

NACIONAL FINANCIERA, S.N.C.

March 21, 2002

International Bank for Reconstruction and Development
1818 H St., N.W.
Washington, D.C. 20433
United States of America

Re. Loan 7079 - ME
(Southeast Regional Development Learning and Innovation Project)
Implementation Letter

Dear Sirs,

This letter with the following Annexes attached hereto, constitutes the Implementation Letter defined in Section 1.02 (1) of the Loan Agreement of even date herewith between International Bank for Reconstruction and Development (the Bank) and *Nacional Financiera, S.C.N.* (the Borrower) for the above-captioned Loan (the Loan Agreement).

Annex 1	Monitoring Indicators.
Annex 2	Due Diligence Requirements for the Selection of Participating States.
Annex 3	Investment Subproject Negative List (Part D.2(f) of the Project).

Sincerely yours,

Nacional Financiera, S.N.C.

/s/ Mario Laborín Gómez
C. P. Mario Laborín Gómez

CONFIRMED:

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By: /s/ David de Ferranti
Authorized Representative

Date: March 21, 2002

ANNEX 1

Monitoring Indicators

**Hierarchy of Objectives
Key Performance Indicators
Monitoring & Evaluation
Critical Assumptions**

Sector-related CAS Goal:Sector Indicators:Sector/ country reports:(from Goal to Bank Mission)

Remove obstacles to sustainable growth, thereby improving the competitiveness of the private sector. Country development benchmark is to have economic growth rate of about 2.0% in 2001 (with strong private investment and exports.

Removal of barriers to private sector development activity and trade.
Government economic statistics and reports. Effective policy dialogue.

Follow-on Development Objective:

To increase access of urban and rural microbusiness in other states to sustainable, appropriately designed microfinance and ICT-based BDS services. Number of potentially sustainable MFIs and infocenters establishing or expanding operations after participation in dissemination activities in the Participating States. Reports from Participating States, eligible MFIs and Eligible Infocenters that participate in LIL project dissemination activities;

Summaries of dissemination workshops.

Available funding for initial investments; strong public/private partnership to identify pools of clients, design attractive products and services; commercial approach.

Expansion or changes in microfinance and infocenter programs of NAFIN, the Secretaría de Economía, CONACYT, and other government institutions based on the results of the Project.

No regulatory, legal, supervision/reporting or taxation issues related to non-bank financial institutions that could make replication less attractive to public and private sectors.

Project Development Objective:Outcome / Impact Indicators:Project reports:(from Objective to Goal)

To assist Participating States in the Southeast and the private sector to learn about (a) the requirements of sustainable microfinance methodologies to promote access to financial services to unserved populations, and (b) to test the use of information communications technology (ICT) to deliver business development services to microbusinesses in a cost effective and sustainable manner.

Learning Indicators:

Demonstration of MFI management systems, governance structures, promotion and product mix that can lead to sustainability and outreach to the poor.

Demonstration of services and systems (hardware, software, local content) required for Eligible Infocenter(s) to reach breakeven point. Annual Plans, Annual Project Implementation Reports, Supervision missions by PCU staff, and Bank supervision missions.

Availability of local, in-ternational consultants with relevant TA and training experience to assist in MFI institutional development.

**Hierarchy of Objectives
Key Performance Indicators
Monitoring & Evaluation
Critical Assumptions**

Output from each Component: Output Indicators: Project reports: (from Outputs to Objective)

Eligible MFI(s) will become sustainable and reach a significant level of outreach to local microbusinesses.

Sustainability of at least one eligible MFI(s) shown by:

- Efficiency (cost/peso lent) under 0.40.
- Profitability (adjusted for subsidies) on positive trend.
- Operational Self-sufficiency of 90%.
- Portfolio quality (PAR over 30 days) under 6.0%.

Outreach shown by at least one eligible MFI:

- Number of active clients increases by 50% during Project.
- Start-up MFIs have at least 500 clients by end of first full year of operations.
- Client data (disaggregated by characteristics).

Financial statements of MFI(s), impact evaluations, MFI institutional development plans and results.

PCU monitoring reports.

MFIs can meet component eligibility requirements.

MFI promotion will be effective; products and delivery methodologies will be attractive; loan contracts will be enforceable.

No regulations restricting access firms; MFI management and boards have operational autonomy.

Eligible Infocenter(s) carry out business plan(s) and begin to generate income from fees to cover increasing share of operating costs.

At least 1 Infocenter covers 50% of operating costs after two years of operation.

Number of active clients increases by 20% per year.

Infocenter annual reports, PCU monitoring reports.

Technical issues resolved, local content is updated regularly, clients have sufficient discretionary income to cover costs of services.

Lessons thoroughly documented by PCU. At least 5 products based on local content by end of Project.

Technical notes, impact and other evaluations completed summaries of lessons learned.

Annual reports, technical notes, evaluation report. PCU, eligible MFIs and Eligible Infocenters document experiences and analyze lessons well.

ANNEX 2

Due Diligence Requirements for the Selection of Participating States

Participating States. An eligibility system has been established so that any Southeastern State could participate, if that State has been deemed by the PCU to have met the eligibility criteria provided in the Operational Manual and has been reviewed in a due diligence process by the Bank. The eligibility criteria for Participating States as well as the process required to reach the determination of eligibility, have been agreed upon and are described below.

Preliminary Determination of Eligibility of a State

1. Participating States must be in the Southeast Region of Mexico and provide written confirmation of interest on the part of the State Government, private sector organization or civil society organization, including a commitment of funds to support project activities (for one or all project components).
2. There should be a large number of unserved microbusinesses – confirmed by census information or recent studies of the sector
3. At least one existing microfinance institution (if the Microfinance Services Component) or at least one private sector association or other group (if the ICT-based BDS component) should express written interest to NAFIN in participation in the Project.
4. The NAFIN headquarters office and the PCU should provide written confirmation to the Bank stating that the Southeastern State complies with all eligibility criteria and that there is no duplication of efforts with other national programs that offers similar services for microbusinesses.

The Process for Determination of Eligibility of a State

1. Discussions will be held between Bank staff responsible for project supervision, the PCU and representatives of the interested State Government and the private sector. In addition, consultation will be held with civil society to determine the potential for widespread participation in project activities.
2. There will be a joint determination that all conditions are in place to enable the PCU and Bank to perform their respective responsibilities of supervision and monitoring, as well as evaluation of the Project.
3. The Bank will make the final determination based on the information provided and in consultation with the PCU. The determination by the Bank will be based on the likelihood that project-supported activities would contribute to the learning related to the Project Development Objective.
4. The Bank will send a written final confirmation of the acceptance of the State as a Participating State.

ANNEX 3

Investment Subproject Negative List (Part D.2(f) of the Project)

Proposed Investment Subprojects will be reviewed and assessed by the PCU Microfinance Technical Specialist. The following categories of Investment Subprojects have been determined to be ineligible for project funding. The Microfinance Services Component Investment Subprojects cannot be

involved in:

1. The production or processing of tobacco products.
 2. Tanneries or other businesses that could cause a negative impact on the environment.
 3. Any business which uses pesticides or other inputs which are not approved by the World Health Organization.
 4. The purchase of luxury goods.
 5. Petroleum production.
 6. Electricity production.
 7. The production of firearms and related products.
 8. Other products and services which are considered to have adverse effects on the health of the general public.
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