Report Number: ICRR0022630

1. Project Data

Project ID	Project Name
P153338	MX: Expanding Rural Finance
Country	**Practice Area(Lead)**
Mexico	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-85550,IBRD-89420	31-Dec-2020	320,612,434.31
Bank Approval Date	**Closing Date (Actual)**	
24-Nov-2015	31-Dec-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	400,000,000.00	0.00
Revised Commitment	320,612,434.31	0.00
Actual	320,612,434.31	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (page 6), the project development objective of the Mexico Expanding Rural Finance Project was “to expand the availability of finance to the rural economy.”

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had two components.

Expanding Credit for Rural Micro, Small and Medium Enterprises (MSMEs) (US$375 million estimated at appraisal, US$775 million estimated at the second restructuring, US$375 million estimated at third restructuring, US$318.8 million disbursed) aimed to support the rural financing needs of MSMEs through: (a) the provision by the Financiera Nacional de Desarrollo Agropecaurio, Rural, Forestal y Pesquero (FND) of a line of credit to participating financial intermediaries (banks, credit unions, cooperatives, deposit warehouses, multiple purpose financial companies, and agricultural producer associations serving the rural economy) for sub-lending to MSMEs, and (b) a pilot financial solutions program for MSMEs (potentially including leasing, moveable assets finance, factoring, warehouse receipts, contract farming, agricultural commodity price hedge, and other types of value chain financing) with direct lending by the FND or lending through participating financial intermediaries.

Strengthening Institutional Capacity for Sustainable Rural Finance (US$25 million estimated at appraisal, US$1.8 million disbursed) aimed to enhance the capacity of the FND and participating financial intermediaries to develop a sound rural financial sector by supporting: (a) the modernization of the core banking system and provision of an information technology (IT) platform for the FND, and (b) institutional strengthening activities at rural financial institutions.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. The original project cost was estimated at US$400 million at appraisal. A proposed additional financing raised the project cost to US$800 million.

Project Financing. The project was financed by an original loan of US$400 million from the IBRD to FND, with the guarantee of the United Mexican States. The amount of US$320.6 million of this first loan was disbursed. The second loan of US$400 million was approved by the Bank in March 2019, but formally withdrawn in September 2020. No amount was disbursed from this second loan.

Borrower's Contribution. The government committed to provide a contribution of US$5 million, of which the amount of US$4.28 million was disbursed. The counterpart financing was allocated to the activities for the institutional strengthening of rural financial institutions under the second component of the project.

Dates. The project was approved on November 24, 2015, became effective on July 13, 2016, and closed as scheduled on December 31, 2020.

Restructuring. The project was restructured thrice. The first restructuring in December 2016, with US$65.7 million disbursed, applied the Bank's new procurement framework (*Procurement in Investment Project Financing and Other Operational Procurement Matters*, July 2016) to the first component of the project. The second restructuring in March 2019, with US$319.6 million disbursed, provided additional financing of US$400 million to scale up the project, revised the project components and costs, revised the results framework, and changed the project closing date to December 31, 2023. The third restructuring in December 2020, with US$319.6 million disbursed, cancelled the undisbursed amount of US$79.4 million from the original loan, withdrew the additional financing offer of US$400 million, revised the project components and costs, revised the results framework, revised the project implementation schedule, and reverted the project closing date to the original December 31, 2020.

3. Relevance of Objectives

Rationale

Relevance to Country Challenges. The project development objective was relevant to development challenges in Mexico.

- Growing at a comparatively low 2.4 percent for a decade (versus an average 4 percent for the Latin American and Caribbean region), Mexico suffered from low productivity, the result of regulatory barriers to doing business, uncompetitive markets for utilities, weak innovation, limited market competition, labor market rigidities, scarcity of skilled labor, and an underdeveloped financial system.
- Growth in income among the bottom 40 percent of the population was especially low, at 1.2 percent annually between 2004 and 2012, next to the lowest in the LAC region. Poverty rates were much higher in rural than urban areas – extreme income poverty was 31 percent in rural areas, compared to 13 percent in urban areas; asset poverty was 64 percent in rural areas, compared to 46 percent in urban areas.
- The financial sector was small and failed to provide adequate access to finance to the rural sector. Only 43 percent of rural municipalities in the country had bank branches, compared to almost 100 percent of urban municipalities. Only 8.5 percent of adults in rural areas had access to finance for starting, operating, or expanding a business. Poor credit to the agricultural and rural sector was associated with limited rural economic activity.

Relevance to Government Priorities. The project development objective was consistent with the government's priorities.

- The *National Development Plan 2013-2018* emphasized a productive, profitable, and competitive economy. The project objective was consistent with the fourth of five goals articulated by the Plan – "to promote prosperity by stimulating economic growth in a way that Mexicans will feel the prosperity directly in their pockets."
- Over several years, the government had prioritized the expansion of access to finance and the provision of credit for productive purposes including through development finance institutions. The FND, created in 2003 (as the Financiera Rural), aimed to create an efficient rural financial sector, consolidating the national system for channeling financial resources, training, and assistance to the rural sector. The National Council on Financial Inclusion, created in 2011, would advance the access to finance agenda. The Financial Reform Law, enacted in 2014, promoted lending by development finance institutions and private intermediaries.
- The *National Policy for Financial Inclusion*, adopted for 2020-24, aimed to "ease access to financial products and services for people and micro, small and medium enterprises." It also sought to

"strengthen infrastructure to facilitate access and provision of financial products and services" and "encourage the financial inclusion of vulnerable groups, such as women, migrants, elderly, indigenous, and rural populations."

Relevance to Bank Strategy. The project development objective was aligned with the Bank Group strategy in Mexico.

- The *Country Partnership Strategy for Mexico 2014-2019* supported the twin goals of ending extreme poverty and promoting shared prosperity. The project objective was consistent with the first of four thematic areas in the Bank's country strategy – "Unleashing Prosperity" – which aimed "to foster sound financial sector development and facilitate access to finance, upgrading infrastructure, and generating a competitive business environment favorable to small and medium size enterprises."

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To expand the availability of finance to the rural economy.

Rationale

Theory of Change. The provision by the FND of a line of credit to financial institutions would enable the financial institutions to provide sub-loans to eligible private MSMEs in rural areas. In addition, the piloting by the FND of new financial products would test products and services that would better serve rural borrowers. These two activities would allow the FND to channel sub-loans to MSMEs through financial institutions, focusing on under-served sectors and groups including women, populations in marginalized areas, and first-time borrowers. Separately, the upgrading of the FND's core banking platform and related technology systems would enable the FND to strengthen its capacity to comply with regulatory requirements, meet technological challenges, and offer better services including online banking. Meanwhile, the extension of capacity building assistance and the provision of capital equipment to financial institutions would strengthen the capacity of the financial institutions and allow the FND to tap a strong network of participating financial institutions that would serve local producers without the FND itself incurring high operating costs or raising the credit risks of its portfolio. The outcome of these four activities would be that MSMEs obtain greater access to finance for productive economic activity in rural areas.

Outputs. The project fully achieved seven, nearly achieved four, and partly achieved one of the 12 output targets for the objective to expand the availability of finance to the rural economy.

- The volume of lines of credit for microfinance was US$41.54 million by the project closing date, partly achieving the revised target of US$75 million (only 55 percent of the target).
- The volume of lines of credit for SMEs was US$280.19 million by the project closing date, nearly achieving the revised target of US$299 million (94 percent of the target).
- The number of final beneficiaries with loans financed with the project funds was 193,253, exceeding the target of 41,555.
- The number of final microfinance beneficiaries with loans financed with the project funds was 116,804, exceeding the target of 24,945.
- The percentage of female beneficiaries of the total beneficiaries financed by the project was 82.95 percent, exceeding the target of 60 percent.
- The share of loan recipients from marginal communities financed by the project was 12.9 percent, nearly achieving the target of 15 percent (86 percent of the target).
- The share of loan recipients that were first-time borrowers from formal financial institutions was 12.3 percent, exceeding the target of 10 percent.
- The average non-performing ratio of FND lending to participating financial institutions under the line of credit funded by the project was 5.46 percent, nearly achieving the target that the ratio be kept at 5 percent.
- The percentage of FND branch offices using the new core banking system was 100 percent, exceeding the target of 70 percent.
- The number of participating financial institutions that received capacity building assistance from the FND rose from 145 in the baseline to 245, nearly achieving the revised target of 300 (82 percent of the target).
- Operational tracking data was submitted, meeting the target. Operation tracking data was not submitted in the baseline.
- The number of participating financial institutions registered to receive client feedback on the Consumer Protection Agency's website increased from 107 in the baseline to 214, exceeding the target of 200.

Outcomes. The project fully achieved two and nearly achieved one of three outcome targets for the objective to expand the availability of finance to the rural economy.

- The number of loans disbursed under the project was 173,981 by the project closing date, exceeding the target of 74,800.
- The volume of loans disbursed under the project was US$321 million, nearly achieving the target of US$374 million (86 percent of the target).
- The average non-performing loans ratio for participating financial institutions receiving project funds was 0.03 percent, achieving the target of 6 percent.

Additional Evidence. While not mentioned in the ICR, the Bank project team (in an exchange with IEG) provided considerable evidence that the project's activities had led to greater access by MSMEs to finance for productive economic activity in rural areas, as anticipated in the theory of change.

- Some US$321 million of the Bank loan proceeds was injected into the rural economy of Mexico, principally to provide sub-loans to MSMEs to finance productive activities. The project did not finance consumer, education, or housing sub-loans. This is a significant achievement in Mexico, where 78 percent of all adults in rural areas do not have access to formal credit. And, among those that have access, only 8 percent of have access to credit for starting, expanding, or operating a business.

- The portfolio of sub-loans provided through FND's network of regulated and unregulated financial intermediaries was distributed as follows: (a) 80 percent as *crédito simple* to finance working capital to increase production and productivity of rural producers, the provision of services or commercial activities, and the acquisition of fixed assets; (b) 11 percent of sub-loans as *abilitación o avío* to finance working capital for one or more productive cycles; (c) 7 percent as *cuenta corriente* to cover short-term financing needs, and (d) 2 percent as *refraccionario* to finance the acquisition or replacement of machinery, equipment, and other fixed assets.
- In value terms, the sub-loan distribution was: (a) 53 percent was *habilitación o avío;* (b) 23 percent *crédito simple;* (c) 13 percent *refraccionario*; and (d) 11 percent *cuenta corriente*.
- Final borrowers used the sub-loan proceeds to conduct productive activities in the following sectors: (a) 63 percent in agriculture, mainly sowing and the cultivation and harvesting of sorghum, soy, wheat, walnut, white corn, yellow corn, cotton, beans, sugar cane, and chili; (b) 18 percent in commerce, including the wholesale and retail trade of food and textiles; (c) 11 percent in livestock, involving the breeding and fattening of cattle and dairy cows; (d) 2 percent in services; and (e) the remaining 6 percent in other sectors including beekeeping, poultry, and fishery.
- In terms of location, approximately 76 percent of the credit lines focused on the south and southeast states of Campeche, Chiapas, Guerrero, Oaxaca, Puebla, Quintana Roo, Tabasco, Veracruz, and Yucatán, consistent with the objective to serve the poorest states in the south.

Rating

Substantial

OVERALL EFFICACY

Rationale

The project fully achieved seven, nearly achieved four, and partly achieved one of the 12 output targets and achieved two and nearly achieved one of three outcome targets for the objective to expand the availability of finance to the rural economy. Overall efficacy is therefore rated substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency. The Project Appraisal Document (pages 13 and 44-48) estimated the economic rate of return (ERR) of the project at 21.5 percent (the FND line of credit only), based on the following methods and key assumptions: (a) there would be 70,000 SMSE beneficiaries receiving an average loan of US$5,000; (b) the benefits would consist of increments in cash flows between the borrowing scenario and the without-borrowing scenario; (c) data would be drawn from Instituto Nacional de Estadística y Geografía (INEGI) for SME average revenue and income; (d) data would be drawn from U.N. Food and Agriculture Organization (FAO) field study estimating the impact of similar programs on rural MSME value-added, productivity growth, and wage changes; (e) 80 percent of the project's SMSE beneficiaries would realize additional annual revenue growth of 4 percent over five years with the project loan, compared to 2 percent without the loan; (f) the number of jobs created per Mexican peso increase in revenue would be 0.000011; (g) the annual growth in wages would be 4 percent; and (h) the tax rate would be 29 percent..

The ICR (pages 16-17 and 44-48) calculated the ERR for the FND line of credit at 25.6 percent, using essentially the same methodology as in the PAD.

- The ICR used the actual data for: (a) number of beneficiaries – 173,981 (consisting of 141,087 microcredit enterprises and 32,894 SMSEs), which was higher than the assumption in the PAD of 70,000 SMSE beneficiaries; and (b) the average loan size – US$1,833 (consisting of US$294 for microcredit enterprises and US$8,518 for SMEs), which was lower than the assumption in the PAD of US$5,000.
- Based on the determination by the FND that the INEGI and FAO national data were applicable to the project, the ICR adopted the assumptions from the PAD as follows: (a) microcredit beneficiaries "are *assumed* to earn an average annual revenue of MXN 125,000 and income of MXN 25,000;" (b) SME beneficiaries have "average revenue at MXN 380,000 and income at MXN 76,000;" (c) SMEs are expected to "increase annual revenue growth rate from 2 percent to 6 percent for five years and then return to the previous growth rate;" (d) SMEs are assumed to employ three workers, with an average salary of MXN 66,500; and (e) 80 percent of the borrowing SMEs are expected to create new jobs.

Drawing actual data (sales, revenue, income, employment, and wages) directly from the FND project portfolio would have been preferable, including through statistical sampling methods, and would have made the assessment of efficiency more convincing. Nevertheless, this ICR Review does not object to the ICR using INEGI and FAO data based on the ICR's conclusion, relayed by the Bank project team to the IEG, that FND made a credible determination of the applicability of the national data to the project. The Bank project team added that at the time FND made the data validation in 2019, some 86 percent of the number of sub-loans (78 percent in volume terms) had been disbursed, backing up the argument that the INEGI and FAO national data were congruent with the project data.

The ICR (pages 16-17 and 44-48) also calculated the ERR for the pilot financial solutions programs for MSMEs at 109.7 percent, and for the combined first component of the project (the FND line of credit and the pilot financial solutions programs) at 25.7 percent.

Operational Efficiency. The project completed all project activities and closed as originally scheduled. The project disbursed 80 percent of the original loan amount and 86 percent of the original counterpart financing. The additional financing offer was withdrawn. According to the ICR (page 10), the cancellation of the undisbursed balance of the original loan and the withdrawal of the additional financing were argued on the following grounds: (a) the FND's own funds (repayments from the first round of lending) had become available for additional sub-loans to rural areas (a second-round of lending); (b) the Ministry of Finance and Public Credit imposed a new external debt ceiling for 2020 that was binding on the FND – the government needed to cut its outstanding external debt stock to create the space to borrow for the fiscal response to the COVID-19 pandemic; and (c) a planned strategic reorganization of the FND would focus the agency's operations on direct lending, rather than lending through participating financial institutions (a strategy that has not since materialized).

Based on the above analysis this review rates the efficiency of this project as substantial.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	21.70	91.30 ☐ Not Applicable
ICR Estimate	✓	25.70	99.30 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of objectives is rated high. The project objectives were relevant to the country 's development challenges, the government's priorities, and to the Bank's country strategy. The efficacy of the project is rated substantial. The project fully achieved seven and nearly or partly achieved five of 12 output targets and fully achieved two and nearly achieved one of three outcome targets. The efficiency of the project is rated substantial, with the estimated economic rate of return computed at 25.6 percent for the FND line of credit, 109.7 percent for the pilot financial solutions programs for MSMEs, and 25.7 percent for the combined first component of the project. The project completed all activities and closed as scheduled. The project disbursed 80 percent of the loan funds and 86 percent of the counterpart financing.

Based on minor shortcoming in efficacy and efficiency this project's overall outcome is rated satisfactory.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

There are several risks to the sustainability of the development outcomes of the project.

Financial Risks. Financial risk – credit risk, liquidity risk, and operational risk – is prevalent in the finance industry globally and the country's financial intermediaries, including development finance institutions, must constantly address these risks. Capacity building activities under this project aimed to help financial institutions engaged in rural finance in Mexico to improve their credit underwriting practices and operational processes. The adherence by these financial institutions to prudent loan policies and credit underwriting standards should determine the ability of the rural financial sector in Mexico to manage credit, liquidity, and operational risks moving forward.

Macroeconomic Risk. The imposition of a new external debt ceiling affecting the FND forced the withdrawal of the additional financing offer of US$400 million for this project for 2020-23. The withdrawal of the additional financing deprived Mexico of the opportunity to readily double the outputs and outcomes of this project through 2023. Comfortable levels of international reserves, access to the U.S. Federal Reserve swap line, and access to the IMF's Flexible Credit Line should bolster the country's ability to withstand external stress in the future.

COVID-19 Risk. Mexico was hit hard by the pandemic with over 125,000 deaths and over 1.4 million cases by the end of 2020. The economy contracted by an estimated 8.2 percent in 2020, with about 12 million losing their jobs and 4 million staying out of the workforce. The poverty rate (assuming a poverty line of US$5.50 in 2011 PPP for upper-middle-income countries) worsened from 20.7 percent in 2019 to 24.8 percent in 2020. The near-term recovery is expected to be gradual and will depend on the pace of vaccination.

Security Risk. Violence related to narcotics and to organized crime has increased in recent years in rural areas and in urban peripheral areas. Security risk undermines the viability of MSME projects and deters financial institutions from engaging in lending activities in these areas.

8. Assessment of Bank Performance

a. Quality-at-Entry

Analytic Foundations. The project design incorporated directives under Bank *OP 10.00 - Guidelines on Financial Intermediary Lending*, findings and recommendations from the *World Bank Lending for Lines of Credit: An IEG Evaluation* (2006), and lessons learned from recent and ongoing Bank projects on MSME finance. According to the PAD (pages 9-10), the project design reflected the following: (a) that the performance of credit lines improved when participating financial intermediaries were sound – hence, the project requirements for financial intermediary eligibility; (b) the availability of a pipeline of sub-projects at preparation contributed to implementation success – the appraisal determined that participating financial intermediaries could borrow for up to US$1.9 billion of projects; (c) leveraging private financial institutions helped serve more final borrowers in a cost-effective way – the credit line would be intermediated by private financial institutions; (d) information sharing among credit institutions aided with the management of credit risk – the FND and most participating financial institutions would be required to provide data to the credit bureau; and (e) flexibility with project activities contributed to project success – the pilot undertaking would provide space for testing innovative solutions for rural financial needs.

Technical, Operational, and Safeguards and Fiduciary Plans. The Bank covered the technical, operational, safeguards and fiduciary aspects of the project adequately in the project appraisal document.

- According to the ICR (page 26), the Bank conducted a detailed due diligence of the FND including an analysis of the agency's business model, financial performance, corporate governance, managerial autonomy, credit appraisal standards, and risk management practices.
- According to the PAD (page 27), the Bank found the FND's portfolio of direct and intermediary lending to be well-diversified and its current and projected financial soundness indicators as robust. The Bank also reviewed the accreditation procedures for participating financial institutions including the key elements of the FND's standard due diligence process.
- The project would be implemented following an Operations Manual, that covered: (a) specific provisions on detailed arrangements for the carrying out of the Project; (b) the procurement, financial management and disbursement requirements; (c) the performance indicators; (d) the template of a subsidiary financing agreement (including the terms and conditions of a sub-loan agreement); (e) the procedure for the selection of eligible participating financial institutions; (f) the eligibility criteria for the selection of eligible beneficiaries; (g) the environment management framework; (viii) the indigenous peoples' planning framework; and (ix) the anti-corruption guidelines.

Risk Assessment and Mitigation Measures. The Bank assessed operational risks to the project and recommended adequate mitigation measures.

- To address credit risks at participating financial institutions, the project would: vet candidate participating financial institutions rigorously following a Manual of Credit Policies with criteria for financial standing, risk management and internal processes, and ownership and governance. The project would also support the FND's requirement for participating financial institutions to take on insurance against weather-related risks where available. Moreover, the project mandate the FND to conduct semi-annual on-site and quarterly off-site inspection of participating financial institutions; require the FND to develop an early warning system for credit risk; and support the use of the credit bureau for credit risk information and monitoring.
- To examine risks from excessive competition between the FND and the Fideicomisos Instituidos en Relación con la Agricultura (FIRA), a development trust which also extended credit to agricultural producers, the Bank determined that there was market segmentation between the FIRA, which lent through banks, and the FND, which lent through supervised and unsupervised institutions. Moreover, the Bank determined that the overall supply of rural finance was limited, allowing a viable market for both institutions.
- To address operational risks at the FND as it expanded its direct lending and intermediary lending through participation financial institutions, the project would assist in reviewing the FND's IT masterplan, including the agency's IT governance structure and IT human resources to upgrade the system to match the agency's increased workload.

Quality-at-Entry Rating
Highly Satisfactory

b. Quality of supervision

The Bank fielded a multi-disciplinary task team that provided continuous and close implementation support to the project. The team engaged frequently with the FND, the Project Coordination Unit, and key stakeholders. According to the ICR (pages 26-27), the team: stayed available to solve technical and fiduciary issues; was responsive to concerns of the government and stakeholders; and, organized knowledge exchanges between the FND and the PCU, on one hand, and Bank specialists working on innovative access to finance solutions globally, on the other hand.

The Bank conducted up to three implementation support missions a year. The missions were especially important for the first years of project implementation. In 2020, at the height of the COVID-19 pandemic, the missions were conducted virtually.

The Bank prepared 10 Implementation Status and Results Reports (ISRs) over the five-year duration of the project, or two a year, the average for Bank investment project financing operations. According to the ICR (page 49), "An aspect to highlight is that FND and the World Bank worked closely on the operational and technical levels, especially in the preparation of the supervision missions (including before and after) as well as during the preparation of the progress reports."

Quality of Supervision Rating

Highly Satisfactory

Overall Bank Performance Rating

Highly Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The Project Appraisal Document identified 12 output indicators and 3 outcome indicators to measure the achievement of the project development objective. The results indicators were well defined, were measurable, and had credible baseline data, targets, and data sources.

The monitoring and evaluation function would be assumed by the FND, which had existing systems tracking the performance of financial intermediaries and their loan portfolios. The monitoring function of the FND would be improved as part of the project activities involving the modernization of the core banking system and provision of an information technology (IT) platform for the FND.

The Loan Agreement required the government to prepare semi-annual project reports and to submit the reports to the Bank within 45 days after the end of each reporting period. The Agreement also required the government to conduct a mid-term review of the project jointly with the Bank by the end of June 2018.

b. M&E Implementation

According to the ICR (page 23), the FND systematically monitored the progress of the project. The agency collected detailed information about sub-loans made by participating financial institutions to

MSMEs. The agency submitted semi-annual reports to the Bank that detailed the activities executed, the status of each project component and sub-component, and the results of the outcome and output indicators, as well as other data required under the project operations manual.

Interestingly, the FND extended the M&E strategy for the project (covering 139,253 borrowers) to the institution's total credit portfolio (covering over 2 million borrowers). What the FND did "could be considered as a best practice for similar entities in the region," according to the ICR (page 18).

M&E was rated satisfactory in the last ISR.

c. M&E Utilization

According to the ICR (page 23), the M&E data reported by the FND were cited by the Bank in its ISRs.

Moreover, the M&E data and reports were also submitted to the FND Board of Directors, which found the data useful in understanding how the federal government's programs and projects in the poorest states in the south of the country provided access to finance to vulnerable groups in the rural populations, including indigenous peoples, women, and migrants.

The M&E data from the mid-term review were used by the Bank in planning the additional financing for the project (which was subsequently withdrawn).

However, the M&E data collected during project implementation do not appear to have been used for the economic efficiency analysis done at project closing

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental Safeguards. The project was classified as an environmental assessment category FI (Financial Intermediary) and triggered environmental safeguard policies *OP 4.01 - Environmental Assessment, OP 4.04 - Natural Habitats, OP 4.09 - Pest Management, and OP 4.36 - Forests*. The FND developed an Environmental Management Framework to help participating financial institutions identify environmental requirements for sub-loans to MSMEs and set the environmental eligibility criteria for sub-loans – an exclusion list (category 1); eligible activities that did not require environmental permits, licenses, or authorizations (category 2); and eligible activities that required some type of environmental permit, license, or authorization and best practices application (category 3). The framework was discussed with participating financial institutions and other stakeholders and was approved and disclosed in-country and in the Bank's Infoshop in 2015. The project rating for overall safeguards was satisfactory in the last ISR; those for OP 4.01, OP 4.04, OP 4.09 and OP 4.36 were all also satisfactory. The "overall compliance with environmental and social safeguard policies was satisfactory," according to the ICR (page 24).

Social Safeguards. The project triggered social safeguard policy *OP 4.10 - Indigenous Peoples* as the project covered rural Mexico and indigenous peoples. An Indigenous Peoples' Planning Framework was prepared for the project, discussed with relevant organizations, and approved and disclosed in-country and in the Bank's Infoshop in 2015 and again in 2019. The framework provided guidance for the preparation by regional indigenous funds (RFIs) of business plans targeting indigenous producers and supported the FND strategy of building the institutional capacity of the RFIs to act as participating financial institutions in the project. The RFIs had been previously established by the National Commission for the Development of Indigenous Peoples to act as community-based mechanisms for the delivery of federal subsidies to indigenous producer groups. The project rating for overall safeguards was satisfactory in the last ISR; that for OP 4.10 was also satisfactory. The "overall compliance with environmental and social safeguard policies was satisfactory," according to the ICR (page 24).

b. Fiduciary Compliance

Procurement. According to the ICR (page 25), procurement for the project was conducted following the provisions of the Laon Agreement (pages 10-11), including the amendment to the Laon Agreement under the first restructuring which applied the Bank's new procurement framework to the first component of the project (see Section 2.E). Procurement was rated satisfactory in the last ISR. The "procurement of the project was conducted in accordance with the Legal Agreement and the Operations Manual," according to the ICR (page 25).

Financial Management. According to the ICR (page 25), financial management was conducted following the provisions of the Loan Agreement (pages 9-10). The risk rating for financial management remained moderate through project implementation. There were no changes to the control risk factors, involving budgeting, accounting, internal control, funds flow, financial reporting, and auditing. Financial management was rated satisfactory in the last ISR. The "FM of the project was conducted in accordance with arrangements stipulated in the Legal Agreement," according to the ICR (page 25.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Highly Satisfactory	Satisfactory	The project's efficacy is rated substantial, based on two of three outcome targets achieved. Efficiency is also rated substantial.

Bank Performance	Highly Satisfactory	Highly Satisfactory
Quality of M&E	Substantial	Substantial
Quality of ICR	---	Substantial

12. Lessons

The first two lessons are drawn from the ICR (page 28), with some adaptation. The third lesson is added by this ICR Review.

Partnering with an apex institution with a proven history, expertise, and knowledge of working with lending institutions in the rural sector increases the probability of successfully expanding financing to rural MSMEs. In this project, the FND had built a competitive advantage in rural finance with a broad network of participating financial institutions, both regulated and unregulated by supervisors, that served the rural and agricultural market. The participating financial institutions themselves were knowledgeable of their rural MSME clients, helping reduce the transactions costs normally associated with asymmetric information in finance and with credit risk. Leveraging the strengths of the FND for this operation served to effectively expand productive lending to rural MSMEs in Mexico, both using the project funds and the FND's own resources.

A monitoring and evaluation design that systematically tracks classes of beneficiaries helps maintain a project's operational focus on target groups. In this project, the M&E design called for periodically tracking the number and percentage of sub-loan beneficiaries by gender (women), location (marginalized areas), population group (indigenous peoples), and economic sector (first-time borrowers from formal financial institutions). According to the ICR, this monitoring design helped the FND and the participation financial institutions to maintain their focus on meeting lending targets for these groups of borrowers. The project exceeded or nearly achieved all of the results targets for the percentage of women beneficiaries, the proportion of borrowers from marginalized communities, and the percentage of first-time borrowers among the project beneficiaries.

Requiring counterpart financing in a financial intermediary lending operation crowds in investment from the private sector and strengthens the financial intermediaries' commitment to project objectives. In this project, the FND's credit policy which required that a fraction of the sub-loan approved to a final borrower must be financed by the participating financial institution with its own funds – the average requirement was 20 percent – resulted in the participating financial institutions contributing around US$80 million of their own resources to rural lending to match the US$318.8 million drawn from the Bank loan. In the second round of rural lending, the participating financial institutions contributed around US$63 million of their own resources to match the US$254 million lent by the FND from its own resources (repayments from the credit lines extended by the FND to participating financial institutions). Altogether, some US$143 million of private sector investment was mobilized by the project.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was prepared consistent with OPCS guidelines. It was comprehensive, concisely written and provided useful lessons.

The assessments of efficacy and efficiency were outcome-oriented. Moreover, the ICR (page 14) made the extra effort of reporting the results achieved by the FND on the nine output indicators using the FND's own resources – the repayments received from lines of credit provided to the participating financial institutions using the project loan. While these would not count as part of the formal results of the project, they nevertheless indicated the extent to which the project funds were leveraged by the FND for a second round of lending.

Overall the quality of analysis in the ICR was substantial. To explain the finding that the project benefitted areas with high poverty rates and marginalized communities, the ICR (pages 12-13) tracked the geographic distribution of sub-loans and reported that: about 76 percent of sub-loans were provided in the southern states which had the highest levels of poverty in the country; 41 percent of which went to towns with less than 15,000 inhabitants; 7 percent to areas with over 40 percent of indigenous population; and 53 percent to communities where less than 40 percent of the population considered themselves to be an indigenous community but in which at least 150 indigenous families lived.

In evaluating the outcome of the pilot financial solutions program for MSMEs, the ICR (pages 14-15) reported the successful piloting of an agricultural price insurance scheme that grouped small rural producers and allowed them to collectively participate in the hedge market, with the following results: some 2,144 price hedge contracts (both call and put options) valued at US$745,211 were made between participating financial institutions and small-scale agricultural producers hedging the prices of 232,000 tons of agricultural commodities worth US$30 million.

Similarly, in assessing the institutional strengthening component of the project, the ICR (page 15) reported that the FND used the project funds for diagnostic work on its institutional processes and technology needs and used the government's counterpart resources for institution building at participating financial institutions, with the following results: some 478 capacity-building activities benefitted 254 participating financial institutions with capital and services ranging from capital increases and equipment financing to technical assistance and training.

On the other hand, as explained in Section 5 of this Review, the assessment of the project's economic efficiency was originally weak, absent the clarifications provided by the Bank project team to the IEG after the publication of the ICR.

Despite some shortcomings this review rates the quality of the ICR as substantial.

a. Quality of ICR Rating

Substantial