ICR Review

Operations Evaluation Department

Report Number: ICRR10910

1. Project Data:		Date Posted: 06/12/2001		
PROJ ID:	P007732		Appraisal	Actual
Project Name:	Rural Fin. Mkts TA and Pilots	Project Costs (US$M)	103	Not Available
Country:	Mexico	Loan/Credit (US$M)	30	1.3
Sector(s):	Board: RDV - Capital markets (68%), Banking (20%), Central government administration (10%), Micro- and SME finance (1%), Other social services (1%)	Cofinancing (US$M)	69.9	0
L/C Number:	L4101			
		Board Approval (FY)		96
Partners involved :		Closing Date	06/30/2000	12/15/1999

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2. Project Objectives and Components

a. Objectives

The main objectives were: -

1. Augment the participation of rural entrepreneurs in rural financial markets, especially of the poor .
2. Overcome segmentation of these markets.
3. Increase competition in the sector.

"The lessons learned and the evidence gathered during project implementation would be the mainstay of the future integral improvement of the sector. The project would assist government to address the entire spectrum of necessary conditions for developing Rural Financial Markets (RFM) and improving the market-based provision of financial services to small and micro rural entrepreneurs ." (Technical Annex to the MOP, page 8.)

The Bank and the Borrower believed that the very low level of development of financial intermediation for rural entrepreneurs could be overcome by the development of financial intermediation technologies . These were to be applied by commercial banks, and the development and operating costs would be subsidized by the project .

b. Components

The Implementation Completion Note (ICN) contains no information on actual non-Bank-funded project expenditures. At appraisal components were as follows:

(A) Direct Technical Assistance (US $ 10 million) for consultants, studies and TA to financial NGOs. Outputs would include improved RFM policies, regulations and financial services to rural areas .

(B) Pilot Experimentation with Financial Technologies and Policies (US $ 93 million) for TA, operational subsidies to private banks to establish pilot banking offices (17% of B), dissemination and initial working capital for the pilot branches (68% of B.)

c. Comments on Project Cost, Financing and Dates

The loan did not become effective until January 1998 and was cancelled on December 15 1999. During that period the ICN reports that some studies were completed but provides no details . Private bank participation was to be determined by a competitive bidding process, but - there was only one bidder from two rounds. Although awarded to the bidder, the bank chosen was later taken over and sold off by the Government, without initiating any project activities.

3. Achievement of Relevant Objectives:

None of the objectives were achieved.

4. Significant Outcomes/Impacts:

1. The project advanced a microfinance policy agenda by building on a comprehensive diagnosis of the things that did not work in RFMs, based on a survey in 1994. A number of the studies identified at the time of the project are still highly relevant today and this has led to the Bank preparing a "follow-up" operation for a Rural Microfinance Capacity Building TA.

2. An extensive socio-economic database of rural areas, which assists banks identify rural locations, was prepared by FIMER.

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. Timing was not appropriate. An ambitious and risky project was given accelerated approval at a time when the Mexican banking system was collapsing. However the negative reaction of private banks could also be attributed inter-alia, to (a) the impracticality of relying on a tidy sequencing of "analytical work" and "applied research" to develop workable banking technologies and policies; (b) unattractive terms relative to the risk of investment; c) fear of unfavorable treatment by MOF in its regulatory role (e.g. not allowing banks to close down unprofitable rural operations.)
2. A fundamental design flaw was that the project's effectiveness depended upon a TA that would generate the required technologies early on and that they would be immediately adopted by the banks in new rural branches. The methodology assumed an oversimplistic sequence of financial reform - analytic work, research, design and testing of methodologies, pilots, expansion by the private sector banks.
3. The implementing agency was not staffed by individuals with operational experience.
4. Non-bank intermediaries were neglected in the project design, but interested in some of the research products. Non-banks such as the Credit Unions and Savings and Loans Associations were, however, unprepared for technologies to be supplied by the project (e.g. the research agenda included "smart cards" and artificial intelligence for evaluating credit risk.)
5. The Ministry of Finance (MOF) did not sustain its commitment to the project. There was an extended internal government debate, after project approval, on the future of FIMER (the executive agency under MOF.) Government became ambivalent about the project and what political commitment there was, evaporated. The ICN states that MOF "concluded that supporting an expansion of rural banking operations would facilitate the banks' recovery process," but abandoned that position after the liquidation of the interested private bank.
6. Government adopted inflexible policies and quantitative constraints regarding branch development that discouraged participation (e.g. that the banks were expected to establish at least 30 rural branches, in a community of over 20,000 people and the location had to be at least 30 kms from the nearest banking center.)

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Unsatisfactory	No objectives were achieved.
Institutional Dev .:	Not Rated	Negligible	
Sustainability :	Not Rated	Not Applicable	
Bank Performance :	Not Rated	Unsatisfactory	Although diligent supervision led to cancellation, quality at entry was not satisfactory.
Borrower Perf .:	Not Rated	Unsatisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Establishing new rural financial market services through the formal banking sector requires that the sector as a whole should be healthy.
2. Establishment of rural branch networks should precede a major TA whose goal is to develop alternative Technologies of Financial Intermediation for RFM.
3. Analysis of external factors during loan preparation can prevent subsequent disappointments during implementation.
4. In projects such as this, where oversight is provided by a Technical Board, the private sector should be invited to participate.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

Satisfactory. While missing key bits of data (such as how much in total was spent on the project, as opposed to disbursement of Bank funds), the ICN describes in detail the consequences and outcome of an operation, which had low quality at entry, and which was subsequently buffeted by exogenous macroeconomic shocks. Usability by OED would have been improved if the author had tried to follow the standard outline as far as possible.