.

Services and financial education: The combination of financial services promotion with financial education on the best ways to manage savings and credit is appreciated by members, and also helps entities to keep in good financial shape.

Accessibility and quality service: Members demand an easy access to services, high quality of services, including well established facilities, and fair treatment. These aspects play a big role in maintaining and expanding membership.

46. PATMIR will continue to play a key role in the expansion of financial services to rural population. Some recommendations offered in the national workshop to improve its role were: (a) prepare a nationwide communication campaigns to support the role of entities under the program; (b) to promote coordination with other financial institutions to better use tools available; and (c) to promote partnerships with other federal programs operating in rural areas (such as Oportunidades, CIDE's Regional Funds, Procampo).

Project Social Strategy

47. The projects triggers OP 4.12, Indigenous Peoples, and follows a framework approach. Therefore IPPs will be prepared during implementation to ensure that indigenous peoples in the project's areas benefit from the project and their rights are respected as established on the Mexico's National Constitution, the Indigenous Peoples Law and the ILO 169 Agreement signed by Mexico.

48. An improved social strategy has been designed building on the experience of the previous two phases of PATMIR and taking into account the evaluation conducted during preparation, which provided with lessons-learned and recommendations, and the outcomes of the four regional consultations and one national level consultation. As established in the PATMIR I and II evaluation: (a) close to 20 percent of the new membership hailed from IP communities; (b) the program has benefited

indigenous population without causing any negative impacts; and (c) the program has designed products specifically appropriate for indigenous peoples' needs and are culturally suitable. The consultations provided indigenous peoples' perspective towards the project.

49. Because the project operates under a demand-driven approach IP Plans will be prepared once the alliances to provide formal financial services are established between TA consultant and the entities. These plans will identify means to address barriers preventing indigenous peoples' participation in financial services and will establish specific goals to benefit indigenous population following a participatory approach.

50. To ensure that adequate capacity is in place for preparation and implementation of IP Plans, the bidding documents for the selection of TA consultants will require such capacity to be demonstrated. This activity will be incorporated into the project's implementation plan. The TA to strengthen the entities will incorporate the adoption of the social strategy to provide financial services to poor rural population with a focus on indigenous groups and women.

51. The social strategy will consist of the following elements:

- *Consultant ToR:* The Terms of Reference of the TA consultants working with the selected entities will have preparation of IP Plan and women actions as a specific area of work to reach the proposed new membership goal, with shares of at least 10 percent IP and 30 percent women.
- *Alliances:* In establishing alliances with entities, the TA consultants will identify entities predominantly in rural localities within established population threshold of less than 100,000 inhabitants to achieve at least 70 percent of new membership target from medium, high and very high marginality areas.
- *Indigenous Peoples Plan:* The TA consultants will prepare IP Plan covering their respective alliances. The IP Plan preparation will incorporate a consultation process with potential IP members as well as their local leaders and authorities. For this purpose, they may consult CDI too, which has agreed to provide support as would be feasible. The IP Plan will be implemented by the consultants based on the outreach strategies prepared by them, including the design of culturally compatible financial products and appropriate technical tools. The consultants will also provide training, financial education and dissemination materials.
- *Women Actions:* The TA consultants will support the assisted entity in the development and implementation of women actions including: group creation, special services, and financial education and dissemination materials for each one of these activities.
- *Financial Education:* The TA will include the establishment of methods and tools to inform the communities and potential members about the benefits of becoming a member, their obligations, the role of the financial entities, the financial products offered, and their advantages, among others. Appropriate programs will be developed for financial education of indigenous peoples and women.
- *Training Promoters:* Men and women in rural areas prefer direct communication because it facilitates their understanding of financial services, rights and responsibilities, and favors trust-building.

Bilingual promoters, knowledgeable of the local culture and capable of speaking indigenous languages, would be trained by the TA consultants to perform this task.

- *Communication:* The project's communication component will support social strategy through broad communication initiatives such as radio, caravans, printed materials, and local newspapers. The project team will continue publishing its monthly bulletin to disseminate results and share field experiences.
- *Institutional Coordination:* The recent moving of the outreach component core implementation team from SAGARPA to BANSEFI will facilitate coordination and complementarity with other financial programs in BANSEFI servicing poor population such as L@ Red de la Gente.
- *Monitoring and Evaluation:* The M&E will incorporate tracking progress in achieving membership goals for women and indigenous population. The project team will continue collecting and analyzing information on entities (based on financial data provided by the consultant) on a quarterly basis, which will also include periodic members' satisfaction surveys. Moreover, an independent firm, focused on quality control and corroboration of new membership creation, will verify the achievements comprising names, addresses, ethnicity and gender of the new membership since these are the foundation for the consultant payment. This assessment will be useful to validate achievement of social strategy goals.

Disclosure Aspects

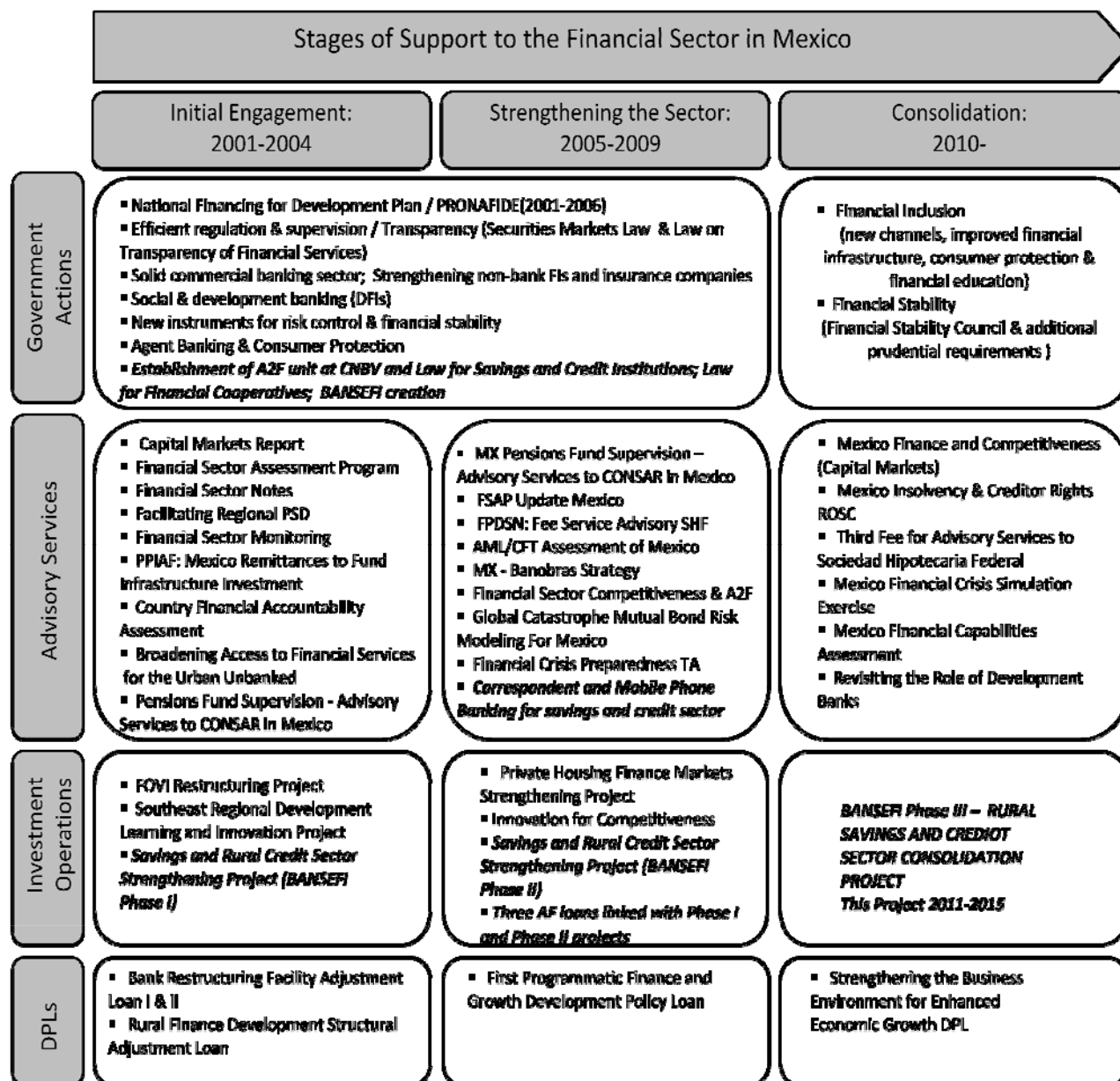
52. As indicated above, the approach to training and technical assistance under the project will continue to be demand-driven. The institutions in the marginal rural areas and technical service providers are required to communicate and interact with each other to reach a mutual agreement on the working arrangements for each TA contract. The work plan provided in the proposal of each technical service provider will include a list of institutions with whose management it has reached an agreement to work. At this stage, therefore, neither the training and technical assistance providers nor the institutions to be assisted by the project or their location are known.

53. The locations are expected to be known by the end of 2011, when the training and technical assistance assignments are expected to be awarded. This date is almost firm since the procurement process has already been initiated. The section on the IPPF, which is embedded in the Project Operational Manual, will be disclosed at the office of each project-assisted entity before the TA assignment commences, on the website of each training and technical assistance provider, and on the BANSEFI website. Premature disclosure could result in disseminating the IPPF in areas where the project may have no intervention at all, possibly raising IP community hopes for participation in the project.

Annex 8: Bank Support in the Evolution of the Rural Financial Sector in Mexico (Savings and Credit Institutions Segment)

1. Since 2001, the Bank has been working closely with the Government of Mexico in the evolution of the savings and credit sector institutions under a broader partnership in support of the Mexican financial sector (Figure 3).

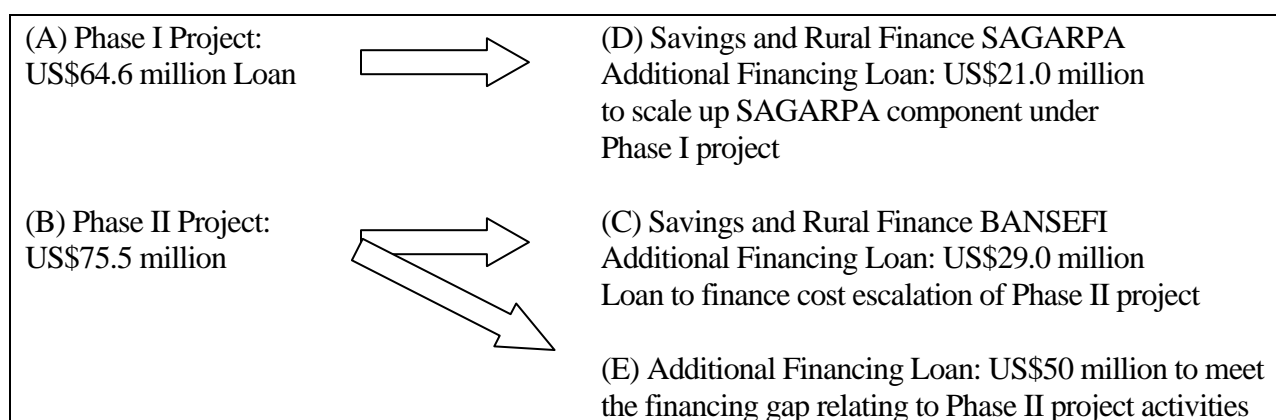
Figure 3
World Bank-Mexico Partnership in Support of Financial Sector Development



2. Since Mexico has developed its own home-grown solution to the reform of the savings and credit segment of the rural financial sector, there were a range of uncertainties and unknowns, which became

manifest as the process unfolded, requiring additional assistance either to cover extended time-frame required to complete some stages of the process, to finance cost escalation, or to introduce additional activities to support the reform process. Extension of the deadline for certification to December 31, 2012 (necessitating extended period of training and technical assistance to entities), lowering the asset threshold for mandatory certification (expanding the universe of entities that required training and technical assistance for certification), and the introduction of a new Financial Cooperatives Law in August 2009 (creating new federations, parallel deposit protection funds and supervision structures) are some examples which created further demand for additional Bank support. The situation has been very dynamic and therefore required five loans over a period of eight years. The inter-relationship between the loans is presented below.

Figure 4: Linkage between the Five Loans to Strengthen the Rural Savings and Credit Sector



3. (A) Phase I Project - Savings and Credit Sector Strengthening & Rural Microfinance Capacity Building Project - Loan 7132 (US\$64.6 million Loan) – Phase I: This first project was in line with the proposed government strategy to reform the rural financial sector through a new Law introduced in June 2001, and consisted of technical assistance and training to facilitate the achievement of the main objectives of the Law focused on consolidating the sector, building regulatory capacity, and developing a pilot technology platform, all through BANSEFI. Another technical assistance component, managed by SAGARPA, aimed to strengthen rural financial institutions in selected rural marginal areas to deepen outreach. The project closed on February 28, 2011, after an Additional Loan (D) to scale up the SAGARPA component.

4. (B) Phase II - Savings and Rural Finance (BANSEFI) Project – Loan 7240 (US\$75.5 million Loan): This second project was conceived based on the following twin objectives: (a) “refining” the pilot technology platform being developed under the first project, which was agreed at the time of Phase I project preparation; and (b) addressing the challenges that the sector encountered during the implementation of both the new Law governing the sector and the prudential regulation that CNBV (regulatory agency) issued for this Law, as well as the Phase I project. This project was extended for three years up to July 31, 2012 as a result of the Additional Loan (E).

5. (C) Savings and Rural Finance (BANSEFI) Additional Financing Loan to Phase II Project – Loan 7438 (US\$29.0 million Loan): The Phase II project experienced a cost overrun, predominantly in the

technology platform refining and scaling-up and technical assistance for certification/ liquidation/ merger components.

6. The technology platform is a Mexican solution to address the regulatory, accounting, management, and reporting requirements of this sector, to offer new financial products (such as debit cards with fingerprinting facility, credit cards, ERP, remittances, electronic payments, and ATM services, among others), and to introduce agency and mobile phone banking. From the outset, the original cost estimates were viewed as being subject to change with evolving knowledge as to the availability of suitable, safe, secure, cost effective and practical technical solutions. For example, it was not possible to estimate with any certainty the specific technical solution and costs that would attach to the provision of the essential data center services, including even the location of the data center. A second example of uncertainty relates to the amount of calendar time and practical support that would be required by entities to prepare for and use the new products and services. This is a critical factor as merely providing a modern and comprehensive range of banking, administrative and decision support tools will not assure the delivery of the intended benefits. In addition, there were issues relating to the performance of the technology provider which were resolved satisfactorily, although after considerable delay.

7. In May 2005, the government extended the July 2005 deadline for certification by 3.5 years, up to December 2008, but only for those institutions which, by December 2005, were found eligible to remain in the TA program based on a revised evaluation methodology. Those institutions not found to be eligible for continued participation in the program for certification were required to wind down their deposit operations starting January 1, 2006. This notification resulted in: (a) the TA consultants having to devote close to six months from their existing TA assignment period to establish the eligibility of the institutions to continue in the program; and (b) the need to extend the TA assignments since the law requires the institutions to be offered training and technical assistance during this extended period (both for certification and liquidation). The government is obligated to offer TA up to the December 31, 2008 certification deadline date. The loan closes on July 31, 2012.

8. (D) Savings and Rural Finance SAGARPA Additional Financing Loan to Phase I Project – Loan 7500 (US\$21.0 million Loan): The SAGARPA component of the Phase I project, which aimed at promoting secure and sustainable financial services in selected rural marginal areas, through specialized technical assistance and training, was completed in December 2007. This additional loan provided funding to scale up the SAGARPA component to the other marginal areas in rural Mexico. There were four main reasons for scaling up this component: (a) uniqueness of the component and the approach to its implementation; (b) highly successful implementation performance and satisfactory development outcome; (c) need to expand the limited initial geographical coverage; and (d) strong government commitment to the scale-up of this component. The Phase I project closed on February 28, 2011.

9. (E) Savings and Rural Finance (BANSEFI) Second Additional Financing Loan to Phase II Project – Loan 7 (US\$50.0 million Loan): The main focus of this project assistance was to make the technology platform financially stable. The technology platform was already operational with a high level of reliability in 26 entities, one private debit card company and all 524 BANSEFI branches. The core banking module, the debit card module, and the regulatory and management reporting module were in production in these different types of entities. From a functional perspective, the platform was stable and capable of offering a diverse range of services to the clients. While it had already started to

generate revenues through charge-out rates to client entities, these would not be adequate to cover the operating costs during the transition phase due to the delayed entry of the entities resulting partly from the extension in deadline for certification, and partly from the longer than expected time required for the platform to reach the production stage. The platform was also getting ready to be used for making government transfer payments in a big way. Under a conservative scenario, the platform was expected to become financially sustainable during FY 2012. The gap between the projected operating expenses and revenues during this transition period were to be financed under this project. The loan closes on July 31, 2012.

Main Targets for the Two BANSEFI Projects²³

TARGETS FOR COMPONENTS BY PROJECT/LOAN	Component 1: TA for Sector Consolidation	Component 2: Technology Platform	Component 3: Deepening Outreach through entities – implemented through SAGARPA	Component 4: M&E, Studies and Communication
Phase I Project (A)	Training and Technical Assistance for about 380 entities; about 200 entities expected to be certified; about 30-40 to be liquidated/merged	Develop a pilot IT platform with limited functionalities	Technical Assistance to 21 entities (with 189 points of service) in seven rural marginal regions in Mexico to deepen penetration – focusing on new entities, existing entities through new branches and strengthening current branch network structure. New membership target: 60,000	M&E related to BANSEFI and SAGARPA components
Phase I SAGARPA Additional Financing Loan (D)	No assistance for this component	No assistance for this component	Since the SAGARPA component produced very good results, the Government of Mexico wanted to scale up the SAGARPA component to other marginal rural regions of Mexico. This additional loan provides financing for an additional 59 entities and about 350 points of service. New membership target: 380,000	Assistance for M&E related to SAGARPA component
Phase II Project (B)	(a) Due to the heterogeneity across sector entities, and a larger than expected C and D classified entities, need for extended training and technical assistance (150 entities already supported under Phase I); (b) An additional 45 entities requested training and technical assistance; (c) 40 more advanced entities were	(a) Discussions with entities indicated the need for a more integrated full-scale service providing platform to avoid parallel systems; and (b) Arrangements at BANSEFI required to roll out the platform nationally to those entities seeking this service	No assistance for the SAGARPA component	Limited assistance for M&E focused on gap-filling of house-hold surveys and campaigns relating to financial products, including

²³ Phase I (P070108) and Phase II (P087152)

	<p>expected to seek assistance to deepen penetration (already supported under Phase I project); and</p> <p>(d) Need to move to a key next generation reform – establishing a Deposit Protection Fund</p>			remittances through L@red de la Gente
Phase II First Additional Financing Loan (C)	This additional loan financed extension of TA assignments for all entities up to the certification deadline – December 31, 2008. No new incremental targets	The development of the full-scale service providing platform posed several technical problems resulting in cost overrun. This additional loan financed the cost escalation	No assistance for the SAGARPA component	No assistance for M&E. Limited support to market the financial products of the platform
Phase II Second Additional Financing Loan (E)	Due to amendments to the Law, the deadline for certification was extended up to December 31, 2012. The additional loan finances: (a) continued limited training and technical assistance to about 375 entities already assisted under Phase I and II Projects; (b) training and technical assistance to an additional 30 entities seeking support for certification; (c) training and technical assistance to an additional 100 small entities below threshold to improve management performance and support mergers and liquidations where necessary	This additional loan finances the gap between the operating revenues and expenses until 2012.	No assistance for the SAGARPA component	Limited M&E relating to the BANSEFI components. However, providing a more intense focus on communication relating to remittances and sector-related aspects

Main Achievements under the Two BANSEFI Projects²⁴

1. The main focus of the two projects has been furthering the financial inclusion objective of the government through two main actions: (a) improving the performance of the sector institutions through assistance with the certification (or merger/liquidation) process as mandated by law (supply side response); and (b) improving access to financial services to population in rural marginal areas by generating new membership (demand side response).

The main achievements of the eight-year engagement are provided below.

A. Improving the performance of the sector institutions

2. Certification of entities: 99 entities have been certified (and 16 cases are with the regulatory agency for approval) accounting for close to 70 percent of the sector membership and assets. An additional 215 entities have already received training and technical assistance), of which 178 are almost ready for certification, accounting for an additional 20 percent of sector assets and membership. Diagnostic studies have shown thirty-seven entities as candidates for merger or liquidation, in addition to the nine entities which have already been merged or liquidated. These 37 entities are being supported for merger/liquidation.

3. The quality of management in the assisted entities improved with about 6,800 entity and federation staff has been trained through 340 courses relating to accounting, credit analyses, accounting migration, governance aspects, prevention of money laundering, risk management, among other areas.

4. Certified entities demonstrate improved operational and financial performance indicators, have strong reporting, internal control and governance systems, and adopt accounting systems meeting internationally accepted standards, among other requirements. Across the 330-plus assisted entities, the following key aggregate growth parameters were observed over 2003-2010: real growth of 20 percent in assets, deposits from MXP15 billion to MXP65 billion, branches from 946 to 2,633, and a 275 percent membership increase.

5. Regulatory and Supervision Mechanisms established, strengthened, and functional: Supervision Committees under the original law were established at each of the 13 authorized federations. These have been certified and the transfer of knowledge/know-how relating to certification of supervision committees to COFIREM, a national institution, has been completed. However, under the recent Cooperative Law, parallel supervision mechanisms were established in March 2011 for the cooperative sector. As such, the configuration of the supervision arrangements under the two parallel laws is expected to get realigned.

6. Deposit Protection Funds established: Two federations (FMEAC and FINE) had established the deposit protection funds, and had started to receive contributions from member entities. COFIREM, an authorized Confederation of six federations, had also commenced operating a fund. In addition to the contributions that authorized entities must provide to their protection fund, Hacienda had yet to provide the start-up capital for these protection funds. Under the new Cooperative Law passed in August 2009, these funds have now transited to two broad funds (one

²⁴ Phase I (P070108) and Phase II (P087152)

for financial partnerships and another for financial cooperatives) with BANSEFI as the administrator;

7. Technology Platform operational and stable: The project developed a full scale modular banking services platform for the entities, while at the same time serving as an engine on which several of new financial products could be introduced – remittances (national and international), government program transfers, debit cards with fingerprinting facility, payment services, risk management, prevention of money laundering, correspondent banking, and soon to be introduced mobile phone banking. The platform is expected to change the way financial services are offered to, and accessed by, the rural (and urban) sector clients. As an indication, the platform has enabled BANSEFI to distribute Oportunidades transfer payments to 4 million recipients. Additionally, the platform also supports transactions from more than one million debit cards, and over 1.5 million remittance transactions from Mexican immigrants in USA. Huge cost-saving and service improvement has been possible in BANSEFI operations as well, both at headquarters and its 500 branches. Close to 80 entities using the platform have been able to reduce costs, generate regulatory reports, manage their operations, and open additional branches resulting from the real-time transactions accounting possible with the platform.

B. Improving access to financial services in the rural marginal areas

8. The program was geographically targeted on the rural marginal areas (with <15,000 population) in Mexico, and has developed a highly successful social strategy to target poor population without access to financial services, with a specific focus on women and indigenous peoples. In aggregate, 600,000 new members have been added to the formal rural financial sector, including strengthening and creating 600 points of service in about 130 entities (of which 12 entities and 153 new branches were created under the project). More importantly, latest technological access devices such as Personal Digital Assistants (PDAs and palmtops), Point of Service (POS) terminals, and ATMs have been deployed in rural areas. Women constitute more than 50 percent, and indigenous peoples about 30 percent, of the new membership.

Annex 9: Economic and Financial Analysis

1. The project is mainly TA-oriented, focused on improving institutional performance and increasing membership. It does not provide a line of credit to the entities for on-lending. A qualitative assessment of the expected project impact is made at three distinct levels: (a) client level benefits; (b) financial implications at entity level; and (c) sector level outcomes. An attempt at quantification too has been made based on the level of benefits required to justify investment for three key components comprising 75 percent of project cost.

A. Qualitative Assessment

2. Client Level Benefits: The financial and economic benefits to member households participating in the formal rural financial system as a result of the project will accrue at two levels: (a) at the household level, directly as new users/clients of the mainstream financial system; and (b) at the institutional level, as member/owners of the participating institutions.

3. At the household level, benefits from participating in the formal system stem from their use of formal financial products substituting for the most part for alternative informal market mechanisms and transactions. First, as depositors, there are clear indications through sector work that mainstreaming rural clients into the formal financial sector results in monetization of their assets rather than maintaining these in physical form. This helps them to have liquidity in case of emergencies, secure interest income, build creditworthiness (helping them to secure future loans), and mitigates risks inherent in physical assets. A second form of benefit stems from the fact, which has now been corroborated through household surveys of the earlier bank-financed and BANSEFI-implemented projects, that a large proportion of the new membership (between 40-50 percent) eventually takes loans from their institutions. This represents a move from their informal high cost sources of lending to the more reasonably priced formal financial sector institution purveyed loans. Third, access to financial services also involves being able to use formal remittance services at significantly reduced cost - a major factor in rural Mexico, and to purchase insurance products and other financial products that the institutions may offer. Fourth, the distribution of government transfer program payments through the formal structure results in reduced transaction costs incurred by the recipient in terms of commission paid, expenses incurred, and time devoted to receiving the transfers.

4. At the institutional/entity level, the project will be assisting entities with training and technical assistance for certification, instilling managerial and financial soundness (and hence profitability). There are several initiatives through the training and technical assistance program which would potentially result in a further improvement in the financial performance of these entities - wider markets and more members (increasing their capital base), increased availability of loanable funds (savings from members, among others), and more member responsive financial products (generate more interest and fee income). The financial performance of these institutions will improve, and since a majority of these assisted entities are financial cooperatives, dividend from these entities would be a source of additional income to the members.

5. Financial Implications at Entity Level: Performance of assisted entities is expected to improve after project intervention. Financial assessments of entities (or their branches) in marginal areas show that these are financially strong, given the margins with which they operate: the cost of credit in this segment averages about 27 percent, and the offered savings interest rate is about 6 percent. These margins, with the increased deposits and lending activity, have indeed enhanced entity performance in the past. Additionally, across the assisted entities, the following key growth

parameters were observed over 2003-2010: real annual growth of 20 percent in assets, deposits from MXP15 billion to MXP65 billion, branches from 946 to 2,633, and an overall 275 percent membership increase. A recent assessment of the just-completed BANSEFI project showed that most entities that were certified or near-ready for certification, indicated strong financial, management, and governance situation.

6. Sector Level Outcomes: One of the key benefits of the project will be increased access of financial services to, and depth of outreach of the rural financial sector institutions. Recent estimates put the SCI sector membership figure at about 8.0 million (excluding BANSEFI), up from 2.0 million in 2001, an increase of 6 million over a 10-year period. The outreach component (including the correspondent banking initiative) is expected to add 1.8 million new members to this client base over the next three years, and integrate them into the formal rural financial sector. A huge proportion of this addition will be from rural marginal (medium, high and very high marginality) areas of Mexico. The project also focuses on mainstreaming the women and indigenous peoples into the development process by targeting at least 30 percent of new membership to be women and at least 10 percent from the indigenous communities.

7. A comparative analysis recently carried out concluded that the depth of outreach of the earlier project, i.e., the extent to which it serves the rural poor, women, and the illiterate, stands out in comparison not only to other Mexican institutions, but also with respect to much acclaimed microfinance institutions in other countries.²⁵ The earlier project emphasized, and clearly attained the key objective of deepening the outreach of participating financial institutions to poor and marginalized people in the regions of activity. This has been further confirmed by results from the BANSEFI household survey recently released, which show that the client population served by this component stands well below the general clientele of the “popular banking sector” in terms of income, expenditures, and educational level.

8. Providing financial services as a means of integrating poor households into the national economy is clearly a poverty-alleviation tool. The technical service providers under the earlier BANSEFI project have: (a) developed new financial products which specifically meet the requirements of the rural population; (b) introduced methodological innovations to serve rural marginal areas in a cost-effective manner, such as the use of “pocket PCs” for data entry in the field; and (c) used zoning techniques to define financially viable service routes to provide wider access without compromising the viability of the institution. The population of rural marginal areas has clearly gained from the services provided by these stronger, more efficient entities through access to appropriate savings and deposit instruments, lending products, and an improved ability to take advantage of rural productive investment opportunities.

9. This project will scale up the size of the outreach component in the earlier project, and with an improved approach, deepen penetration, focus on the rural poor, and integrate them into the national economy even more effectively.

10. Finally, the sector institutions as a group will be elevated to a higher level with certified entities operating in the market, those below the threshold having improved performance, well functioning supervision structures and deposit protection funds, a larger number of entities having the benefit of back-office facilities (such as accounting) through the BANSEFI managed technology platform, electronic payments mechanism, and remittances resulting in better integration with the rest of the financial sector.

²⁵ Paxton, Julia. “Analysis of Mexico’s PATMIR Project.” Ohio University Draft, August 2006.

B. Quantitative Assessment

11. The assessment uses a least-return (or break-even) analysis approach for the main components to ascertain the minimum benefits that must be generated by the project components in order to justify the investment (IRR of at least 12 percent), and the feasibility of obtaining these benefits. This has been done for three main components, which together account for around 75 percent of total project cost, namely, training and technical assistance, deepening outreach through working with the entities, and deepening outreach through the correspondent banking approach. Experience and results from the previous two projects show that the minimum benefits necessary to justify costs could indeed be achieved for these components.

12. Consolidation and strengthening of sector institutions (US\$25.75 million). Training and technical assistance provided under this component will mainly result in a safe, stable, financially viable and supervised sector with adequate client savings/deposit protection. This in turn will attract new clients and additional deposits. The quantum of deposit generation required and the return from its investment has been used to justify the technical assistance investment.

13. Broadening access to financial services and products – expanding membership in existing entities (US\$87.8 million). The average investment cost per new member (payment made to the consulting firms) was MXP1,285 in the second round.²⁶ Under the new project, the average cost achieved under the second round will be used as a benchmark, with a view to further decrease it as a result of the bidding process with consulting firms. On average, a new member deposits an amount of MXP3,942, equivalent to about three times the amount invested to enroll him as a member. Specific information on the actual use of these savings by new members is not available. However, general data on the categorization of credits granted by entities on the basis of accumulated savings from their members was used to determine the extent to which new member deposits have to be re-invested to recover the cost of new member creation.

14. Broadening access to financial services and products – agency banking in un-serviced municipalities (US\$39.3 million). This sub-component seeks to broaden outreach of the sector (through BANSEFI) by adopting the less costly branchless banking approach in localities that are currently un-serviced by sector entities.²⁷ The first stage of this program has been confined to the distribution of government social program transfer payments with the use of biometric cards. Users of this service have the possibility to withdraw transfer payments, make deposits (whether from social transfers or other) and consult their balances. The range of products offered to the users of this service is being expanded to include remittances, addition of air-time for mobile phones, payment of electricity bills, among others. It is also expected that the client base will be expanded to new clients other than government program beneficiaries, including existing BANSEFI clients, and the promotion of opening of new accounts. At the client level, the key economic benefits consist in a reduction in the transaction costs relating to government transfer payments, as well as remittances and payments for utilities and other services. At present, recipients without a bank account often have to pay sizeable commissions to cash the transfers/ remittances. The saving in transaction cost has been used to justify this investment. Maintaining accounts as a result of the

²⁶ While the total cost per member is expected to be US\$100, US\$35 would be for technical assistance (project funds), and US\$65 would be for strengthening the entity (government funds).

²⁷ The cost per new client is expected to be US\$40. This includes technical assistance, infrastructure support, training and publicity cost. While this is lower than the US\$100 per new member generated in entities, it does not really offer the entire range of banking and financial products that entities do.

transfer programs will also help in building credit history, making it easier for clients to access loans.

15. A summary matrix with the assumptions used for the ERR analyses, and the past trend of these assumptions, is provided below.

Table 13: Reasonableness of Assumptions Made for ERR Analyses

Component	Assumptions to attain 12% ERR on investment	Historical pattern of the parameters/Comments
Consolidation and strengthening of sector institutions	MXP1.4 billion of deposits to be mobilized, and at least 35 percent to be re-invested over a 15-year period	Deposits increased from MXP15.5 billion in 2003 to MXP67.2 billion by end-2010 (corresponding to an average annual growth of 20.8 percent in real terms). The actual deposit growth is several times the required amount, and therefore the required re-investment percent is very small. The additional deposit generation appears quite feasible in comparison with achievement under the earlier projects
Broadening access to financial services and products – expanding membership in existing entities	46 percent of new member saving amount is re-invested over a 15-year period	<p>Although the required investment percent is higher than the average percentage of credit used for productive investment (22 percent), other types of credit uses – and, more generally, the availability of secure savings for new members – also generate economic returns, although they are more difficult to quantify (e.g. improved health resulting in fewer unproductive days; improved education and literacy resulting in productivity increase; etc.)</p> <p>Another way to look at the “minimum necessary” benefits to justify investment is that the required “net economic productivity increase” per new member would have to be at least MXP218 (about US\$19) per year for himself and his family. This appears to be achievable</p>
Broadening access to financial services and products – Agency Banking in un-serviced municipalities	A saving in transaction cost of about 2.7 percent of government transfer payments would cover the cost of introducing a new member to agency banking	<p>Pilot agency banking initiative shows that the saving is significantly higher than this minimum requirement</p> <p>Other benefits will also arise from correspondent banking, including reduced transaction costs of operations other than social transfers, as well as the use of savings facilities, and ultimately other services associated with progressive financial inclusion of the beneficiaries</p>