Document of
The World Bank

Report No: ICR2456

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-72400 IBRD-74380 IBRD-75920)

ON

A LOAN

IN THE AMOUNT OF US$75.5 MILLION EQUIVALENT

A

FIRST ADDITIONAL FINANCING LOAN
IN THE AMOUNT OF US$29.0 MILLION

AND A

SECOND ADDITIONAL FINANCING LOAN
IN THE AMOUNT OF US$50.0 MILLION

TO THE

UNITED MEXICAN STATES

FOR A

SAVINGS & RURAL FINANCE (BANSEFI) PROJECT – PHASE II

January 31st, 2013

Sustainable Development Department
Mexico and Colombia Country Management Unit
Latin America and Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective: January 22, 2013)

Currency Unit = Mexican Peso (MX$)
MX$ 1.00 = US$0.07922
US$1.00 = MX$ 12.622

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BANSEFI	National Bank for Savings and Financial Services (*Banco del Ahorro Nacional y Servicios Financieros*)
CNBV	National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*)
CPS	Country Partnership Strategy
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report
IRR	Internal Rate of Return
LACP	Law of Savings and Popular Credit (*Ley de Ahorro y Crédito Popular*) Effective June 4, 2001
LRASCAP	Financial Cooperatives Law of August 13, 2010 (*Ley para Regular las Actividades de las Sociedades Cooperativas de Ahorro y Préstamo*)
M&E	Monitoring and Evaluation
NPV	Net Present Value
PAD	Project Appraisal Document
PATMIR I	Technical Assistance Program to Rural Microfinancing (*Programa de Asistencia Técnica al Micro-financiamiento Rural)*-Component 2 of the original project
PATMIR II	Technical Assistance Program to Rural Microfinancing (*Programa de Asistencia Técnica al Micro-financiamiento Rural)* - Additional financing 2008-2010: Component 2 of the project
PDO	Project Development Objective
SCI	Savings and Credit Institution (*Entidad de Ahorro y Crédito Popular*)
SOFIPO	Popular Financial Company *(Sociedad Financiera Popular)*
SOFOM	Multiple Purpose Financial Company *(Sociedad Financiera de Objeto Múltiple)*
TA	Technical Assistance

Vice President:	Hasan A. Tuluy
Country Director:	Gloria M. Grandolini
Sector Manager:	Laurent Msellati
Project Team Leader:	Pierre Olivier Colleye
ICR Team Leader:	Pierre Olivier Colleye

UNITED MEXICAN STATES

Savings & Rural Finance (BANSEFI) Project – Phase II

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A. Basic Information			
Country:	Mexico	Project Name:	Mexico Savings & Rural Finance (BANSEFI) Project - Phase II
Project ID:	P087152	L/C/TF Number(s):	IBRD-72400,IBRD-74380,IBRD-75920
ICR Date:	01/31/2013	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	UNITED MEXICAN STATES
Original Total Commitment:	USD 75.50M	Disbursed Amount:	USD 151.33M
Revised Amount:	USD 151.33M		
Environmental Category: C			
Implementing Agencies: BANSEFI: National Bank for Savings and Financial Services (Banco del Ahorro Nacional y Servicios			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	12/19/2003	Effectiveness:	12/09/2004	12/09/2004
Appraisal:	04/21/2004	Restructuring(s):		02/22/2007 11/21/2008 04/22/2009 07/19/2012
Approval:	06/29/2004	Mid-term Review:	01/02/2007	05/11/2007
		Closing:	07/31/2009	07/31/2012

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Satisfactory	Government:	Satisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Moderately Satisfactory	**Overall Borrower Performance:**	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating**
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Satisfactory		

D. Sector and Theme Codes		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Banking	100	100
Theme Code (as % of total Bank financing)		
Infrastructure services for private sector development	14	14
Other financial and private sector development	14	14
Regulation and competition policy	29	29
Rural markets	29	29
State-owned enterprise restructuring and privatization	14	14

E. Bank Staff		
Positions	**At ICR**	**At Approval**
Vice President:	Hasan A. Tuluy	David de Ferranti
Country Director:	Gloria M. Grandolini	Isabel M. Guerrero
Sector Manager:	Laurent Msellati	John Redwood
Project Team Leader:	Pierre Olivier Colleye	Harideep Singh
ICR Team Leader:	Pierre Olivier Colleye	
ICR Primary Author:	Pierre Olivier Colleye	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The objective of the Project is to assist the Borrower in strengthening the SCI sector with SCIs which are compliant with the Popular Savings and Credit Law, financially viable, operationally effective, managerially sound, technologically upgraded, and providing an enhanced level of outreach and access to financial services by the underserved Mexican populations.

Revised Project Development Objectives (as approved by original approving authority)

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	About 195 entities assisted under the project either certified by CNBV for operation, or identified for liquidation with appropriate plans.			
Value quantitative or Qualitative)	15	195	365 (60% of total assets and members)	297
Date achieved	06/29/2004	12/31/2009	07/31/2012	07/31/2012
Comments (incl. % achievement)	81% of target (number of entities), with the certified SCIs representing 74% of the sector's assets and members (123% of target). Another 141 entities, classified as category "A or B", are expected to be certified by the CNBV deadline of March 31, 2014.			
Indicator 2 :	About 12 institutions brought under the process of liquidation.			
Value quantitative or Qualitative)	0	12	Not revised	4
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	25% of the target. The extension of the deadline for certification to March 31, 2014 led to a delay in the sector's consolidation. So far, 35 entities have been identified for liquidation/merger, with plans developed.			
Indicator 3 :	Deposit Protection Fund established for at least one Federation/Confederation.			
Value quantitative or Qualitative)	0	1	Not revised	2
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	200% of target. In line with the initial legal framework, all 12 federations set up their own Deposit Protection Funds. They were consolidated under the 2009 legal framework into a fund for Cooperatives and for SOFIPOs, both under BANSEFI's trusteeship.			
Indicator 4 :	50% of the consolidated sector entities adopted the technology platform (about 115 entities).			
Value quantitative or Qualitative)	8	115	140	372
Date achieved	06/29/2004	12/31/2009	07/31/2012	07/31/2012
Comments (incl. % achievement)	265% of the target. 84 entities have adopted the platform's Core Banking module, and another 286 entities use the platform through modular services such as L@Red de la Gente.			
Indicator 5 :	At least 90% of the entities reported satisfactory outcomes relating to accounting and internal controls, and meeting reporting requirements (number of entities).			
Value quantitative or Qualitative)	0	90%	Not revised	92%
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. %	102% of target. 92% of the institutions evaluated by the Comité de Supervisión Auxiliar (CSA) were authorized, or classified as category A or B (the two highest). Adequacy of			

achievement)	reporting and internal controls are core requirements for these ratings.			
Indicator 6 :	Clients of the sector increase from 4 million to about 9 million.			
Value quantitative or Qualitative)	4 million	9 million	Not revised	19.68 million
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	218% of the target. The data can be broken to 8.6 million members for SCIs and 11.7 million clients of BANSEFI (including 7 million recipients of the conditional cash transfer program Oportunidades who, in the process, opened a bank account.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Diagnostics completed, classification done, and work plans prepared and implemented for 45 new institutions and some 150 institutions assisted under the ongoing project for their authorization, up-gradation or liquidation.			
Value (quantitative or Qualitative)	0	195	375	417
Date achieved	06/29/2004	12/31/2009	07/31/2012	07/31/2012
Comments (incl. % achievement)	111% of the target. All of the cooperatives that have been or are in the process of being certified, as well as a large number of certified SOFIPOs, have received technical assistance under the project.			
Indicator 2 :	Specific strategies prepared and implemented for about 40 institutions to deepen penetration and enhance access to financial services by the underserved population			
Value (quantitative or Qualitative)	0	40	Not revised	75
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	185% of the target (2009-2011).			
Indicator 3 :	Guidance provided to three federations for the establishment of a Deposit Protection Fund.			
Value (quantitative or Qualitative)	0	3	Not revised	12 Federations and 1 Confederation
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	433% of target. The project supported the establishment of deposit protection funds in all 12 Federations and the Confederation, and under the new legal framework in 2009 also the consolidation to two Deposit Protection Funds under Bansefi's trusteeship.			
Indicator 4 :	At least six training sessions (one in each region) completed in each of the following topics: accounting, governance, risk management, credit analysis, and other topics identified during implementation.			
Value (quantitative or Qualitative)	0	36 (6 times 6)	Not revised	147

Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	408% of the target. It does not include the many workshops provided to the federations and SCIs throughout the project (330 workshops to 1,284 distinct participants).			
Indicator 5 :	Application package developed (% of total package).			
Value (quantitative or Qualitative)	0%	100%	Not revised	100%
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target. The contract with the service provider (IBM) started on October 30, 2003 and was completed on February 28, 2008. The last application to be developed was "Cheques".			
Indicator 6 :	Hardware and other services contracted for the entities.			
Value (quantitative or Qualitative)	0%	100%	Not revised	100%
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target. Hardware services for operating the core system were in place by the end of October 2006 when the mainframe and all the midrange equipment were delivered and configured (Wintel and Unix platform servers).			
Indicator 7 :	Data center and related services contracted for the entities.			
Value (quantitative or Qualitative)	0%	100%	Not revised	100%
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target. Data Center services (hardware and facilities) were provided between September 2007 and December 2008; VPN and connectivity services were provided between December 2004 and October 2010.			
Indicator 8 :	Verification and validation, and regression analysis completed for the application package.			
Value (quantitative or Qualitative)	0%	100%	Not revised	100%
Date achieved	06/29/2004	12/31/2009		03/31/2006
Comments (incl. % achievement)	100% of the target. Several stand-alone tests were performed, documented and cleared by the users to verify the functionality and consistency of all the applications contained in the package.			
Indicator 9 :	Technology platform operationalized in the six selected entities participating in the technology pilot.			
Value (quantitative or Qualitative)	0	6	Not revised	6
Date achieved	06/29/2004	12/31/2009		09/30/2005
Comments (incl. % achievement)	100% of the target. The pilots were completed for the six selected entities (Bahía de la Buena Pelea, San Nicolás, Caja Bienestar, Amatlán de Cañas, Batoamigo and SERCA).			
Indicator 10 :	Baseline household survey and data interpretation completed by June 2004.			
Value (quantitative or Qualitative)	0	1	Not revised	1

Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target.			
Indicator 11 :	Annual household surveys and data interpretation completed with enhanced sample filling approach.			
Value (quantitative or Qualitative)	0	4	Not revised	4
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target.			
Indicator 12 :	Household case studies complementing annual household surveys completed between 2004 and 2007.			
Value (quantitative or Qualitative)	0	25	Not revised	120
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	480% of the target.			
Indicator 13 :	Outputs of the baseline study, annual household survey, and household case studies widely disseminated.			
Value (quantitative or Qualitative)	0%	100%	Not revised	100%
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target. Result of studies disseminated through seminars and published on-line.			
Indicator 14 :	Specific output/outcome studies completed (timing and number of studies to be tentative, and depend on the implementation performance and the need for evaluation).			
Value (quantitative or Qualitative)	0	10	Not revised	2
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	20% of the target. Most of the studies initially expected to be financed under the BANSEFI II project eventually ended up being paid for by the BANSEFI I project which was implemented concurrently and had some funds left over due to cost savings.			
Indicator 15 :	Financial Products study completed.			
Value (quantitative or Qualitative)	0%	100%	Not revised	100%
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target. Studies were carried out to assess the needs and perceptions of remittances receivers, to develop a correspondent banking strategy, and to determine the needs of BANSEFI's clients.			
Indicator 16 :	Communication campaign focusing on (i) benefits of the new law (third phase) completed by June 2005, and (ii) on marketing the new reformed entities and the			

	financial products achieved.			
Value (quantitative or Qualitative)	40%	100%	Not revised	100%
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target. BANSEFI has facilitated, financed or organized a large number of communication campaigns on the above topics.			
Indicator 17 :	Project management team in BANSEFI departments appropriately strengthened and fully functional.			
Value (quantitative or Qualitative)	100%	100%	Not revised	100%
Date achieved	06/29/2004	12/31/2009		07/31/2012
Comments (incl. % achievement)	100% of the target. BANSEFI hired professional and dedicated staff for these functions throughout the entire implementation of the project. Project implementation by BANSEFI was rated as satisfactory.			

G. Ratings of Project Performance in ISRs

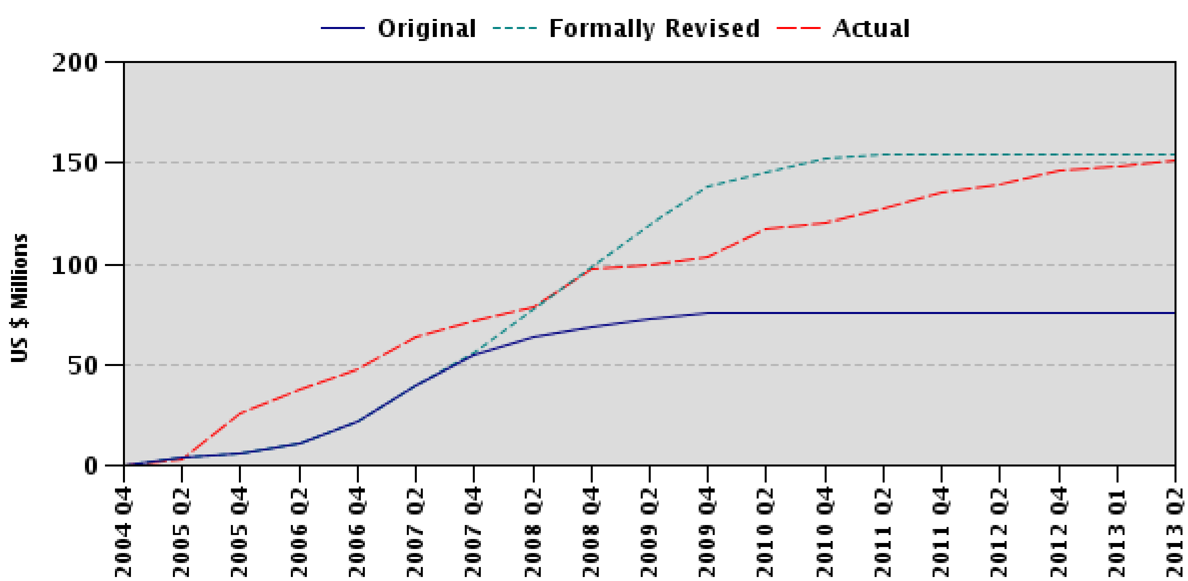
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	12/16/2004	Satisfactory	Satisfactory	0.38
2	05/10/2005	Satisfactory	Satisfactory	25.76
3	04/17/2006	Satisfactory	Satisfactory	43.21
4	10/24/2006	Satisfactory	Satisfactory	54.81
5	05/18/2007	Satisfactory	Satisfactory	63.33
6	06/27/2007	Satisfactory	Satisfactory	71.97
7	11/29/2007	Satisfactory	Satisfactory	71.97
8	05/05/2008	Satisfactory	Satisfactory	93.59
9	10/17/2008	Satisfactory	Satisfactory	99.52
10	04/13/2009	Satisfactory	Satisfactory	99.52
11	09/17/2009	Satisfactory	Satisfactory	112.98
12	04/22/2010	Satisfactory	Satisfactory	120.39
13	03/05/2011	Satisfactory	Satisfactory	127.81
14	12/05/2011	Satisfactory	Satisfactory	138.89
15	04/01/2012	Satisfactory	Satisfactory	138.89
16	07/27/2012	Satisfactory	Satisfactory	148.30

H. Restructuring

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
02/22/2007	N	S	S	63.33	First additional financing - Loan 74380, carried on in order to finance the cost overrun relating to

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
					the Project's activities. Amount disbursed at the time represented 84% of loan proceeds.
11/21/2008	N	S	S	99.52	Second additional financing - Loan 75920, in order to fill a financing gap related to the components of the project. Amount disbursed at the time corresponded to 99.3% of initial loan and 77.9% of first additional financing proceeds.
04/22/2009	N	S	S	103.31	Extension of closing date for the loan 74380, in order to align it with the closing date of loan 75920, July 31st, 2012 (additional financing).
07/19/2012	N	S	S	148.30	Reallocation of proceeds.

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1.1.1 When project preparation started in 2003, the Mexican economy was experiencing mild consequences of the 2001 economic slowdown in the United States. A weak economic growth (1.4 percent) and a moderate inflation rate (4.5 percent) characterized the economic landscape. Since the 1995 Peso crisis, the financial system had been strengthened and the Mexican economy had been relatively stable, relying on an increasingly sound macroeconomic management.

1.1.2 Access to financial services in Mexico continued however to be limited and costly. In their effort to clean up the balance sheets, the commercial banks largely withdrew from retail banking, and private sector credit to GDP fell to around 10 percent in 2000 (from 35 percent in 1995) [1]. Available unsecured retail credit frequently came with interest rates of 70 percent and higher, making it difficult to afford. There were also significant gaps in geographic coverage, with 74 percent of the municipalities (representing 22 percent of Mexico's population) reportedly not having a bank branch. These supply side bottlenecks particularly constrained rural agriculture and non-agriculture enterprises, which reportedly had participation rates of below 10 percent for both savings and credit services (below rates reported for countries with a lower per capita income like Peru and Colombia). The unbanked population faced high transaction cost for paying utilities and receiving remittances, and depended on non-regulated alternative credit providers that charged high rates for loans.

1.1.3 Against this background, the Government renewed its efforts to strengthen and deepen the financial sector, focusing on a broader range of financial intermediaries. The commercial bank reform had already resulted in significantly stronger banks and a vigorous consolidation phase. However, despite a 50 percent increase in banking assets between 1999 and 2003, deposit and lending activity actually declined. Most banking products were targeted to high-income clients, and bank branches clustered around business and high-income residential areas. A number of legal and regulatory reforms were initiated to improve the efficiency and transparency of development banks' operations, and to re-orient them toward developing rural financial markets.

1.1.4 A number of key legal and institutional reforms were initiated prior to project approval. The *Ley de Ahorro y Crédito Popular* (LACP) was passed in April 2001 and the *Banco del Ahorro Nacional y Servicios Financieros, S.N.C. Institución de Banca de Desarrollo* (BANSEFI) was created. BANSEFI received an enhanced development role with respect to the Savings and Credit Institutions (SCI) sector, acting as the nodal bank to channel and coordinate government assistance for sector strengthening. The *Comisión Nacional Bancaria y de Valores* (CNBV), already the regulator for banks and capital markets, became the sole regulatory and supervisory authority for the SCI sector and was given the responsibility for issuing all regulations associated with the new legal framework for SCIs. Existing institutions had until June 2005 (later extended) to meet the legal requirements for authorization, which included adopting one of the two acceptable legal forms, purchasing private deposit insurance, having an accounting and financial management system that would meet CNBV standards, having regular reporting and supervision and demonstrating financial viability and effective governance structures.

[1] For a description of the developments after the Peso crisis, see for example Rubén Hernández-Murillo (2007) " Experience in Financial Liberalization – The Mexican Banking Sector", Federal Reserve Bank of St. Louis Review, September/October 2007, 89(5), pp. 415-32.

1.1.5 The Government also launched a comprehensive strategy to reform and strengthen the SCI. The SCI sector had a comparative advantage in expanding outreach since it already had a considerable presence in otherwise unbanked areas of the country, and targeted low- to middle income clients. At appraisal, it was estimated that the sector consisted of about 600 institutions, but the majority of them was not formally authorized to mobilize savings, and limited information on their soundness and viability existed. The Government's reform strategy was holistic, combining legal and regulatory reforms with a substantial public investment in order to create and strengthen the capacity of the SCIs and the regulatory agencies assigned with their supervision.

1.1.6 To facilitate the transition, BANSEFI launched, on behalf of the government, a sector strengthening initiative in 2002. The World Bank considered worth partnering with the Government on this reform endeavor through a series of projects because of the above determined gaps in financial access in rural areas, and the innovativeness of this holistic government policy initiative, which covered a range of issues relating to prudential oversight, auxiliary supervision, deepening outreach, legal reform, institutional reform, technical assistance and strengthening regulatory and supervision capacity. Moreover, it blended public sector action and private initiative, focusing on creating sustainable and profitable SCIs.

1.1.7 The World Bank support has emerged over the years to a series of projects. BANSEFI I, approved in June 2002, took a dual approach of strengthening the sector and directly supporting its growth in rural areas to foster financial inclusion. Through supporting the development of an inventory and assessment of the sector, providing a first round of training and strengthening to the sector's institutions, the development of a first blueprint for the information system, and carrying out dissemination activities, it laid the ground for the second Bank project. The BANSEFI II project had a more narrow focus, providing additional funding for strengthening and consolidating the sector to bring it under regulation, and supporting the implementation and refinement of a technical platform that would – as a public good for the sector – support the harmonization within the sector and the development of joint products and services. Most recently, in December 2011, BANSEFI III was approved to provide final support for the sector's strengthening, and fostering the outreach of regulated SCIs into unbanked rural areas.

1.2 Original Project Development Objectives (PDO) and Key Indicators

1.2.1 The Project Development Objective aimed at assisting the Borrower in strengthening the SCI sector with entities which are compliant with the Popular Savings and Credit Law, financially viable, operationally effective, managerially sound, technologically upgraded and providing an enhanced level of outreach and access to financial services by the underserved Mexican population.

1.2.2 As key performance indicators, the Project Appraisal Document (PAD) specified[2]:

- About 195 entities assisted under the project either certified by CNBV for operation, or identified for liquidations with appropriate plans;

[2] The formulation in the key performance indicators in the main text and Annex 1 slightly deviate in wording and provided targets, but not in substance. The ICR is based on the more detailed key performance indicators provided in the Annex 3 of the PAD: arrangements for results monitoring.

- About 12 institutions brought under the process of liquidation;
- Deposit Protection Fund established for at least one Federation / Confederation;
- 50 percent of the consolidated sector entities adopted the technology platform (about 115 entities);
- At least 90 percent of the entities reported satisfactory outcomes relating to accounting and internal controls and meeting reporting requirements (number of entities); and
- Clients of the sector increased from 4 million to 9 million.

1.3 Revised PDO

1.3.1 The Project Development Objective (PDO) was not revised during project implementation.

1.3.2 The key performance indicators remained unchanged in substance, but the target indicators were adjusted to reflect the additional financing made available, and lessons learned about the time needed for transition. Furthermore, one outcome indicator was added in the second additional financing to measure the number of entities receiving Technical Assistance (TA) for mergers and liquidations.

1.4 Main Beneficiaries

1.4.1 The direct beneficiaries of the project were the 600 savings and credit institutions estimated to operate in rural and urban areas of Mexico at project appraisal. It was expected that 195 of these entities would receive project support for the transformation into authorized and regulated financial entities, and for becoming sustainable and profitable financial entities.

1.4.2 Indirect beneficiaries of the Project were the current and potential clients of the SCI sector. These mostly comprise households and microenterprises that were not yet served or were under-served by the banking sector (in particular the low-middle income population segments of rural and marginalized areas). The consolidation of the SCI sector and the increased confidence in its intermediaries was expected to increase the number of members in SCIs, and to allow the members access to secure savings instruments and a broader range of other financial services (such as lending and payment services) at lower prices than those requested by informal service providers.

1.5 Original Components

The project had four components:

- **Component 1: Strengthening sector institutions (estimated WB costs at appraisal US$10.8 million, including the two additional financing, actual costs US$28.18 million).** Under this component, technical assistance was to be provided (a) to an additional number of eligible SCIs nationwide for assessing their financial and managerial condition and determining action plans for their authorization or liquidations, (b) to help selected SCIs, which received support under the first project, to develop strategies to deepen penetration and expand their financial services outreach, and improve their effectiveness and efficiency, (c) to support the creation and functioning of the Deposit Protection Fund at the level of Federations and the Confederation, (d) to BANSEFI for the management and monitoring of the assistance provided to SCIs by consultants, and (e) to carry out training programs for staff of SCIs , the CNBV, BANSEFI and the Federations.

- **Component 2: Developing a technology platform (estimated WB costs of US$56.2 million, actual US$111.95 million).** This component aimed at providing hardware and TA services to establish/ strengthen the technological capacity of BANSEFI and the SCIs. This included, inter alia, the establishment of a data center and provision of virtual private network services for connectivity across individual SCIs.

- **Component 3: Monitoring and evaluation, studies and information dissemination (estimated WB costs of US$6.2 million, actual costs US$8.1 million).** This component provided for (a) improving the size, credibility and interpretation of the annual household surveys carried out by BANSEFI, and ensuring its consistency, (b) carrying out evaluations of the implementation performance of the first two components of the project, including dissemination of the findings, and (c) launching dissemination campaigns to instill confidence about the sector to clients and disseminate the range of financial products available via the new technology platform.

- **Component 4: Project Management (estimated WB costs of US$1.4 million)** to establish and train a core team as required for project implementation.

1.6 Revised Components

The components were not revised.

1.7 Other significant changes

1.7.1 During implementation, additional funds for project implementation were approved. The first additional financing was approved in February 2007 and provided a supplementary amount of US$29 million to cover technical assistance needed for (i) the transformation of the SCI sector, (ii) the implementation and enhancement of the technology platform and (iii) dissemination of new products available through the technology platform. The second additional financing for US$50 million approved in August 2008, increased the funding under the same components.

Table 1: Chronology of World Bank Support to Bansefi

Loan	Loan #	Project #	Loan Amount	Approved	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bansefi I Initial Loan	7132	P070108	64.6	Jul-02														
Bansefi II Initial Loan	7240	P087152	75.5	Jun-04														
Bansefi II First AF	7438	P087152	29	Mar-07														
Bansefi I AF	7500	P070108	21	Jan-08														
Bansefi II Second AF	7592	P087152	50	Sep-08														
Bansefi III Initial Loan	8107	P123367	100	Dec-11														
Period covered by ICR																		

■ = Original implementation period   ■ = Extended implementation period

Table 2: Evolution of Funding for Each Component of the BANSEFI II Project

	Initial Loan			First Additional Financing			Second Additional Financing		
	IBRD	Other	Total	IBRD	Other	Total	IBRD	Other	Total
Component 1	10.8	2.2	13	5.6	1.1	6.7	11	14	25
Component 2	56.2	80.7	136.9	21.8	4.4	26.2	31.87	33.13	65
Component 3	6.2	1.3	7.5	1.2	0.2	1.4	5	6.5	11.5
Component 4	1.4	0.5	1.9	0.4	0.1	0.5	2	2	4
	74.6[3]	84.7	159.3	29	5.8	34.8	49.87	55.63	105.5

1.7.2 The additional funding was necessary due to:

- The complexity and difficulties encompassed during the transition of SCIs into the regulatory sphere, and modifications of the legal framework during project implementation. A closer assessment of individual SCIs revealed more substantial gaps in their financial and organizational situation, and political economy issues made implementation more challenging. More time and funding were thus needed for capacity building and technical support, and for creating the needed momentum for reform within the sector. Additional costs were also incurred for adjusting the TA to the evolving legal and regulatory framework.

- The strategy of the technical platform, which changed over time as a result of a long consultative process as well as implementation delays and performance weakness of a major IT provider. The platform eventually became a sophisticated technical platform that provides a core banking module for BANSEFI as well as for financial entities, and allows the development of an additional range of electronic banking products for the sector. The break-even point by which income received from transaction fees exceeded IT-related expenses took longer than initially planned but was reached before Project Closing.

- The development of new products provided through, among others, the larger technology platform also meant an increased need to familiarize the target population with evolving new services, such as remittance transfers through "L@Red de la Gente", and to help establish the SCI sector as a reliable provider of financial services.

1.7.3 The relative contribution of project funds by individual stakeholders changed due to the additional funds. The government's contribution increased from an initially estimated 9 percent of project costs to 25 percent, and the Bank's share from 47 to 51 percent. The tracked financial contribution from the sector remained unchanged (declining in relative terms), but this does not account for the SCI's internal costs for upgrading to the technology platform (both staff and capital costs), adjusting internal processes to the received technical assistance, and direct and indirect costs incurred for supervision.

[3] Does not include front-end fee.

Table 3: Evolution of Total Project Costs for BANSEFI II

	Initial Loan	In % of Total	1st Amendment	2nd Amendment	Total Project Costs	In % of Total
Borrower	14.69	9%	5.8	53.63	74.12	25%
World Bank	75.5	47%	29	50	154.5	51%
Participating entities	69.86	44%	0	2	71.86	24%
TOTAL PROJECT COSTS	160.05	100%	34.8	105.63	300.48	100%

1.7.4 The two additional financings led to an increase of non-consulting services, and to a shift in weights within the project components, with the share of the IT decreasing from about 86 percent to 76 percent and an increase in technical assistance to the sector from 8 percent to 15 percent of total project costs. Non-consulting services eventually accounted for 47 percent compared to 34 percent at appraisal, and operating expenses increased from 2 percent to 5 percent. A reallocation of expenditure categories under the second additional finance project was undertaken in June 2012 to allow for higher share of non-consultant services to be financed under the project, but these changes were more a reflection of a change of the selected procurement method than a change in the use of funds. Annex 1 summarizes the evolution of the various cost categories.

1.7.5 The Closing Date at the time of the second additional financing was extended to June 2012.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design, and Quality at Entry

2.1.1 As described in the PAD and the ICR of the predecessor project, a substantial amount of background analysis was carried out in 2000/2001 to help the government determine its reform strategy and the scope of support needed for a successful strengthening of the sector. The Government was strongly committed to the reforms, having passed in 2001 a legal framework for the sector (the LACP), and endowing BANSEFI with the mandate to provide direct support to the sector. The project also incorporated lessons learned from other World Bank access to finance projects, in particular (i) the need to provide cost saving options to the sector to enhance its financial viability and facilitate the sector's consolidation and (ii) to use a demand driven approach for the provision of technical assistance to financial entities.

2.1.2 The project components were fully aligned with the government's reform strategy and ongoing World Bank support, which focused on those aspects of the Government program where the Bank had a comparative advantage and could bring value-added. Since 2001, the Bank has been working closely with the Government on the evolution of the SCI sector as part of a broader partnership in support of the Mexican financial sector (Figure 1). Using a diverse range of instruments[4], the Bank has provided over a decade of policy advice, convening services, investments, as well as piloting of innovative rural financial services. The BANSEFI projects combined: (a) financial support; (b) advisory services; and (c) coordination with other donors.

[4] The Plan Nacional de Desarrollo (PND) includes a strategy to enhance the access to financial services, while the Programa Nacional de Financiamento del Desarrollo (PRONAFIDE) makes reference to better access to savings services, deepening of the financial sector, increase in competition of the sector, development of a financial culture and consumer protection and an increase use of electronic means in rural and marginal areas.

Table 4. Stages of Support to the Financial Sector in Mexico

Stages of Support to the Financial Sector in Mexico	Initial Engagement: 2001-2004	Strengthening the Sector: 2005-2009	Consolidation: 2010-
Government Actions	▪ National Financing for Development Plan / PRONAFIDE(2001-2006) ▪ Efficient regulation & supervision / Transparency (Securities Markets Law & Law on Transparency of Financial Services) ▪ Solid commercial banking sector; Strengthening non-bank FIs and insurance companies ▪ Social & development banking (DFIs) ▪ New instruments for risk control & financial stability ▪ Agent Banking & Consumer Protection ▪ ***Establishment of A2F unit at CNBV and Law for Savings and Credit Institutions; Law for Financial Cooperatives; BANSEFI creation***		▪ Financial Inclusion (new channels, improved financial infrastructure, consumer protection & financial education) ▪ Financial Stability (Financial Stability Council & additional prudential requirements)
Advisory Services	▪ Capital Markets Report ▪ Financial Sector Assessment Program ▪ Financial Sector Notes ▪ Facilitating Regional PSD ▪ Financial Sector Monitoring ▪ PPIAF: Mexico Remittances to Fund Infrastructure Investment ▪ Country Financial Accountability Assessment ▪ Broadening Access to Financial Services for the Urban Unbanked ▪ Pensions Fund Supervision - Advisory Services to CONSAR in Mexico	▪ MX Pensions Fund Supervision – Advisory Services to CONSAR in Mexico ▪ FSAP Update Mexico ▪ FPDSN: Fee Service Advisory SHF ▪ AML/CFT Assessment of Mexico ▪ MX - Banobras Strategy ▪ Financial Sector Competitiveness & A2F ▪ Global Catastrophe Mutual Bond Risk Modeling For Mexico ▪ Financial Crisis Preparedness TA ▪ ***Correspondent and Mobile Phone Banking for savings and credit sector***	▪ Mexico Finance and Competitiveness (Capital Markets) ▪ Mexico Insolvency & Creditor Rights ROSC ▪ Third Fee for Advisory Services to Sociedad Hipotecaria Federal ▪ Mexico Financial Crisis Simulation Exercise ▪ Mexico Financial Capabilities Assessment ▪ Revisiting the Role of Development Banks
Investment Operations	▪ FOVI Restructuring Project ▪ Southeast Regional Development Learning and Innovation Project ▪ ***Savings and Rural Credit Sector Strengthening Project (BANSEFI Phase I)***	▪ Private Housing Finance Markets Strengthening Project ▪ Innovation for Competitiveness ▪ ***Savings and Rural Credit Sector Strengthening Project (BANSEFI Phase II)*** ▪ ***Three AF loans linked with Phase I and Phase II projects***	***BANSEFI Phase III – RURAL SAVINGS AND CREDIOT SECTOR CONSOLIDATION PROJECT This Project 2011-2015***
DPLs	▪ Bank Restructuring Facility Adjustment Loan I & II ▪ Rural Finance Development Structural Adjustment Loan	▪ First Programmatic Finance and Growth Development Policy Loan	▪ Strengthening the Business Environment for Enhanced Economic Growth DPL

2.1.3 The project benefited from a strong partner in BANSEFI and on the experience from the first World Bank-financed BANSEFI project to focus its interventions on the strategic elements to strengthen the sector and increase outreach.

2.2 Implementation

2.2.1 The project was implemented by a team of highly professional and motivated staff, who often engaged in designing innovative technical approaches. The staff turnover was low, providing for continuity to the overall objectives of the Project. The PDO being fully consistent with the mission of BANSEFI itself, the Project benefited from very strong support from all levels of management.

2.2.2 The project was not perceived to be at risk at any stage during implementation.

2.2.3 Most of the activities financed by the Project were demand-driven, and BANSEFI had to constantly fine-tune the activities to a changing (i) legal/regulatory framework, (ii) political economy and (iii) demand for technical assistance and IT support from the sector. The technical assistance was based on a prior diagnostic of the needed institutional strengthening and adaptation to the requirements of the legal framework, but was then provided on a modular basis to fit the actual demand and institutional capacity of the individual entity. This flexibility, while needed, came with a higher cost for the technical assistance and made monitoring the quality and content of the individual technical assistance more challenging.

2.2.4 The government continued to show solid support to the reform process. But it was faced with difficult decisions when the original deadline for certification came close: either enforce the law and shut down access to financial services for millions of poor people, or allow for an extension of the deadline. It chose the latter, four times[5]. Unfortunately, the extension of certification deadlines and changes to the regulatory and supervisory framework also removed the urgency for the sector to comply early on, and since the project provided technical assistance on a demand-basis, these changes contributed to a slower than expected overall project implementation. Also, the changes in the regulatory framework and certification process triggered additional technical assistance to assess the entities and adapt the action plans to the revised requirements. However, as indicated by the indicators, certification targets were eventually achieved.

2.2.5 The development of the IT platform experienced time and cost-overruns due to challenges in implementation (in great part due to the poor performance of a major IT supplier), but also to an important change in business strategy. The IT platform was expected to be ready for pilot testing in 2004 and fully ready by 2006. The platform was actually fully operational only in 2008. The second additional financing extended the support for operational expenses until 2012 to support the transition period needed for the implementation of the new business strategy until BANSEFI would be able to fully fund the IT platform on its own. Despite these implementation challenges, the IT platform is now being used at its maximum capacity, providing a wider than expected range of services and, by Project Closing Date, is profitable to the institution.

Monitoring and Evaluation (M&E) Design, Implementation and Utilization

2.2.6 The design of the monitoring and evaluation system was adequate. The specified key performance indicators were in line with the project development objective, and provided an adequate framework to measure progress and track performance of the individual components. The responsibility of monitoring the indicators and progress towards the expected outcomes was spread out over the respective departments within BANSEFI. As the objectives of the Project itself were consistent with BANSEFI's overall mission, the institution was able to generate the needed data on the Project's performance. Data on the financial performance of the overall sector itself, however, was difficult to obtain as the deadline for certification got postponed and no

[5] The deadline for transition to being certified was extended four times, from the initially foreseen June 2004 to now March 31, 2014. Furthermore, the legal and regulatory framework changed twice during the process. In 2007, higher thresholds for the mandatory certification of SCI were introduced, which eliminated the need for certification of a number of smaller entities that had already received project support for certification and were ready for transition. The thresholds were eventually revised in the new legal framework, LRASCAP (2009), requiring again mandatory certification for a number of entities that had previously been excluded.

reliable data existed on the unsupervised entities[6]. Furthermore, the fact that two loans and up to three additional financings were on-going concurrently, and had similar performance indicators regarding the consolidation of the sector, made attribution challenging. Despite these challenges, the technical assistance team of BANSEFI was able to regularly generate/collect the indicators requested by the Results Framework.

2.2.7 The indicators fed into management's strategic and implementation decisions. Indicators with quarterly targets were widely used by units in charge of the Project's implementation and by the top management. This particularly applied to major indicators such as the number of institutions certified, the result of outreach efforts or the sustainability of the IT platform, while some of the intermediary output indicators were of more limited use.

2.3 Safeguard and Fiduciary Compliance

2.3.1 **Safeguard Compliance**. As with the first BANSEFI (P070108) project, this operation was designed as technical assistance with Environmental Category C. Under the first BANSEFI Project, the Indigenous Peoples Safeguards Policy (OP 4.10) was triggered by outreach activities planned under *Programa de Asistencia Técnica al Micro-financiamiento Rural* (PATMIR). The latter targeted rural areas where indigenous people represented a large percentage of the population, and thus led to the preparation of an indigenous people planning framework as well as indigenous peoples plans for each region targeted. While PATMIR activities were not supported under this operation, a number of activities under Component 1 involved strengthening institutions in marginal areas, thus likely to include indigenous communities. Therefore, the World Bank's safeguard on Indigenous People remained triggered, and the indigenous peoples planning framework agreed to under the first project applied. The institutions receiving support under Component 1 used the same indigenous people's plans adopted for the first BANSEFI project.

2.3.2 The plans were implemented by the technical agents for PATMIR whose work continued for the duration of this operation. Activities implemented under the plans included tailored communication and consultation activities for clients from indigenous communities. Social development specialists participated in two separate supervision missions and found the implementation of the plans satisfactory, and in compliance with the provisions of OP 4.10.

2.3.3 **Financial Management.** Arrangements in terms of accounting, budgeting, flow of funds, internal control, external audit and financial reporting performed satisfactorily, and BANSEFI was able to provide reliable information required to manage and monitor project implementation, making extensive use of country systems.

2.3.4 Administrative staff within BANSEFI had ample experience managing Bank projects, FM departments were well staffed, and there was an adequate segregation of functions, including the financial agent department, whose responsibilities included managing the loan disbursement processes, and providing implementation support and oversight.

[6] The original intent was to obtain financial performance from CNBV upon certification of the sector. But as the certification deadline was postponed, BANSEFI had to rely on less thorough information that was difficult to harmonize to monitor progress.

2.3.5 Project disbursement arrangements also functioned satisfactorily. Withdrawal applications were submitted generally on time using the reimbursement disbursement method, and contained accurate information.

2.3.6 External audit reports prepared throughout project life were issued with an unqualified opinion, delivered on time, and were considered acceptable to the Bank. Also, interim unaudited financial reports were normally issued on time, and were considered acceptable.

2.3.7 **Procurement.** Procurement activities for the implementation of the project have been sound and required intensive work from the implementation agency. Towards the end of the implementation period, communication and coordination issues emerged due to complex procurement packages and temporarily lowered the quality of procurement activities. These problems have since been addressed during the preparation and implementation of the follow-up operation. Overall, procurement is rated Satisfactory.

2.4 Post-completion Operation/Next Phase

As indicated in the lessons of the first Bansefi project, reforms that involve hundreds of heterogeneous institutions with bottom-up governance require long-term support and commitment. A follow-up Project (P123367) was approved on December 1, 2011, primarily to (i) provide a final range of technical assistance services for certification, (ii) scale up outreach activities (e.g., PATMIR, correspondent banking, dissemination/communication campaigns), (iii) replace the outdated mainframe/midrange equipment, and (iv) provide additional operational financing of the platform until BANSEFI takes over its financing in 2014. All activities have been streamlined into the operations of BANSEFI, ensuring their sustainability beyond Project Closing.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

3.1.1 The objective of strengthening the savings and credit institutions in Mexico and of fostering financial inclusion of the population remains highly relevant. The government has a strong commitment to financial inclusion, and recently created a National Council for Financial Inclusion to coordinate reform efforts amongst government entities and implement a number of innovative reforms to foster financial inclusion. Its financial inclusion strategy places a strong focus on innovative delivery channels such as provided through BANSEFI's evolving agent network in combination with its technological platform, and on further increasing the service points to provide access to financial services in all municipalities in Mexico. The SCIs, together with BANSEFI, have the largest branch network in the country, and play an important role for achieving this objective. The objectives and design of the project also continue to be well aligned with the Bank's Country Partnership Strategy (CPS). The CPS for 2008-2013 had identified support to the financial sector as a strategic priority for the Bank in its dialogue with the government, and incorporates on-going support for BANSEFI to foster rural savings and finance. (See 2.5.1).

3.2 Achievement of Project Development Objectives (details on outputs in Annex 2):

3.2.1 The project has reached its development objectives: it has (i) considerably strengthened the SCIs and enhanced their sustainability, to the point where almost three quarters of the sector has now been certified and is under supervision; (ii) developed an IT platform used by over 350 institutions and delivering a wide range of services to the beneficiaries and (iii) increased the outreach of the sector which, thanks to its stronger foundation, has increased from 4 to over 19 million clients/members.

3.2.2 The project has led to a considerable strengthening of the sector and to an increased availability of financial services in rural and marginal areas. By the end of the project, about 74 percent of the assets and 72 percent of members were held in institutions that had received certification from the authorities, indicating that they are financially viable, operationally effective and managerially sound. The number, which already exceeds project target in terms of assets and members, is expected to further increase by the current legal deadline of March 31, 2014. The certified cooperatives have the second largest branch network in the country, with 1,155 branches as of December 2011 (~ 8 percent of total). As shown in the latest Financial Inclusion Report for Mexico[7], they have a particularly strong presence in rural areas, where their branches account for over 65 percent of the demographic coverage of financial institutions.

3.2.3 As of project closing, the number of beneficiaries/clients of the sector and BANSEFI had also increased from 4 million in 2004 to close to 20 million[8]. The sector's strengthening, combined with strong dissemination campaigns and the implementation of BANSEFI's technology platform allowed to offer a wide range of financial services to both members and non-members of the sector (e.g. credit and savings, national and international remittances, micro-insurance, bill payments or the distribution of conditional cash transfers) and to reach out to new locations. It also provides a strong base for a continued increase of access to finance in otherwise unbanked areas of the country. BANSEFI received the prestigious 2012 United Nations Public Service Award for its work on financial inclusion.

Component 1: The project provided support to 417 institutions across the country. Its outcome is rated as Satisfactory.

3.2.4 Component 1 aimed to support SCIs to become financially viable, meet the certification requirements of CNBV and to provide reliable financial services to the rural and marginal population throughout Mexico. Under the project, all of the 69 certified savings and credit cooperatives and most of the 43 certified *Sociedades Financiera Popular* (SOFIPOs) received technical assistance for institutional strengthening and to fulfill the requirements for certification. These authorized entities account for about three quarters of the sector's size in terms of total assets and number of members/clients - a result that goes substantially beyond the original targets of 60 percent. Furthermore, another 103 project supported entities have by now been favorably classified by the auxiliary supervisory committee (CSA) regarding their overall suitability for certification, and have submitted their application for certification (as of September 2012). It is

[7] Consejo Nacional de Inclusión Financiera de México (2012), "Reporte de Inclusión Financiera 4", p 43, chart 1.26

[8] Including about 7 million Oportunidades beneficiaries which, through this project, also open a bank account. Even without these 7 million beneficiaries, the project well exceeds its target of 9 million clients/members.

currently expected that the total number of certified entities will reach 210 by the end of 2012, representing over 85 percent of the sector's members and assets.

3.2.5 The evolution of the soundness of the sector is reflected in the below table. As can be seen, the data for entities classified as "A" moved from an initial 1 percent in December 2003 to 56 percent of June 2012[9]. Similar increases are evident in the B category, whereas the percentage of institutions classified as "C" or "D" decreases drastically.

Table 5: CNBV Classification for Entities Either Authorized or in "Prórroga Condicionada"

CNBV Classification for entities either authorized or in "Prorroga Condicionada"

	Aut / A	B	C	D	Total
Dec 2003	1%	18%	44%	37%	100%
Jun 2012	56%	36%	7%	0.3%	100%

Source: Bansefi

3.2.6 The project also helped set up a deposit protection scheme for the sector. As foreseen in the LACP, support was initially provided at the federation and confederation level for the creation of deposit protection funds. Overall, ten funds were set up by individual federations, 3 of which under BANSEFI's trusteeship. Following the passage of the *Ley para Regular las Actividades de las Sociedades Cooperativas de Ahorro y Préstamo* (LRASCAP) law, the deposit protection funds were merged into two, one for the cooperatives and one for the SOFIPOs. Both are under BANSEFI's trusteeship.

Component 2: The IT platform has been fully implemented, and is now being used by 372 entities. Performance under this component has been Satisfactory.

3.2.7 A modular IT platform comprising software, hardware, as well as a network and data center was implemented with project funds, and has been fully operational since 2008. The software components comprise a core banking system, Enterprise Resource Planning (ERP), Card payments switch, risk management system, Anti-Money Laundering (AML) system and a few other applications. The IT platform is now used by 372 entities, including 84 entities[10] that use the Core Banking platform and 287 entities that provide remittance and basic payment services via "L@Red de la Gente". In addition, the platform has been customized to incorporate the Programa de Desarrollo Humano - Oportunidades payments to currently over 7 million beneficiaries. Overall, the platform has been instrumental for offering a wider range of financial services to over 17 million people, and in providing enhanced financial services to the otherwise

[9] This classification is provided by the Auxiliary Supervision Committee (CSA) and is based on a rigorous assessment along pre-agreed standard including sustainability, governance, methodologies. An A rating is highest and implies that the institution is certified or close to certification, while a D means that the institution is likely to be merged or liquidated.

[10] BANSEFI, 21 Cajas, 11 SOFIPOS, 51 *Sociedades Financieras de Objeto Múltiple* (SOFOMES).

unbanked population. It has also positioned the sector as providing state-of the art electronic payment services.

3.2.8 As indicated in the Project's ISRs and the additional financing project papers, the IT platform strategy shifted considerably. The platform was initially supposed to provide basic management and reporting services to the sector, but eventually evolved into a more ambitious system that offered a wider range of financial instruments. The platform supports the operations of BANSEFI across all of its 494 branches and extensive card payments network, and benefits over 11 million BANSEFI customers. Given the large number of transactions conducted daily by BANSEFI, the platform is thus predominantly used by BANSEFI itself. In 2011, BANSEFI accounted for over 97 percent of the usage of the platform. This change in strategy also affected the financing of the platform, with financial entities eventually contributing to a smaller share of the IT-related costs.

3.2.9 At project closing, there is now a credible plan for ongoing maintenance and financial self-sufficiency of the platform. The IT platform is currently working at full capacity, with the mainframe running at over 90 percent capacity. Funding for leasing a new mainframe for a 14 month period has been allocated under the BANSEFI III project, after which BANSEFI has planned to support it on its own. A number of performance optimization measures were undertaken by the BANSEFI team which resulted in the average platform up-time increasing from 96.5 percent in 2009 to 98.07 percent in 2011.

Component 3: The project has developed extensive understanding of the market through its survey work and has designed dissemination and training tools to modify the behavior on financial management and savings. Outcome under this component is rated as satisfactory.

3.2.10 In its initial stages, the project supported the enhancement of household surveys and their methodology. The household panel surveys were conducted annually until 2007, and the results were used to define interventions to enhance the level of financial inclusion in marginalized areas. Several publications were also derived from it, and the studies mentioned in the latest financial inclusion report of the government. The surveys were eventually discontinued due to attrition of the sample and endogeneity issues. Additional studies, initially planned under this project, were eventually financed out of the first BANSEFI operation and reported on in its ICR.

3.2.11 With project support, BANSEFI's Social Communication Department also implemented a number of outreach activities to establish "L@Red de la Gente" as a reliable brand for remittance, micro-insurance and other services, and to enhance the population's overall level of financial education. In particular, it designed and aired since 2008 TV and Radio spots in Mexico and selected remittance corridors in the US, and incorporated information on the use and benefits of products and services of "L@Red de la Gente" into one hour long thematic TV programs. Furthermore, since 2009, mobile units (so-called "Caravanas") provided more than 60,000 people in around 500 localities across the country with face-to-face information on available financial services via "L@Red de la Gente" and its participating financial entities. The Caravanas also carried out half-hour long training modules on financial education, reaching around 20,000 participants. BANSEFI has also provided innovative financial education modules on its website (www.finanzasparatodos.org.mx), and its financial education programs are the first (and so far only) to be formally recognized by the Education Ministry. Finally, BANSEFI has promoted its financial products and financial education initiatives through its presence on social network such as Facebook and Twitter, allowing for a direct link with a wider and usually younger target population. Overall, the campaigns have been very innovative and well-targeted.

3.3 Efficiency

3.3.1 Due to the methodological challenge of attributing investments in TA and IT to incremental changes in cash flows, the efficiency and financial sustainability of the project is assessed through various proxy indicators as was done for similar projects in India (Strengthening India's Rural Credit Cooperatives – P102768) and Russia (Microfinance Project – P095554). These indicators show substantial efficiency gains and incremental cash flows that justify investment costs and point towards financial sustainability in addition to numerous non-quantifiable economic benefits. Project benefits are assessed for SCIs, BANSEFI, clients and government finances[11].

3.3.2 **Impact on the SCIs Sector:** the provided TA and IT infrastructure have contributed to enhancing the overall performance of the SCI sector. The resulting enhanced soundness, reputation and increased reliability of the sector led to an increase in the number of SCI clients from 2.9 million in 2003 to currently 8.6 million. Over the same period, total assets grew from USD19.7 million to USD90.9 million and deposits from USD15.2 million to USD70.1 million. Increases in assets and deposits are likely to have generated positive effects on the profits of the sector. In addition, the IT platform enabled 287 SCIs to offer remittance services to members and non-members, (through *L@ Red de la* Gente), generating additional cumulative gross income of USD3.8 million for participating SCIs between January 2007 and August 2012.

3.3.3 **Impact on BANSEFI:** project investments endowed BANSEFI with a technological platform that links all its branches and agent network together, provides IT banking services to 372 financial institutions and distributes government transfer payments (Oportunidades) to over 7 million beneficiaries via card based electronic payments. These electronic payments represent a great leap forward by providing a bank account to these 7 million beneficiaries, following the Government's decision to move its transfer payments to an electronic system, decreasing overall transaction costs and reducing processing losses. The platform has been instrumental for BANSEFI in introducing correspondent banking and scaling-up its service points via non-bank agents and its use of electronic transfer for the delivery of government transfer programs. The gross margin from revenues generated by the distribution of the *Oportunidades* transfers alone (MX$ 556 million or approximately USD44.5 million in 2011) covered the total operating and maintenance costs of the platform (MX$ 456 million, equivalent to USD36.5 million). Platform costs are expected to stabilize around MX$ 310 million (approximately USD25 million) starting in 2014. In addition, other recently introduced ground-breaking technology-based services such as mobile phone banking, electronic bill payment and other correspondent banking applications have been tested, the infrastructure has been set and these services should gradually generate additional revenues to support platform costs and contribute to BANSEFI's overall results. Financial projections show that BANSEFI should be able to assume the full cost of the platform starting in 2014.

3.3.4 **Fiscal Impact:** by enhancing access to financial services for households and enterprises, the project has contributed to increased tax revenues from financial institutions and the economic activities generated by their growing operations. These are likely to outweigh and exceed investments in TA and the IT platform on the medium term. Other efficiency gains for the Government have been produced by the IT platform utilization for the payment of Oportunidades

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[11] For more on Efficiency, see Annex 3: Economic and Financial Analysis

transfers. Using an estimate of MX$ 75 saved per beneficiary/year, it is possible to estimate Government's savings in about USD36.9 million for 2011 alone.

3.3.5 **Impact on clients:** clients in rural and marginalized areas have obtained increased access to reliable financial institutions. In addition, they have benefited from the reduced financial transaction costs due to BANSEFI's IT platform. Examples of these gains are savings related to international remittances operated through L@Red de la Gente (estimated to range around MX$ 15 per transaction, or USD850,000 for 2011 alone) and savings in terms of traveling costs and time for recipients of Oportunidades payments. Additionally millions of people now have access to credit with rates of 10-20 percent per annum, much less than moneylenders or large microfinance institutions often charge (up to 90 percent per annum).

3.3.6 **Net Present Value and Internal Rate of Return.** As detailed in Annex 3, this ICR calculated the NPV and IRR of the Project for the IT-related costs, which account for 71.1 percent of World Bank funding and 74 percent of total project costs. The analysis covers various conservative scenarios of future growth of the services and their cost for the next five years and calculates a substantial NPV ranging from US$59 million to US$123 million and an IRR ranging from 18.87 percent to 24.45 percent, depending on the scenario. While a calculation of the NPV and IRR was not possible for the remaining 26 percent of total project costs, outcome for these 26 percent was well above targets (outreach of financial services 118 percent above target and improvement of the sustainability of the sector 23 percent above target), suggesting that the overall efficiency of the project was substantial.

3.4 Justification of Overall Outcome Rating

3.4.1 *Rating: Satisfactory.* The Project continues to be highly relevant for the Government's reform strategy and the Bank's overall country support. It has reached its Project Development Objectives by strengthening the viability and efficiency of the sector and expanding the sector's outreach and financial products. This provides a strong base for a continued and sound growth of the sector, and has particularly benefitted clients in rural and marginalized areas. BANSEFI is expected to reach sustainability by 2014. As discussed above, the overall efficiency of the provided support has been adequate. All together, the overall outcome rating is therefore Satisfactory.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects and Social Development

3.5.1 A number of activities supported under this operation involved strengthening institutions in areas of very high to medium marginality (with populations of less than 15,000), and thus had an indirect positive effect on financial service provision to poor households. These efforts complemented the financial inclusion work supported under PATMIR II. The majority of new clients (66 percent) added during the period of project implementation (2005 – 2012) were clustered in the poorest 10 States of Mexico. These states, and the marginal communities within them targeted by the project, also have the largest numbers of indigenous people in Mexico. The proportion of new clients enrolled during this period from indigenous communities (22 percent) was over double the percentage of this population nationwide. Women clients, who often take a lead in household saving, represented an important beneficiary of institutional strengthening efforts, and accounted for 56 percent of new clients during this period. It is therefore clear that the project has built on the continuing efforts of PATMIR by contributing to increasing the provision of financial services by sound financial entities to low income women from the most marginal municipalities (the majority of new clients), as well as people from indigenous communities who are over-represented as new clients in comparison to their numbers nationwide.

(b) Institutional Change/Strengthening

3.5.2 The SCI sector has been considerably strengthened as a result of the project. The sector was able to upgrade its financial, managerial and governance performance through the received technical assistance, leading to the overwhelming majority of the sector being able to obtain certification from the authorities. It has also grown professionally and technologically by being able to provide a wider range of services to its clients, from the original "savings and credit only" to remittances, bill paying, micro-insurance, distribution of conditional cash transfers and others. This transformation has been critical to the increase of membership from 4 to about 9 million members since the start of the project. Additional support to recently certified institutions will continue to be provided through the follow-up Project to solidify the achieved results.

3.5.3 With over 11 million clients, BANSEFI has also grown into a much more sophisticated and better performing institution. With project support, it modernized and diversified its products through the adoption of the IT platform and provided a broad range of support to the sector. This has required the hiring of top professionals to help gear BANSEFI through this change. The institutional change is not completely over, however. The new administration (under the Peña Nieto Government) will have to decide on a new medium-to-long term strategy, decide on the future set-up of the technology platform, further its efforts towards best practice in cost accounting and continue to diversify its sources of income.

4. Assessment of Risk to Development Outcome

Rating: The Risk to Development Objectives is considered moderate.

4.1 There is now a significant share of the SCI sector (in terms of assets and members) that has received or is expected to be ready to obtain certification by March 2014. Thus, although only a limited number of liquidations and mergers have been carried out so far, the achieved institutional strengthening of the entities has reached the critical mass to sustain the reform momentum on the longer term.

4.2 Nevertheless, risks to sustainability of the sector's strengthening remain:

- The Calderón administration had consistently confirmed its intent to adhere to implementing the deadline for certification of December 2012, and to follow through on the needed consolidation of the sector to wrap up the reform process. Nevertheless, there are still a relatively large number of smaller institutions that have not yet started the certification process or are unlikely to obtain certification, and the Mexican Congress voted, on December 21, 2012, to extend the deadline yet a fourth time to March 2014. This may lead to additional delays with the certification process, but at the same time will provide time for the CNBV to establish a plan for the orderly exit of institutions that are unable to get certified. The likelihood of this risk is therefore considered low, although its potential impact is high. The follow-up Bank project (P123367) will also continue to assist the sector throughout this process.

- BANSEFI itself has become an important player in the field of access to finance and is a key source of support to the sector. It has done so by providing services which are in demand, and developing a large network of branches and strategic partnerships with a wide range of public and private actors. It is continuously developing new products and services. It is expected that BANSEFI will reach sustainability by 2014. However, a few risks to development (also with a low likelihood but high impact) were identified:

  - The conditional cash transfers program *Oportunidades* has become an increasingly large share of revenues for BANSEFI (63 percent by the end of 2011). While this ICR is comfortable that BANSEFI is able to provide these distribution services to the Government at a cost lower than the private sector would, it is not clear whether the government will always continue to pay a similar commission for these services. To protect its position, BANSEFI will therefore need to diversify its sources of income. It is currently already trying to do this with services such as the expansion of the correspondent banking or the gradual introduction of credit lines.

  - The new administration may decide to change the strategy of the institution.

5. Assessment of Bank and Borrower Performance

1.1 Bank

(a) **Bank Performance in Ensuring Quality at Entry**

1.1.1 **Rating: Satisfactory.** This project is part of a long-term engagement in Mexico to reform the sector and increase access to finance, particularly in rural and marginal areas. The project was designed based on the Government's priorities, considerable research and due diligence to meet successfully these reform and access goals. It was also built on findings of the first project, such as its extensive diagnostic work, and was able to work with a strong implementing partner with proper fiduciary capacity. As mentioned above, the project may have underestimated some of the challenges in reforming and providing a common IT platform to a heterogeneous financial sector made up of many small institutions with bottom-up governance in hindsight, but this issue was eventually solved with additional financing.

(b) **Quality of Supervision**

1.1.2 **Rating: Moderately Satisfactory.** The supervision team was consistently responsive to requests from the implementation agency and was able to provide strong technical and strategic recommendations. It also worked in close cooperation with the client to find appropriate and efficient procurement solutions to often complex problems. A more regular reporting on the full set of indicators in the ISRs and a more formal reporting on the change in strategy for the IT platform would have been preferred, and an implementation rating during the early years of implementation, particularly for the IT platform, seem to have been overly generous (the IT platform was not downgraded from satisfactory, even during the major delays in 2006-2008). However, the team was able to respond to a constantly changing environment through its close cooperation with the Borrower and by preparing two additional financing when it became clear that additional support would be required.

(c) **Justification of Rating for Overall Bank Performance**

1.1.3 As the Bank Performance in Ensuring Quality at Entry is Satisfactory and the Quality of Supervision is Moderately Satisfactory, the overall rating for Bank Performance is Moderately Satisfactory.

1.2 Borrower Performance

(a) Government Performance
Rating: Satisfactory

1.2.1 The Government commitment was strong from the start of the project and continued thereafter. Passage of the LACP law, as promised, showed the government's determination to overhaul the SCI sector, and adequate budgetary allocations were made to the implementation agency throughout the project implementation period. It faced difficult political choices when it was clear that the sector would not be ready for certification by the original deadline and had to make changes to the regulatory environment in light of pressures by the sector. But overall, the Government was able to provide all the logistical and financial support required by the Project.

(b) Implementing Agency Performance
Rating: Satisfactory

1.2.2 The Project team at BANSEFI provided strong leadership, ownership and direction to the Project. It remained consistently staffed with highly motivated and professional staff, which, apart from delays in the IT platform implementation, was able to deliver systematically on the annual action plan. The low turnaround allowed for continuity in the overall institutional strategy and implementation of the project and familiarity with World Bank procedures.

(c) Justification of Rating for Overall Borrower Performance

1.2.3 As the sustained effort of the Implementation Agency has been instrumental in reaching the PDOs, and the government's overall commitment was strong, the rating for Borrower Performance is considered to have been satisfactory.

6. Lessons Learned

6.1 Lessons learned from this project cannot be dissociated from lessons learned from the first project which ran in parallel:

6.1.1 A technical assistance effort focused on improving a hitherto unregulated and unsupervised rural financial sector has to be a medium-to-long term initiative to produce solid institutions. Additional time is in particular needed when the sector is composed of a range of entities with varying sizes, levels of development and acceptance related to accounting, reporting, management and monitoring, internal controls, governance and other aspects. Financial cooperatives furthermore usually have a strong social and political base, making reforms more difficult and complex. Thanks to its long-term engagement since 2002, the Bank has been able to accompany the sector through the reform process, adapt its approach to the evolution of the sector and its legal framework and ensure high level of sustainability and outreach.

6.1.2 Governments should allow for a longer lead time for the entities to get certified and encompassed under a regulatory framework. Invariably, there is an optimistic expectation that the hitherto unregulated entities would be able and willing to comply with the requirements of the new law with ease and in a relatively short period of time. The original law in Mexico expected this to happen in two years. Similar efforts by governments such as Romania, Paraguay or India, who embarked on this type of reform, however confirm that they take considerably longer and need a sustained effort. The resulting postponements of the deadlines for compliance invariably lead to the law losing credibility, or entities operating in violation of the law.

6.1.3 Because of its innovative nature and the lack of previous evidence from other countries, the exact time/effort that would have been required for the sector to be reformed could not be anticipated with precision. As mentioned above, such projects must work within a medium to long-term strategy, which single investment loans are typically not designed for. The experience from Mexico and countries such as India or Russia could suggest that in the future, such projects may benefit from more flexible instruments such as Adaptable Program Loans or Program-for-Results.

6.1.4 Where the sector consists of a large number of initially poorly performing entities, which most likely need to be merged or liquidated, the political ramifications emanating from liquidation could easily jeopardize the sector consolidation process. For a successful implementation, incentives for mergers and consolidation need to be set, a contingency plan developed that buffers the impact of the consolidation, and the government agency in charge endowed with a full legal mandate to carry out the consolidation. As shown, the use of internationally reputed consultants could impart transparency and credibility to the process.

6.1.5 The complexity of designing and implementing a technology platform that serves a heterogeneous industry and generates sufficient revenue to be sustainable cannot be underestimated. Cross-subsidies can be considered, but need to be done in a transparent manner in the nature of a public good with the objective of financial inclusion of some of the poorest sections of the population.

6.1.6 In order to reach low-income households where literacy rates are low and functional literacy is practically nonexistent, efforts need to be made in the area of social intermediation. Awareness raising and assistance at the community level are essential to improve the likelihood of successful access to and use of rural financial services.

6.1.7 The three Bansefi projects, which overlap over time and have similar objectives, are good examples of projects that would benefit from a holistic evaluation, rather than individual ones. Such a holistic approach would not only assess the overall strategy and the projects' accomplishments towards this strategy, but would also reduce the attribution problems, particularly related to the economic and financial analysis.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

Implementing Agency

In its letter dated December 4th, 2012, BANSEFI wrote: "BANSEFI appreciates all World Bank assistance and support from specialists, procurement team and task managers during all the project activities. We consider our World Bank counterparts as members of the team, and an important support to achieve the results of this Project."

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in US$ million equivalent)

Components	Appraisal Estimate (US$ million)	Actual /Latest Estimate (US$ million)	Percentage of Appraisal
1.Strengthening Sector Institutions	13,000,000.00	51,121,002.00	393.2%
2.Developing a Technology Platform	136,900,000.00	215,271,033.00	157.2%
3.M&E, Studies and Information Dissemination	7,500,000.00	15,073,837.00	200.1%
4.Project Management	1,850,000.00	9,382,699.00	507.1%
Total Baseline Cost	159,250,000.00	290,848,571.00	182.6%
Physical Contingencies			
Price Contingencies			
Total Project Costs	159,250,000.00	290,848,571.00	182.6%
Front-end fee (IBRD only)	750,000.00	502,500.00	67%
Total Financing Required	160,000,000.00	291,351,071.00	182.1%

(b) Financing

Source of Funds	Type of Financing	Appraisal Estimate (US$ million)	Actual/Latest Estimate (US$ million)	Percentage of Appraisal
Government of Mexico		14,600,000.00	74,343,809.00	509.2%
IBRD		75,500,000.00	151,331,597.00	200.4%
Stakeholders/Entities		69,900,000.00	65,675,665.00	94.0%

(c) Project Cost by Category

	Initial Loan	Share of Total	First Ad'l. Financing	Second Ad'l Financing	Jun-05 Reallocation of 2nd Additional Financing	Total[12]	% of Total	Actual	% of Total
Categories									
Goods	1,000,000	1.3%	1,400,000	1,645,000	0	2,400,000	1.6%	3,294,218.76	2.2%
Consultant services	41,545,000	55.0%	16,190,000	7,750,000	7,750,000	65,485,000	42.4%	69,280,636.69	45.8%
Training	3,200,000	4.2%	0	1,200,000	200,000	3,400,000	2.2%	250,761.74	0.2%
Non-consulting services	25,900,000	34.3%	11,170,000	24,600,000	35,925,000	72,995,000	47.2%	71,270,780.78	47.1%
Incremental operating costs	1,600,000	2.1%	240,000	14,680,000	6,000,000	7,840,000	5.1%	6,732,699.20	4.4%
Premia for interest rate costs	0	0.0%	0	0	0	0	0.0%		
Fee	755,000	1.0%	0	125,000	125,000	880,000	0.6%	502,500.00	0.3%
Unallocated	1,500,000	2.0%	0	0		1,500,000	1.0%		
	75,500,000	100.0%	29,000,000	50,000,000	50,000,000	154,500,000	100.0%	151,331,597.17	100%[13]

[12] The total amount is made up of the initial loan amount, the amount of the first additional financing and the reallocated June 2005 of the second additional financing.
[13] 100% of disbursed amount

Annex 2. Outputs by Component

Component 1: Strengthening the SCI sector

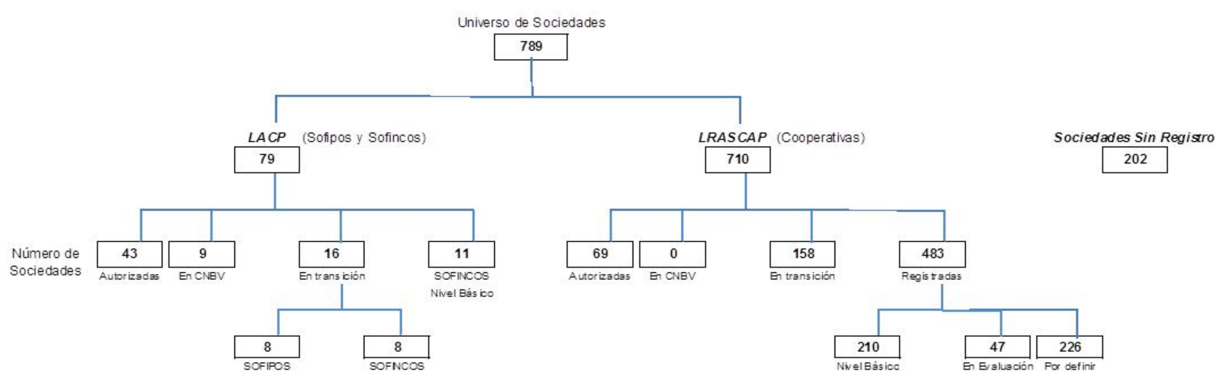
The main objective of Component 1 of the Project was to help SCIs (Savings and Credit Institutions) meet the legal and regulatory requirements under two laws: LACP in 2001 and LRASCAP in 2009. It also aimed to strengthen the sector's capacity of providing reliable financial services to the rural and marginal population throughout Mexico. To achieve this objective, BANSEFI implemented a series of activities mainly consisting of training and technical assistance that were provided following specific agreement with the different entities. Tailored interventions for each institution were designed to satisfy the specific needs highlighted by diagnostic exercises carried out throughout the Project. The technical assistance and training was directly provided by recognized national and international consulting firms that had been pre-selected by BANSEFI.

The results achieved under component 1 are fully satisfactory. The project aimed to help 365 SCIs reach certification or be merged/liquidated, equivalent to around 60 percent of the sector's estimated 600 entities and representing the same percentage in terms of assets and membership. However, in the meantime, the structure of the sector changed with new entities entering the markets, others closing or merging. Furthermore, the legal requirements and thresholds for certification changed several times, with the deadline for certification alone being postponed four times (in 2005, 2007, 2012 and now 2014) by the authorities. These frequent changes did not provide an incentive for the institutions to actually request certification.

Table 1

Breakdown of entities by certification status

(Number of entities as of June 2012, number of members or assets as of December 2011)



	Autorizadas (43)	En CNBV (9)	SOFIPOS (8)	SOFINCOS (8)	SOFINCOS Nivel Básico (11)	SubTotal	Autorizadas (69)	En CNBV (0)	En transición (158)	Nivel Básico (210)	En Evaluación (47)	Por definir (226)	Sociedades Sin Registro (202)	SubTotal	TOTAL
Sociedades	4.3%	0.9%	0.8%	0.8%	1.1%	8%	7.0%	0.0%	15.9%	21.2%	4.7%	22.8%	20.4%	92%	100%
Socios	27.4%	1.5%	0.6%	0.4%	0.0%	30%	44.7%	0.0%	12.8%	0.8%	2.4%	3.4%	6.1%	70%	100%
Activos	17.5%	0.7%	0.5%	0.2%	0.0%	19%	56.3%	0.0%	14.0%	0.4%	2.4%	4.4%	3.7%	81%	100%

1/ De las 43 Sofipos autorizadas, 12 sociedades ya venían operando, y el resto son proyectos de nueva creación.
2/ El total de expedientes en revisión de la CNBV son 9, 2 sociedades cooperativas que vienen operando para transformación a Sofipo, y hay 7 proyectos de nueva creación para Sofipo.
3/ Hay 11 Sociedades Financieras Comunitarias de nivel de operación básico registradas a octubre 2011, por las federaciones autorizadas.
El universo de sociedades se irá ajustando conforme entre en vigor la aplicación del nuevo marco legal, y se concluya la evaluación y revisión del registro de Sociedades Cooperativas por el Comité de Supervisión Auxiliar.
El número de sociedades sin registro, es estimado.

Despite this constantly moving target and the changing legal environment, 112 entities (69 Savings and Credit Cooperatives and 43 Popular Financial Companies or "SOFIPOs") were certified by Project Closing Date, representing 74 percent of sector assets and 72 percent of its membership. This is well above the original target of 60 percent. An additional 112 institutions have submitted their application either to the Supervisory Committee or the CNBV in order to meet the deadline. Were all institutions that submitted their applications to obtain certification, up to 85 percent of the sector's assets and members would be served by certified institutions.

Even among entities that have not yet reached certification or that are no longer required to obtain it[14], the performance has improved considerably. Altogether, 417 institutions were evaluated to determine weaknesses, and received support in the form of institutional strengthening plans and/or targeted technical assistance on a wide range of issues to strengthen their operations. The technical assistance covered topics such as financial management, product development, asset liability management, or governance.

The evaluation criteria, which have been established by the Comité de Supervisión Auxiliar in close collaboration with the CNBV, aim to get a solid overview over the financial situation of each cooperative, the internal control mechanisms in place, as well as the adequacy of the information systems. Indicators for the classification of the cooperatives into Category A to D include for example indicators for risk adjusted capital, the level of non-performing loans, the quality of the internal credit evaluation processes and accounting practices, and internal risk management systems in place. The overall financial situation of the entities makes up 70 percent of the overall assessment, with the internal structures covering the remaining 30 percent. The full system of evaluation and classification can be found under www.focoop.com.mx.

Category A comprised those entities that already meet the criteria for certification by the CNBV, while Category B SCAPs are overall considered to be of solid standing, but need to implement an action plan to fully meet the requirements for becoming certified. The entities classified as C and D are not considered viable on the longer term or need substantial internal reforms to meet certification requirements, and thus are suggested for mergers or liquidations. The table below reflects the considerable improvements achieved during project implementation. At project appraisal, only 1 percent of institutions were classified as "A or Certified" (the highest rating) compared with 56 percent of institutions at Project Closing. In the same way, the share of institutions classified as "C" or "D" (lowest rating) dropped drastically from 80 percent in 2003 to just 7.3 percent in June 2012.

Table 2

CNBV Classification for entities in "Prorroga Condicionada"

	Aut / A	B	C	D	Total
Dec 2003	1%	18%	44%	37%	100%
Jun 2012	56%	36%	7%	0.3%	100%

Source: Bansefi

[14] So-called "basic" institutions

It is worth mentioning that while this Project was working on strengthening the sector, an additional technical assistance program called PATMIR (Program for Rural Microfinance Technical Assistance), aimed at increasing the outreach of basic financial services in rural and marginalized communities. PATMIR was run in parallel and financed by the first BANSEFI project. The performance of this PATMIR operation was reviewed in a separate ICR (Project P070108, ICR dated November 4, 2011). Both the project under review in this ICR and PATMIR worked hand in hand, however. PATMIR alone increased membership in marginal rural areas by over 600,000 members. The SCI membership itself increased from 4 million to about 8.6 million members during the same period and the number of BANSEFI clients evolved from about 3 million in 2004 to 11.1 million at the end of 2011. Efforts have been initiated under BANSEFI III (P123367, approved on December 1, 2011) to continue (i) the Technical Assistance effort to entities that want to obtain certification and help institutions that need to be either liquidated or merged to ensure an orderly process; and (ii) the PATMIR effort through the sector's strongest institutions and enhance outreach by at least 825,000 members.

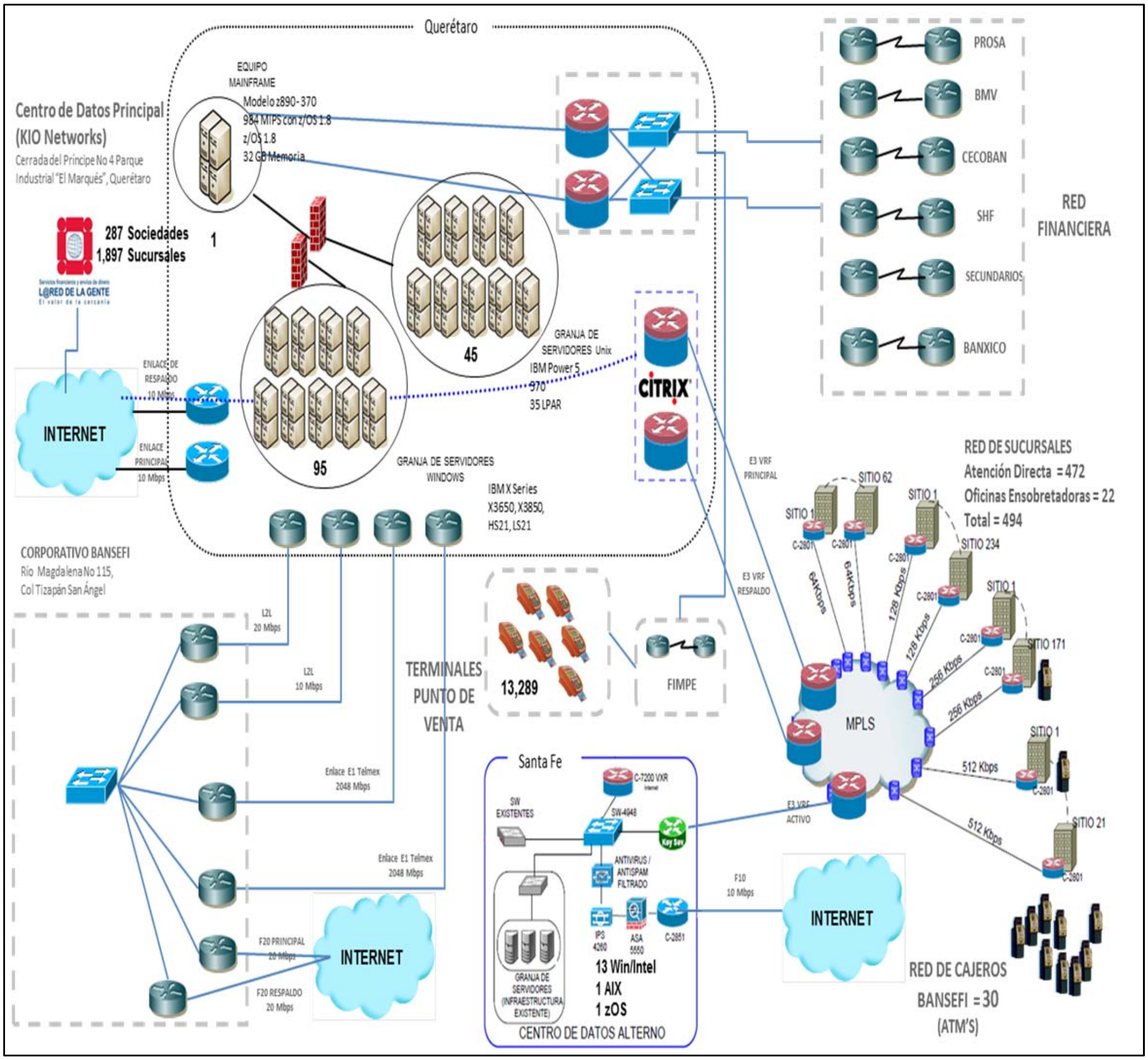
Component 2: Developing an IT Platform

At completion, the IT platform has been fully implemented. A modular IT platform comprising of software, hardware, network and data center was implemented and has been fully operational since 2008. The software components comprise a core banking system, Enterprise Resource Planning (ERP), Card payments switch, risk management system, Anti Money Laundering (AML) system and a few other miscellaneous applications.

The platform eventually witnessed a shift in business strategy. The original IT strategy called for the platform to be predominantly used by the sector (financial entities) with some use by BANSEFI. The platform was scheduled to be implemented in 4 pilot entities by 2004, financed under the previous BANSEFI project financed by the World Bank. However, implementation got delayed by around 2 years because of a long consultative processes and additional time needed to finalize and implement the concept. As recorded in the ISRs in the period 2006-2008, this resulted in many of the large SCIs losing interest in using the platform and ending up developing their own systems. This led to a shift in the strategy of the platform as highlighted in the second additional financing documents: Instead of an SCI entity-centric system financed through usage fees paid by the sector, BANSEFI expanded its own use of the platform dramatically and introduced a large number of additional services. The latter were available to all interested SCI and BANSEFI's other private and public partners such as the Diconsa community stores. In 2011, BANSEFI accounted for over 97 percent of the usage of the platform. The platform is now the backbone of BANSEFI's operation and supports the operations of BANSEFI across all its 494 branches, its extensive card payments network and over 11 million customers.

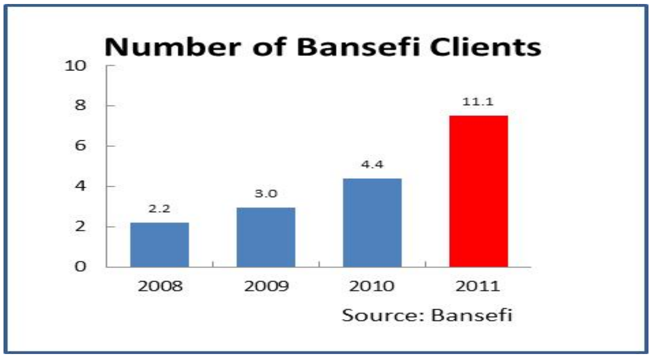
The platform continues to be marketed to the sector and is being used by 372 entities (vs. a target of 100), including 84 sector entities that use the Core Banking platform and provides a wide range of services to over 17 million people. In addition, the platform has been customized to offer additional services for Oportunidades payments and development of a remittances and payment services network – L@Red de la Gente. The platform now supports 7 million Oportunidades beneficiaries and 287 institutions under the L@Red de La Gente. However, most of these entities either are small and/or use only specific services provided by the IT platform and hence their utilization of the platform is much lower than that of BANSEFI.

Table 3



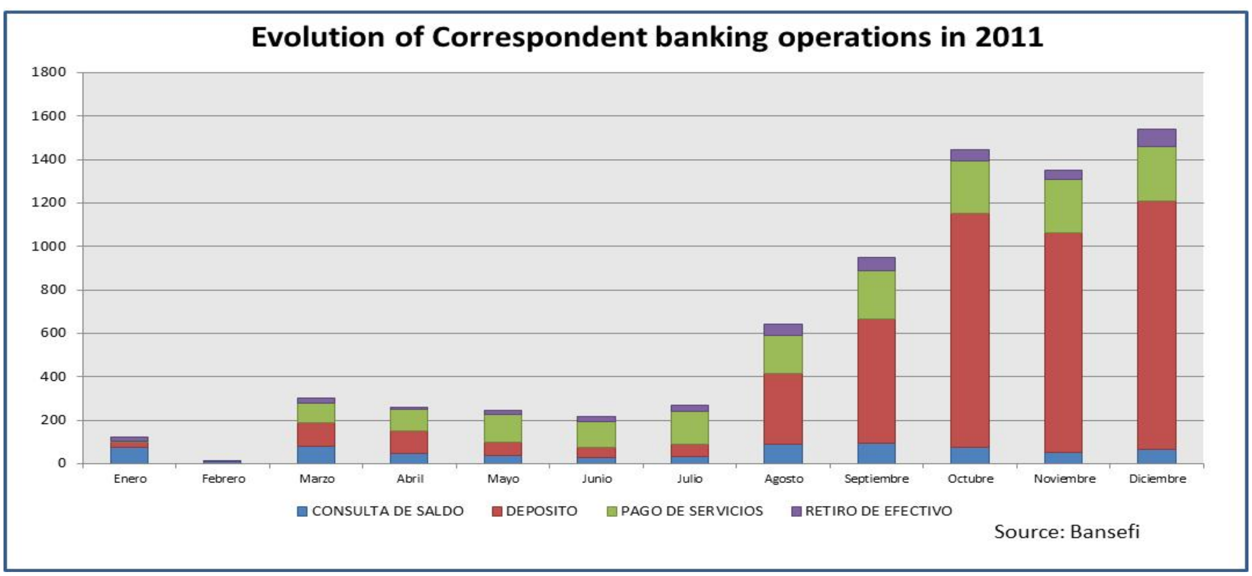
As of the end of 2011, BANSEFI accounted for 18 percent of debit cards used in Mexico, and, together with L@Red de la Gente, represents 21 percent of the country's financial sector in terms of financial service points. Tables 5-14 below summarize the key statistics related to this. A number of other additional services now available are described in table 15.

Table 4[15]



The IT platform is central to the provision of the Oportunidades service, the products offered through the L@Red de la Gente and financial services provided by the correspondent banking agents. The core banking module and the card payment platform are extensively used in the provision of Oportunidades. A regular savings account is opened in BANSEFI and a debit card (attached to the account) issued for all the Oportunidades beneficiaries. These accounts are maintained in the core banking module. The beneficiaries use their debit card at the Oportunidades disbursement locations to authenticate themselves via biometric information pre-recorded in the integrated circuit (IC) chip on the card. The authorization request is sent to the card payment platform and from there to the core banking platform. About a third of the beneficiaries can also use their cards as debit cards at all ATMs and POS terminals in Mexico. The revenues from the Oportunidades service are over MX$ 1.1 billion for 2011 alone. The L@Red de La Gente network brings together participating SCIs as an integrated service delivery platform for remittances, micro-insurance and bill payments. A separate application has been developed for this service. The core banking system is used to hold the settlement accounts of all the participating entities. The communication network used for this network is the same as that used for the other components of the platform and the participating SCIs also have the option of using other platform services. Finally, the correspondent banking, while primarily at the pilot stage under this project and to be scaled up during the next project, provides through Diconsa community stores or other partners such as Pemex gas stations basic financial services such as Oportunidades disbursements, account balance information, bill payments or cash withdrawals.

Table 5



[15] The source for Tables 4 to 14 is Bansefi.

Table 6

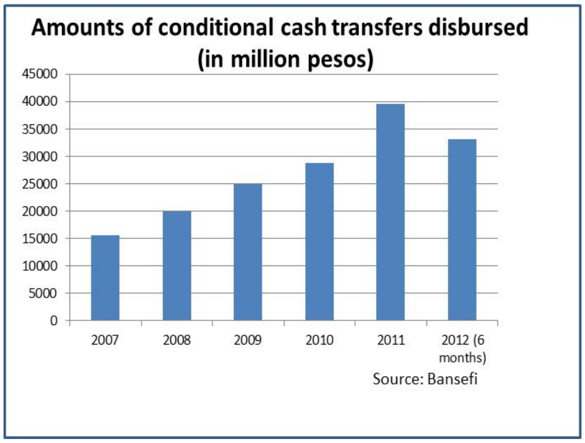


Table 7

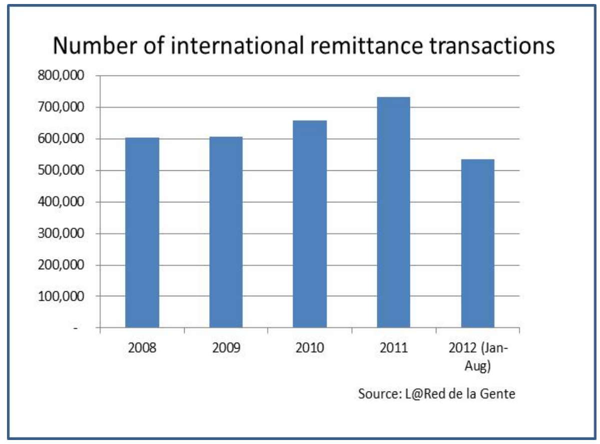


Table 8

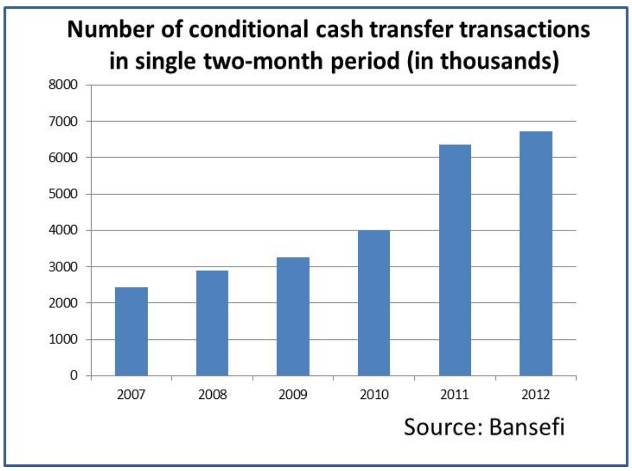


Table 9

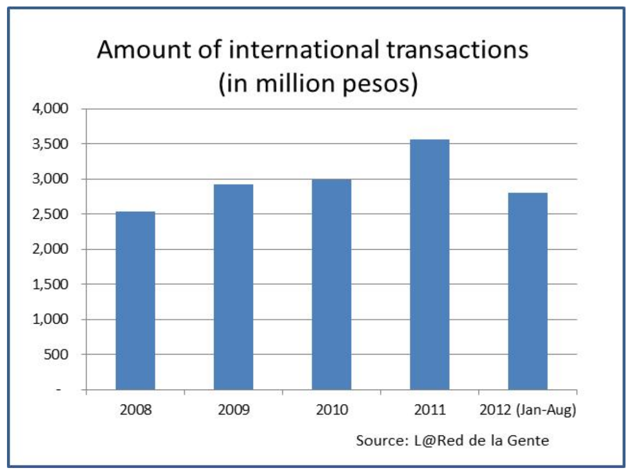


Table 10

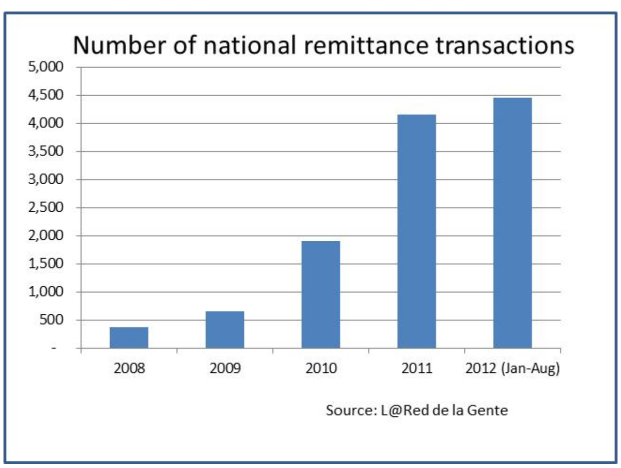


Table 11

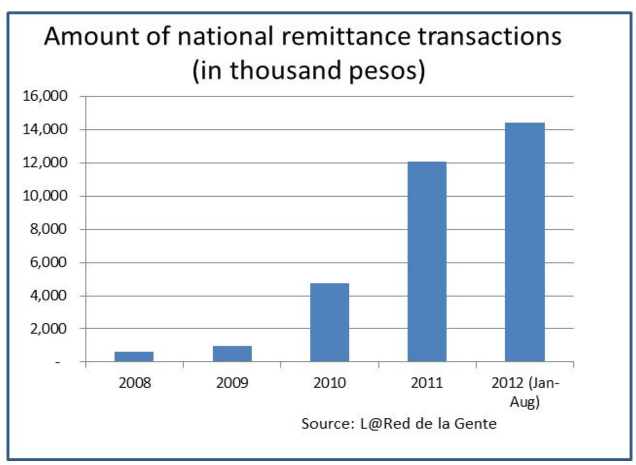


Table 12

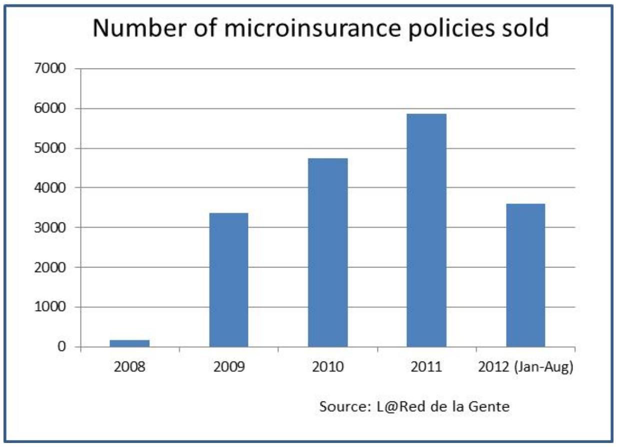


Table 13

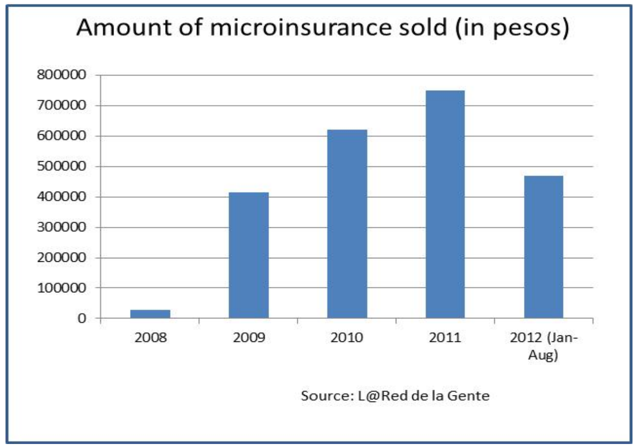


Table 14 – Evolution of L@ Red de la Gente

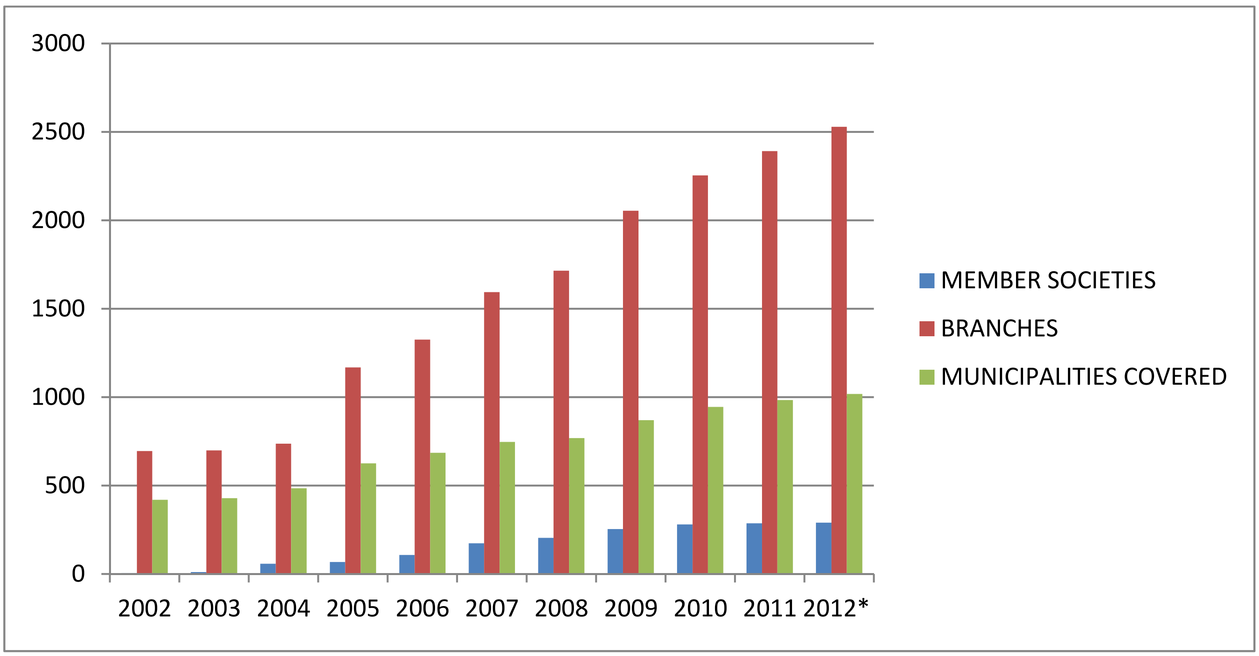


Table 15: Platform Services

Platform Service	Number of Institutions	Remarks
Core Banking	84	In addition to BANSEFI, 21 Cajas, 11 Sofipos and 51 Sofomes. In a day in general there are 1356 users logging onto the core banking platform.
ERP	3	Includes BANSEFI
SARO (Risk Management)	8	Includes BANSEFI
PLD (AML)	2	Includes BANSEFI
Electronic payment platform (Card payments)	2	Includes BANSEFI 13,829 Pos Terminals, 30 ATMs 186 Business correspondents
Oportunidades	1	Only BANSEFI
L@Red de la Gente	287	The services are available in a total of 2369 locations.

Table16: Usage of Platform

Metric	Data	Remarks
Number of yearly transactions	212 million (for 2011)	97% transactions originated by BANSEFI. System usage: 41% by core banking, 41% by electronic payment platform, 2% by Oportunidades application[16] and 1% by remittances. The other services accounted for the remaining.
Total number of clients served by platform	11.1 million (as of end 2011)	Includes 6.5 million Oportunidades beneficiaries.
Number of locations where financial services using the platform are provided	2391	Includes L@Red de la Gente agent locations. Accounts for 21% of all financial services locations in Mexico.
Number of debit cards issued	7.7 million (as of December 2011)	Represents 9.22% of total debit cards in Mexico.
L@Red De La Gente	732,068 Transactions amounting to MX$ 3.56 Billion.	Remittances transactions
Oportunidades	~ 6.4 Million recipients ~ MX$ 39 Billion.	Number of recipients for the last 2 months of 2011 and amount for whole of 2011.

The development of the IT platform experienced time and cost-overruns due to challenges in implementation and the change in business strategy. The IT platform was expected to be ready for pilot testing in 2004 and fully ready by 2006. The platform was actually fully implemented only in 2008. During the course of the project there were two additional financing which included allocations for this project component. The first additional financing covered the following: (i) to finance cost-overruns in the implementation due to discovery of additional complexities in the required functionality; (ii) implementation of additional modules; (iii) change in system architecture from three-tier to two-tier to enable faster deployment; and, (iv) financing operational expenses for an additional two years because of the implementation delays. The second additional financing was to extend the support for operational expenses until 2012 to support the transition period needed for the implementation of the new business strategy until BANSEFI was able to fully fund the IT platform on its own.

The IT platform has evolved over the course of the project to meet the evolving business needs. There were over 12,000 change requests handled for the software components. The Oportunidades and Core Banking related changes accounted for roughly 15 percent each and changes to reporting modules over 13 percent. The hardware platform shifted from predominantly mainframe centric to a mixed Unix and Mainframe platform. This shift was necessitated by a change in the transaction profile from one expected to be based on servicing a broad range of banking products across SCI clients to one focused on high number of online transactions.

The platform efficiency compares well with peers. The BANSEFI team has compared their IT infrastructure with peers such as large commercial banks, Finrural, Nafin and Banco Azteca on aspects such as data center space used, number of servers and mainframe capacity, and concluded that it compares well. These figures are summarized in the below Table 17. The mainframe is currently running

[16] This application interfaces with the SODESOL and received the beneficiary details. The deposit of Oportunidades and withdrawal use the core banking platform.

at over 90 percent capacity utilization and is also no longer being supported by the vendor, hence requiring a new upgrade, to be financed with support from the follow-up project.

The BANSEFI team has developed an effective plan for upgrading and sustaining the IT platform in the period 2014-18. The IT platform is currently working at full capacity and is past the end of a typical IT replacement cycle in the banking industry**.** Funding for leasing a new mainframe for a 14 month period has been allocated under the BANSEFI III project, after which BANSEFI has planned to support it on its own. The core banking platform version is of year 2003 and the current version being offered in the market is of year 2010. A number of performance optimization measures were undertaken by the BANSEFI team which resulted in the average platform up-time increasing from 96.5 percent in 2009 to 98.07 percent in 2011. The BANSEFI has prepared a plan for upgrading the platform using a combination of long-term maintenance contracts with the solution vendors and an integrated data center contract covering hardware leasing, operations support and licensing of software components. This approach would allow for seamless upgrades to new versions and rapid addition on processing capacity and data storage. The average annual platform related expenses in the period 2014-18 is projected to be around USD25 million.

Table 17: Benchmarking IT Platform Performance

Metric	Data for BANSEFI	Data for Peers
Data center area	30 square meters	Banco Azteca: 1000 Sq. M
Mainframe Performance	984 MIPS[17]	Banamex: 50, 000 Santander: 30,000 Banorte: 15,000
Number of Servers	141 (mainframe, 45 Unix servers and 95 windows servers)	NAFIN: 76 FINRURAL: 73

It is clear that the IT platform is generating more revenues than it costs. Its sustainability and that of BANSEFI in general, is of high priority to BANSEFI Management and the current forecasts show promising trends. The data provided for this ICR indicate that, as of today, the overall revenues generated by the various services provided through the platform exceed the cost of the platform itself (acquisition and operation). As mentioned above, gross revenues generated from Oportunidades alone represented about US$85 million in 2011 while the total BANSEFI IT costs represented about US$35 million for the same year. Fairly conservative financial forecasts also show that, as of 2014, all costs related to the IT Platform can be fully borne by BANSEFI.

As discussed above, the IT platform has evolved from a platform intended to be used mainly by the industry, to one where it is predominantly used for BANSEFI's own operations with some usage by the industry. This change had BANSEFI revisit the business model used for measuring and financing the ongoing sustainability of the IT platform. Nevertheless, it needs to be acknowledged that in addition to the benefits to BANSEFI, the platform contributes to a number of broad national goals including financial inclusion, and greater efficiencies of Government social payments. These need to be also included in the sustainability analysis.

BANSEFI is also working on reviewing its accounting system to better determine the sustainability of each product/service it offers. This is an important step towards a more strategic business model which the Mission supports. It also increases transparency in properly identifying cross-subsidies for management evaluation.

[17] Million Instructions Per Second – This is a standard measure of Mainframe performance

Component 3: Monitoring and Evaluation, Studies and Information Dissemination

With project support, the BANSEFI team implemented a number of outreach activities and established "L@Red de la Gente" as a reliable brand for remittance, micro-insurance and other services, and to enhance the population's overall level of financial education. In particular, it designed and aired since 2008 TV and Radio spots in Mexico and selected remittance corridors in the US, and incorporated information on the use and benefits of products and services of "L@Red de la Gente" into one hour long thematic TV programs. Furthermore, since 2009, mobile units (so-called "Caravanas") provided more than 60,000 people in around 500 localities across the country with face-to-face information on available financial services via "L@Red de la Gente" and its participating financial entities, and carried out half-hour long training modules on financial education to around 20,000 participants. BANSEFI has also provided innovative financial education modules on its website (www.finanzasparatodos.org.mx), and its financial education programs are the first (and so far only) to be formally recognized by the Education Ministry. Finally, BANSEFI has promoted its financial products and its financial education initiatives through its constant presence on social network such as Facebook and Twitter, allowing for a direct link with a wider and usually younger target population. Overall, the campaigns have been very innovative and well-targeted.

Rigorous evaluations of the communication campaigns have been planned for the coming year, but the results achieved so far by the promoted products allow for their positive indirect evaluation. As an example, despite the economic crisis in the USA after 2008, which caused an overall reduction in the international remittances flows, the transfers channeled through "L@Red de la Gente" increased from 604,140 in 2008 to 732,068 in 2011 (+21 percent), with the transferred amount showing an increase of 25 percent in the same timeframe (reaching now USD286 million). The financial education webpage of BANSEFI has now been visited by over 40,000 users from 10 different countries, with the average time spent by each user on the webpage having increased from 3 to 6 minutes. Finally, Microinsurance, a more difficult product to introduce into the market due to the usual lack of familiarity of the target population with using insurance for risk management, has now been sold 3,187 times.

Annex 3. Economic and Financial Analysis

The financial and economic analysis of technical assistance projects is particularly challenging due to problems of attribution, spill-over effects, and in this particular case, the fact that five loans were being implemented concurrently and the lack of financial flows directly attributable to the investment. However, it can be stated that the effects of the TA have contributed to enhancing the overall performance of the SCI Sector. Increased reliability of the Sector led to an increase in the number of clients of SCIs from 2.9 million in 2003 to 7.5 million in 2011. Over the same period, total assets grew from USD19.7 million to USD90.9 million and deposits from USD15.2 million to USD70.1 million. Increases in assets and deposits are likely to have generated positive effects on the profits of the Sector. The TA Component, by enhancing access to financial services for households and enterprises, has contributed to increased tax revenues from financial institutions and the economic activities generated by their growing operations.

The rest of the analysis will focus on the efficiency and sustainability of the investments made in the IT platform (which represents over 74 percent of Bank funds) in technical, economic and financial terms. This will be complemented by a qualitative assessment of the financial and economic impacts at the institutional and client levels. A similar economic/financial analysis was used for comparable projects such as Strengthening India's Rural Credit Cooperatives (P102768) and Russia Microfinance (P095554).

The financial analysis in the Project Appraisal Documents (PAD) and the two additional financings focused on the information technology platform (component 2) which accounted for 71.1 percent of total WB financing (including the first and second phase projects[18]). The financial analysis estimated the incremental cash flows at the level of the SCIs as well as at the level of the IT Business Unit at BANFSEFI, which were then aggregated at project level. At SCI level, an incremental cash flow of USD195 million was estimated over a seven-year period (2004 - 10). At the level of the IT Business Unit, a cumulative surplus of USD3.24 million was projected. The second additional financing estimated a cumulative incremental cash flow of USD 500.1 million for SCIs and BANSEFI branches, and of USD36.5 million for the IT Business Unit from 2008 through 2020[19].

The change in the business model of the IT platform during project implementation has important implications for analyzing its economic and financial costs and benefits. The approach taken in the original PAD was consistent with a fairly straightforward business model that envisaged the SCIs to be the main users of the platform and eventually paying the full costs of services. Hence, the IT business unit was expected to become financially self-sufficient through user fees once the IT system was at a stable state and adopted by approximately half of the certified sector institutions (approximately 100 SCIs). However, the adoption of the platform followed a different path from the original strategy. By 2008, only 21 SCIs and 7 other financial institutions had adopted the BANSEFI core banking system while over 370 institutions, well-above targets, had adopted distinct modules of the platform. Although BANSEFI became the main user of the platform, providing ancillary IT services to SCIs and microfinance institutions, the platform was able to provide a wide range of services to the sector and to serve broad national goals of financial inclusion, e.g., by expanding remittances and other financial services at low costs through *L@Red de la Gente* and through correspondent banking. It also allowed BANSEFI to step

[18] USD110.19 million out of a total of USD154.1 million financed by the initial loan and the two additional financings.

[19] Key assumptions underlying these predictions such as the roll out of the platform to SCIs, the number of entities participating each year, the number and amounts of additional transactions per institution and year as well as the gross margin per transaction are not provided in the respective annex and could not be retrieved from the project files.

up its participation in the payment of the *Oportunidades* program on a large scale since 2011. This analysis therefore looks at the revenues these IT services have generated and the considerable savings they have yielded to the institution and to the Government.

In view of the difficulties to quantify net financial benefits of existing operations, the analysis was limited to incremental revenues for additional services attributed more directly to the adoption of the technology platform and the related network functionalities: the ability of BANSEFI to expand and the SCIs to participate in payments of government fiscal transfer programs (*Oportunidades, Procampo*) and in national and international remittances.

a) Benefits for BANSEFI

Due to the changed use of the platform, its financial viability can no longer be assessed as an independent unit but as an integral part of BANSEFI operations. This makes the task more complex due to the difficulties of quantifying the platform's specific contributions to reducing operational costs and expanding the range and quality of products and services.

The IT platform has enabled BANSEFI to dramatically expand fee-generating services at low costs. While it is difficult to quantify the contribution of the platform to reduce operational costs and enhance revenues of existing products and services, the introduction and expansion of certain new products can be attributed more directly to it. For example, the platform has been instrumental for BANSEFI in introducing correspondent banking and scaling-up its service points via non-bank agents and its use of electronic transfer for the delivery of government transfer programs. In the third bimester 2012, 5.7 million payments were made through debit and prepaid cards for a total amount of MX$ 9.4 billion. Non-bank agents now include around 7,000 Diconsa stores, 400 Telecomm/Telégrafos offices, 499 SCI branches, 196 BANSEFI branches and 5 Pemex gas stations. To enhance the safety of handling larger amounts of cash, BANSEFI provided some support to selected Diconsa stores and warehouses (that support the cash handling) to install security systems.

The platform has also allowed BANSEFI to further increase its usage of Diconsa stores for providing its clients with deposit, withdrawal, bill payment[20] and balance inquiry services. This alliance has a considerable potential for increasing the financial inclusion in remote areas, as Diconsa is mostly present in locations with less than 2,500 inhabitants. The use of Diconsa stores for the delivery of a broader range of financial services was initially piloted in 18 stores, but has in the meantime been scaled up to over 200 Diconsa stores in 19 states and 165 municipalities. BANSEFI aims to increase this number over the next three years to 2000, thus reaching a national coverage with financial services. Furthermore, BANSEFI is exploring options to include in its agent-network other nationwide chains such as Bimbo (baking goods), Construrama, and ANTAD (National Association of supermarkets and conveniences). The introduction of mobile phone banking is planned for 2013.

The gross-margin from *Oportunidades* payments largely covers the operational and maintenance costs of the platform. The transfer of the government conditional cash transfers to BANSEFI's technology platform has boosted BANSEFI's operational income since 2009. According to BANSEFI's cost accounting system introduced in 2011, *Oportunidades* payments accounted for 82 percent of the banks operating profits (operating income minus direct costs except for IT) during that year, amounting to MX$ 556 million (approximately USD44.5 million[21]). The gross margin from these payments exceeds

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[20] currently limited to only telecom bills, but payment module for electricity bills to come soon

[21] Based on an exchange rate 12.52 Mexican Peso per US Dollar, as used in the PAD of BANSEFI III.

the total operating and maintenance costs of the platform which amounted to MX$ 456 million (equivalent to USD36.5 million) in 2011 and are expected to stabilize around MX$ 310 million (approximately USD25 million) starting in 2014. In addition, other recently introduced technology-based services such as mobile phone banking, electronic bill payment and other correspondent banking applications will gradually generate additional revenues to support platform costs and contribute to BANSEFI's overall results.

Financial projections show that BANSEFI will be able to bear the full costs of the platform while maintaining a positive net result. Currently, BANSEFI's operations do not yet sustain the full costs of the IT platform. However, financial projections based on a conservative growth scenario show that BANSEFI will be able to assume the entire costs of the platform from 2014 onwards maintaining its overall positive financial result.

Table 1 – BANSEFI Annual Income Statements

	Annual Income Statements (000 MXP)							
	2,011	2,012	2,013	2,014	2,015	2,016	2,017	2,018
Financial Margin adjusted for credit risk	512,377	617,338	759,026	877,737	922,867	965,218	1,011,317	1,061,014
Net result before tax (excl. IT costs)	216,595	293,987	314,284	454,611	491,695	580,008	651,139	712,413
Net result after tax (excl. IT costs)	143,783	206,028	285,819	417,815	433,007	475,042	513,191	546,342
IT costs total	456,276	649,982	525,293	331,782	321,149	310,496	310,496	310,760
IT operational costs	377,702	371,830	325,632	309,445	309,708	309,445	309,445	309,708
Net result after IT operational costs	- 233,919	- 165,803	- 39,812	108,370	123,299	165,597	203,746	236,633
Net result after full IT costs	- 312,493	- 443,955	- 239,474	86,033	111,859	164,546	202,695	235,582
Source: based on data provided by BANSEFI								

b) Benefits at the SCI level

The combined effects of technical assistance, networking and improved technological infrastructure have contributed to enhancing the institutional and financial performance of SCIs and BANSEFI. Although the benefits of the technical assistance provided under both BANSEFI projects are difficult to directly attribute and quantify, they are clearly reflected in the improved financial and institutional performance of the SCIs assisted under BANSEFI I and II. The total number of clients of the project-assisted SCIs increased from 2.9 million to 7.5 million between 2003 and 2011. Total assets grew from USD19.7 million to USD90.9 million, deposits from USD15.2 million to USD70.1 million, and the number of branches increased from 946 to 2,739. The fact that the 112 certified institutions represent 72 percent of sector members and 74 percent of total sector assets suggests important gains in efficiency due to consolidation and economies of scale.

In addition, the technology platform enabled a total of 287 SCIs to offer international and national remittance services through *L@Red de la Gente*. These services would not be available to the majority of SCIs due to their limited transaction volumes which makes them unattractive for international remittance service providers. The *Red de la Gente* network allowed negotiating lower fees with the international remittance companies, which were passed on to SCIs and their members. Table 7 of Annex 2 shows the evolution of international remittances provided by the network. Table 2 below shows the number of international remittance transactions conducted by SCIs since 2007. On average, BANSEFI pays SCIs a commission of US$1.5 per transaction disbursed, a share of the commissions received from the international remittance service providers. Given that SCIs do not charge a fee to recipients, the commission received from BANSEFI is the gross income of SCIs per transaction. As per table 2, international remittance transactions through *L@Red de la Gente* generated a cumulative gross income of USD 3.8 million for participating SCIs between January 2007 and August 2012.

Table 2
Number of international remittance transactions handled by SCIs through L@Red de la Gente, 2007 – 2012.

	Year					
	2007	**2008**	**2009**	**2010**	**2011**	**2012***
Remittances	128,737	340,689	555,688	563,544	376,869	617,147
Remittance income p.a.	193,106	511,034	833,532	845,316	565,304	925,721
Remittance income cum	193,106	704,139	1,537,671	2,382,987	2,948,291	3,874,011

* Until August 2012

Finally, the adoption of the core banking system and other platform services helped improving operational efficiency and enabled improved management information for strategic and operational purposes.

c) Benefits at the client level

The project supported growth of the SCI sector and its financial infrastructure has helped extend the range, quality and outreach of financial services, especially in under-banked and poor rural areas. The improved financial and institutional performance of the majority of SCIs increases access to safe deposit services instilling greater trust of low income customers in the financial system. Clients can further benefit from increased access to formal credit at lower interest rates (about 10-20 percent per annum) compared to informal moneylenders and some large microfinance institutions (with rates of up to 90 percent per annum).

Access to electronic payment systems through various delivery channels has reduced delivery costs as well as transaction costs of clients. The ICR of the BANSEFI I project estimated a savings of around MXN 15 for each international remittance transactions. In the period 2011 there were around 730,000 international remittance transactions supported by the platform. This translates to a saving of transaction cost reduction of about US$850,000 to the beneficiaries for 2011. More importantly, additional transaction cost reductions such as considerable reduced travel or waiting time for the disbursement of the funds are expected to exceed these benefits but could not be calculated for this ICR. As per an internal BANSEFI study, the government agency SEDESOL (Secretaría de Desarrollo Social) has reduced its reconciliation time-period for *Oportunidades* payments from 13 months to just over 22 days now.

d) Fiscal impacts

The use of the IT platform for programs such as *Oportunidades* has also lead to considerable savings to the Government. For example, the ICR of the BANSEFI I project estimated government savings at MXN 75 per year for each beneficiary. This translated to an additional USD36.9 million in savings to the Government in 2011 alone[22], considerably more than what the Government spent on subsidizing the entire IT platform that year.

[22] Based on 6.3 million beneficiaries.

As shown in the previous sections, all investments funded are financially sustainable after project closure. The incremental cash flow attributable to the technology platform already exceeds the platform's operational costs and is expected to assist BANSEFI in achieving full financial sustainability by 2014. The TA has increased the efficiency and sustainability of SCIs and enhanced the access to financial services to households and enterprises thereby contributing to increased tax revenues from financial institutions and economic activities of their clients.

Net Present Value and Internal Rate of Return

Because of the overlap of the BANSEFI projects and the attribution problems of the technical assistance to the sector, this ICR concentrates its calculation of the Project's NPV and IRR on the IT-related costs only. These account for over 74% of total project costs and therefore provide a reasonable idea of the return of the project.

Because of the cumulative nature of the IT-investments, however, the analysis must incorporate all IT-related costs, both operational and investments, under all three BANSEFI projects. The analysis concentrates on three main elements: (i) the total investment and operating costs of the IT Platform under BANSEFI I, II and III[23], (ii) revenues directly generated by BANSEFI from the Oportunidades activities (which can be broken down between transaction fees from the Government and other interest/fees) (iii) the estimated savings to the Government from the increased efficiency and decreased leakages from the use of electronic payments of *Oportunidades* (see above). The latter savings are based on the estimate made under the ICR of the first BANSEFI project (P070108) which reports savings of MXP 75 per person and about 6.3 million beneficiaries. To be sure, the NPV/IRR analysis is calculated under four scenarios, varying the level of savings to the Government (MXP 75 vs. a more conservative MXP 37.5 per beneficiary) and the growth rate of IT-related expenses over the next 5 years (2% vs. 5% growth).

Table 4: NPV/IRR Analysis of BANSEFI's IT Platform

Scenario 1	
Savings to Government per beneficiary (annual)	MXP75
Future growth of IT-related expenses (annual)	2%
NPV at 12 percent discount[24]	US$123 million
IRR	24.45%
Scenario 2	
Savings to Government per beneficiary (annual)	MXP75
Future growth of IT-related expenses (annual)	5%
NPV at 12 percent discount	US$121 million
IRR	24.3%

[23] The cost of IT under all three projects need to be combined, as they finance a single architecture. Were this analysis able to solely isolate the IT cost of the project under review by this ICR, the NPV/IRR would be considerably higher because the revenues included in the analysis only started in 2011.
[24] Discount rate used for the calculation of the NPV in the Project Appraisal Document.

Scenario 3	
Savings to Government per beneficiary (annual)	MXP37.5
Future growth of IT-related expenses (annual)	2%
NPV at 12 percent discount	US$61 million
IRR	18.8%
Scenario 4	
Savings to Government per beneficiary (annual)	MXP37.5
Future growth of IT-related expenses (annual)	5%
NPV at 12 percent discount	US$59 million
IRR	18.87%

The calculated NPV and IRR numbers are possibly underestimated, as they do not include other incomes from services such as remittances, bill paying or branchless banking and yet all IT-related costs for these services are included in the NPV/IRR calculation. However, these incomes are relatively small compared to the overall revenue structure of BANSEFI.

The above calculations indicate that, despite a more conservative estimation of the savings of *Oportunidades* to the Government and a more rapid growth of IT-related expenses, 74% of the project funds yield a substantial return. Together with the evaluation of over-achieved objectives for the remaining 26% (an increase of the outreach of financial services 118% above target, the improvement of the sustainability of the system 23% above target), the overall efficiency of the project is rated substantial.

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Lea D. Braslavsky	Consultant	LCSPT	Lead Procurement Specialist
Carlos E. Cuevas	Consultant	CGP	Lead Financial Sector Development Specialist
Regis Thomas Cunningham	Sr Financial Management Specialist	LCSFM	Financial Management
Robert Keppler	Consultant	EASFP	IT Platform
Marta Elena Molares-Halberg	Lead Counsel	LEGES	Legal Specialist
Susana M. Sanchez	Sr Financial Economist	SARVP	Outreach activities
Harideep Singh	Senior Rural Development Specialist	EASER	TTL
Augusto de la Torre	Chief Economist	LCRCE	Financial Sector Specialist
Supervision			
Juan Carlos Alvarez	Senior Counsel	LEGES	Legal Specialist
Cecilia Maria Balchun	Consultant	CTRDM	Loan Administration
Daniel J. Boyce	Lead Financial Management Specialist	LCSFM	Financial Management Specialist
Maria E. Castro-Munoz	Consultant	LCSSO	Social Development Specialist and Safeguards
Carlos E. Cuevas	Consultant	CGP	Lead Financial Sector Development Specialist
Dmitri Gourfinkel	Financial Management Analyst	LCSFM	Financial Management
Efraim Jimenez	Consultant	LCSUW	Procurement
Robert Keppler	Consultant	EASFP	IT Platform
Victor Manuel Ordonez Conde	Finance Officer	CTRLN	Loan Administration
Gabriel Penaloza	Procurement Specialist	LCSPT	Procurement
Felix Prieto Arbelaez	Senior Procurement Specialist	LCSPT	Procurement
Juan Carlos Serrano-Machorro	Financial Management Specialist	LCSFM	Financial Management
Tomas Socias	Senior Procurement	LCSPT	Procurement

	Specialist		
Harideep Singh	Senior Rural Development Specialist	EASER	TTL (until 09/2011)
Pierre-Olivier Colleye	Sr. Microfinance Specialist	LCSAR	TTL (since 09/2011)
Harish Natarajan	Sr. Financial Sector Specialist	FFIFI	IT Platform
Diomedes Berroa	Sr. Operations Officer	LCSPT	Procurement
Carmine Paolo De Salvo	JPA	LCSAR	Rural Development
ICR			
Pierre-Olivier Colleye	Sr. Microfinance Specialist	LCSAR	Primary Author
Harish Natarajan	Sr. Financial Sector Specialist	FFIFI	IT Platform
Ilka Funke	Consultant	LCSAR	Access to finance, overall evaluation
Martin Lenihan	Sr. Social Development Specialist	LCSSO	Gender and Indigenous People
Carmine Paolo De Salvo	JPA	LCSAR	Rural Development
Frank Hollinger	FAO		Rural Development

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of Staff Weeks	US$ Thousands (including travel and consultant costs)
Lending		
FY04	48.13	218.74
TOTAL:		**218.74**
Supervision/ICR		
FY04	0.0	0.0
FY05	13.01	69.59
FY06	11.99	47.96
FY07	24.47	124.63
FY08	12.44	56.95
FY09	21.41	99.66
FY10	20.20	85.29
FY11	8.65	68.23
FY12	7.38	60.51
FY13	10.72	45.64
TOTAL:		**658.46**

Annex 5. Summary of Borrower's ICR and/or Comments on Draft ICR

The ICR was a collaborative exercise between the Bank and the BANSEFI project implementation team. The first draft of the ICR was discussed with the BANSEFI team in September 2012. Comments were received and incorporated to prepare a revised draft in November 2011. This final draft was sent to BANSEFI/Ministry of Finance on January 28, 2013, which accepted the draft on January 29, 2013.

The final comment from the Ministry of Finance is reproduced below:

"During the evolution of the project, BANSEFI has expressed strong interest in strengthening the SCI sector with SCIs which are compliant with the Popular Savings and Credit Law, financially viable, operationally effective, managerially sound and technologically upgraded. BANSEFI has directed its efforts to achieve the objectives of the project, so that the Ministry of Finance recognizes the work of BANSEFI. We would rate the project satisfactory or highly satisfactory, given the exceeded outcomes, but it is the Bank's report."

Annex 6. List of Supporting Documents

1. Project Concept Note, December 2003
2. Project Appraisal Document for a Savings and Rural Finance (BANSEFI) Phase II Project, May 2004. Report Number 28929-ME.
3. Loan Agreement – Savings and Rural Finance – Second Phase Project, October 2004. Loan Number 7240-ME.
4. Project Paper – Savings and Rural Finance (BANSEFI) Phase II Additional Financing Project, February 2007. Report Number 38776.
5. Loan Agreement – Savings and Rural Finance Second Phase Project – Second Additional Financing, March 2007. Loan Number 7438-MX.
6. Project Paper – Savings and Rural Finance Second Phase Project (Second Additional Financing), August 2008. Report Number 44426-MX.
7. Loan Agreement – Savings and Rural Finance Second Phase Project – Second Additional Financing, November 2008. Loan Number 7592-MX.
8. Project Preparation and Supervision Aide-Memoires and Implementation Status Reports (ISR).

NOVEMBER 2008

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