



Integrated Safeguards Data Sheet (Updated)

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Section I - Basic Information

A. Basic Project Data

Country: MEXICO	Project ID: P070108
Project: Savings and Credit Sector Strengthening and Rural Microfinance Capacity Building	Task Team Leader: Carlos E. Cuevas
Authorized to Appraise Date: April 4, 2002	IBRD Amount (\$m): 64.60
Bank Approval: July 11, 2002	IDA Amount (\$m):
Managing Unit: LCSER	Sector: BI - Institutional Development; FS - Financial Sector Development Theme: RURAL DEVELOPMENT; FINANCIAL SECTOR
Lending Instrument: Technical Assistance Loan (TAL)	
Status: Lending	

I.A.2. Project Objectives:

The proposed project builds upon and enhances the Bank's overall program of strengthening Mexico's financial sector, and providing targeted assistance to the rural poor. The project's main objective is to contribute to the integration of low-income people into the national economy and to the realization of their income generating potential by increasing their access to financial services. To this end, the project aims at improving the financial stability and outreach capacity of savings and credit institutions (SCIs) nationwide, and especially at expanding financial services in rural areas.

The project also builds upon the recent legal and regulatory reforms the Government of Mexico (GOM) has enacted to restructure and strengthen the savings and credit sector, a much needed action given the state of this sector and especially the loss of confidence in the financial system among the poor. Most notable among these reforms are the "Popular Savings and Credit Law" (*Ley de Ahorro y Crédito Popular*, June 4, 2001), and the law that creates the "National Savings and Financial Services Bank" (*Banco del Ahorro Nacional y Servicios Financieros*, BANSEFI, June 1, 2001, see section B.2).

Specifically, the project would support the strengthening of the SCI sector through specialized assistance to the retail institutions, enabling these intermediaries to reach more clients with improved services in a sustainable manner, and through improving the supervisory capacity of the Comisión Nacional Bancaria y de Valores (CNBV) to oversee the SCIs as mandated by the *Ley de Ahorro y Crédito Popular*. In addition, as a targeted element of this generalized financial sector strengthening, the project would support actions to improve the access of low-income rural communities to sustainable financial services. Lastly, the project would include studies and actions designed to increase understanding of the constraints affecting the extension of financial services to lower-income clients, monitoring the effectiveness of current policy and programs and developing new financial techniques adapted to

Mexico.

I.A.3. Project Description:

The project supports the Government's efforts to strengthen the SCI sector, which serves the poorer segments of the market, so that sector institutions are able to provide secure and expanded services, and over time, increase their coverage. In addition, because rural areas are seriously underserved and because of the intrinsic problems in serving clients in this market, the project includes programs aimed at improving access of rural communities to sustainable financial services. The main components of the project are summarized below.

Component 1: Consolidation of the Savings and Credit Institutions Sector

The project supports a program to strengthen eligible institutions and liquidate institutions which are not sustainable, to improve SCI sector infrastructure, and to enhance sector supervision. As per its mandate, BANSEFI will manage the technical assistance programs. CNBV will be in charge of certification of institutions for lawful operations.

1.1 Strengthening SCIs

Support to Institutions. The project will support an assessment of existing SCIs to determine whether these qualify for certification by CNBV, require technical assistance either to strengthen or to restructure them (mergers with other institutions), or need to be liquidated. Evaluation criteria have been prepared by a team led by CNBV, and consisting of national and international specialists. It is expected that 365 institutions with 1.7 million members or 75 percent of total sector membership) will participate in the program. Preliminary analysis shows that some 90 percent of institutions would meet the capitalization requirements for certification provided they take measures to strengthen their financial performance and operations. This estimate excludes the *Cajas Solidarias* network, where it can be expected that a higher percentage will have viability problems and will need to be merged or closed down.

The project will support the preparation and implementation of plans to strengthen institutions which can be strengthened or restructured and which have agreed to carry out plans to gain CNBV certification. It is anticipated that the institutional strengthening plans will last between one and two years, depending on the size of the institution. BANSEFI will recruit institutions which are specialized in the provision of these services (referred to as technical assistance providers) to carry out the initial assessment using CNBV guidelines, and to prepare and implement the institutional strengthening plans. The technical assistance providers will enter into formal agreements with the participating SCIs and their corresponding Federations spelling out the program and the performance standards to be met in a designated time period. BANSEFI will monitor the results of the technical assistance program and will review progress on a semi-annual basis. BANSEFI intends to suspend assistance to institutions which do not achieve the agreed semi-annual targets. In addition, CNBV intends to verify on a sample basis the accuracy of the classification given at the outset to the institutions participating in the program. The CNBV will conduct its own evaluation of the institutions when the technical assistance program is completed, and decide independently whether the institutions are to be authorized under the law.

The project will also support, as required, the liquidation of institutions which have been determined unviable and present risks to deposit-holders. As the legal status of sector institutions is very diverse, support for liquidation will be determined on a case-by-case basis.

Technical assistance providers will be selected from among specialized institutions with demonstrated experience in the field. The providers will support all institutions in a Federation which are willing to enter into specific agreements. The Government, with financing by the Bank, will pay for the costs of the technical assistance program. The beneficiaries will contribute some logistical support to the consultants. The participating institutions will also pay for the full cost of the Federations which are being established as required by law. The loan does not include financing to shore up the capital, which may be required in the case of a few institutions. The contracts will cover the costs of the international and national specialists required to carry out the institutional development plans as well as expenses directly associated with their work, including equipment and materials. No vehicles will be financed; if vehicles need to be purchased, these will be paid by the Government.

Providing SCI Information Infrastructure and Services. The project would support the design and establishment of an information system for the sector as part of an integrated effort aimed at strengthening the SCIs, their federations and the sector at large. The information system will enable sector institutions to provide required financial reports to the CNBV as their supervisor, and to other relevant government agencies. It will also have the capability to maintain accounts and financial information, and to provide other operational, control and reporting services, upon request by the institutions.

The core system will reside and will be operated at BANSEFI. The SCIs will link to the system with equipment, software, technical assistance and training provided by the project contractors. This component would support the design and development of the basic system infrastructure and software, and the provision of services to about 40 SCIs that represent approximately 1000 points of service (SCI branches). The Government will pay, with Bank financing, for the system development costs. A fee-for-service cost recovery mechanism will gradually be put in place that will have as an objective the full recovery of operating costs by the fifth year of system operations. The requisite telecommunications infrastructure exists in Mexico. Prior to loan effectiveness, BANSEFI will have confirmed interest from

data communications providers to participate in bids for provision of services to the information systems to be set up by BANSEFI .

Training program for SCI staff. The project will support the implementation of a training program for SCI management and staff. The program will include modules in the areas of finance, accounting, risk management, credit analysis and governance and will be offered in six regions. The training, which will be available to all participating institutions, will be carried out by specialized consultants (for accounting) and training institutes for the other subjects. It will be implemented over a two year period. Some 800 members of participating institutions are expected to participate in the training. The Federations and member institutions will provide the physical facilities for the courses and will pay for the transportation and living expenses of its participants in the courses.

1.3 Strengthening SCI Supervision.

The project will provide support to CNBV to strengthen its supervision procedures and competencies. To this end, it will provide training to CNBV staff on supervision practices and procedures for microfinance institutions and technical assistance to CNBV to develop and adapt regulations as needed. In addition, CNBV will engage the advice of recognized international experts in systems of auxiliary supervision (e.g., Germany, Canada, Spain) on a regular, semi-annual basis. The project will also provide technical assistance to strengthen the Supervision Committees (*Comités de supervisión*) at the Federations, specifically charged with the auxiliary supervision functions. It will also provide support to the Confederations that group them. This support aims at ensuring clear definition of the functions of the Federations (and the Confederation that will group them), and specifically a demarcation between the auxiliary supervision role and other functions. The support to CNBV and the sector will seek to establish rules and procedures that ensure professional and transparent handling of entry and exit, and address and mitigate risks of conflict of interest, adverse selection and other issues that may emerge in the process of implementing the supervisory mechanism. The loan will finance technical assistance and training required to carry out the activities.

Component 2: Expanding Financial Services in Rural Areas

This component aims at expanding the supply of financial services the marginal areas, and builds upon work initiated under the marginal areas programs. The project will cover the marginal areas in some eleven states. Activities under this component will be carried out by specialized international technical assistance providers under contract with the implementing agency.

2.1 Expanding Institutions and Services in the Marginal Areas

The component aims at increasing outreach, ensuring financial sustainability, and improving and diversifying the financial services offered by existing intermediaries that serve the marginal areas. In areas where no intermediaries exist, new institutions will be established using proven methodologies and which will fully comply with existing legislation. Participating institutions will be selected on the basis of their track record in terms of outreach and sustainability, and their expansion plans. Institutions supported under this component are likely to be regional institutions, as these are the most inclined to serve the target clientele. The participating institutions would enter into agreements with the technical assistance providers committing to performance targets which will be closely monitored. Program activities will encourage commitment and ownership at the local level while setting up institutional policies and structures that encourage efficiency and profitability. The process will take time because new habits and skills will need to be developed. All participating SCIs will join or will be assigned to a Federation, as mandated by the law, and will meet the requirements for certification by CNBV. The

program does not include a line of credit, and it is expected that most of the credit given by participating institutions will be from members' savings.

The marginal areas will be grouped into regions for developmental purposes. The population of the marginal areas covered total some 17 million people. The program will be implemented in six of the following seven regions: (i) Chiapas, (ii) Huasteca (marginal areas in the states of Hidalgo, San Luis Potosi and Veracruz), (iii) Oaxaca, (iv) Veracruz excluding the Huasteca (iv) Guerrero (and adjacent marginal areas in the state of Morelos), (v) Michoacan (and adjacent marginal areas in the State of Mexico), (vi) Puebla and (vii) Sierra Gorda (marginal areas in the states of Querétaro and Guanajuato). The municipalities covered by the program appear in a document prepared by SAGARPA which is based on the classification of the CONAPO for levels of marginality. The regions have been selected taking into account the demand for services identified in market studies, and the willingness of institutions or groupings of clients in the region to enter into performance agreements with the technical assistance providers. The sequencing of the regional programs has also been determined on the basis of the studies, although this order may be modified if developments justify advancing a region ahead of others.

The technical assistance providers will be selected following World Bank procedures. The process of selection of the technical assistance provider which will implement the program in Chiapas is complete and the program will be initiated this month. The process of selection of the technical assistance provider for the Huasteca Region is well advanced, and work should start later this year. At the end of five years of the project, some 60,000 families will be served in the six regions where the program will have been initiated. This figure takes into account that some of the regional programs would only be in their third year of operation. Given that the regions served under the program have few existing institutions, much of the expansion of services will come through the establishment of new branches or new institutions. Some 15-20 new branches (or local institutions) should be established in each of the marginal areas covered. The contracts will cover the costs of the international and national specialists required to carry out the regional development plans as well as expenses directly associated with their work, including equipment and materials. The loan will also finance the purchase of one computer and basic software per branch established. No vehicles will be financed; if vehicles need to be purchased, these will be paid for by the Government.

2.2 Community Training Programs (Social intermediation)

The project will provide training to the poorer segments of the population in the marginal areas on basic principles of household finance and participation in financial transactions. In some cases, the program will assist communities to set up simple record-keeping for indigenous savings organizations, and introduce them to formal institutions where they could set up formal accounts. Activities under this sub-component will be organized by the same technical assistance providers that will provide services under sub-component 2.1.

Component 3: SCI Sector Studies, Monitoring and Information Dissemination

Activities under this component include studies on financial intermediation in rural areas and other underserved areas of Mexico with a view to defining new methodologies which are adapted to local conditions. In addition, the component includes dissemination programs, including workshops and information campaigns, to inform SCIs, their clients and other stakeholders of the sector consolidation program, and to disseminate lessons from experience in the area of microfinance. The project will also support the introduction of systems to monitor sector development progress and the impact of the government's development programs. The sector studies and monitoring function will be carried out at five different levels: (i) SCI supervision mechanism; (ii) SCI performance; (iii) federation/network

performance; (iv) social impact; and (v) fiscal impact. Lastly, the component will also support periodic external evaluations by national and international consultants, including technical and financial audits of the rural microfinance institutions supported under the project, and expert advice to the project management team. The project will finance consulting services under this activity and information materials prepared by BANSEFI.

Component 4: Project Management

BANSEFI is conscious of the importance of a strong project implementation team to coordinate and supervise the work the consultants contracted to carry out the project activities, and has assembled a strong team for this purpose. The project will support the operations of the technical unit which has been set up to carry out project management and implementation follow up, including monitoring and evaluation of the activities.

Components:

1. Consolidating the Savings & Credit Institutions Sector
2. Expanding Financial Services in Rural Areas
3. SCI Sector Studies, Information Dissemination & Monitoring
4. Project Management

I.A.4. Project Location: (Geographic location, information about the key environmental and social characteristics of the area and population likely to be affected, and proximity to any protected areas, or sites or critical natural habitats, or any other culturally or socially sensitive areas.)

B. Check Environmental Classification: C (Not Required)

Comments:

C. Safeguard Policies Triggered

Policy	Applicability
Environmental Assessment (OP/BP/GP 4.01)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Forestry (OP/GP 4.36)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Natural Habitats (OP/BP 4.04)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Safety of Dams (OP/BP 4.37)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Pest Management (OP 4.09)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Involuntary Resettlement (OP/EP 4.12)	<input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> TBD
Indigenous Peoples (OD 4.20)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Cultural Property (OP 4.11)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Projects in Disputed Territories (OP/BP/GP 7.60)*	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD
Projects in International Waterways (OP/BP/GP 7.50)	<input type="radio"/> Yes <input checked="" type="radio"/> No <input type="radio"/> TBD

**By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

Section II - Key Safeguard Issues and Their Management

D. Summary of Key Safeguard Issues. Please fill in all relevant questions. If information is not available, describe steps to be taken to obtain necessary data.

II.D.1a. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts.

The project will promote the consolidation and strengthening of savings and credit institutions and the expansion of financial services in marginal rural areas. As identified during project preparation, indigenous people from a variety of ethnic groups represent a high percentage of the rural population in marginal areas. To ensure that the project benefits this population, it incorporates a social development model comprising: the preparation of a social analysis, consultation, and the development of a social strategy built upon the information and recommendations which emerge from this process. On this basis, the consultant in charge of the technical assistance to savings and credit institutions under Component 2 of the project will prepare an action plan to promote indigenous peoples' participation. This process has been already completed for the two regions where implementation of the project will begin in the first year, and it will be repeated for each region to be included under Component 2 of the project as they come into implementation.

II.D.1b. Describe any potential cumulative impacts due to application of more than one safeguard policy or due to multiple project component.

N/A

II.D.1c Describe any potential long term impacts due to anticipated future activities in the project area.

N/A

II.D.2. In light of 1, describe the proposed treatment of alternatives (if required)

Though the project will operate under a demand-driven approach, the proposed social development model will ensure that indigenous population and other vulnerable groups can benefit by: (i) conducting outreach strategies to link poor communities to SCI services; and (ii) using targeted communication campaigns to make indigenous populations aware of the project's benefits and encourage participation. At the project's midterm, interregional workshops will take place to share experiences and lessons learned in expanding financial services to underserved groups in the marginal areas.

II.D.3. Describe arrangement for the borrower to address safeguard issues

BANSEFI, through a technical unit (TU) responsible for day-to-day management of the rural outreach expansion activities, will ensure that criteria for qualification and selection of TA providers fits within the purpose of promoting participation of indigenous organizations and other vulnerable groups, and that those firm(s) selected prepare action plans taking into account results and recommendations from IPDPs. The TU will also ensure that all steps of the project's social development model, comprising IPDPs and consultations, are prepared in a timely matter for each region according to the project implementation schedule, and that their recommendations are incorporated as inputs in technical assistance provider's Terms of Reference. Bidding evaluation procedures will take into account the experience in working with indigenous population, the outreach strategy and communication proposals to promote indigenous peoples participation. Benchmarks to reach rural population and women will be defined for each region based on identified organizations potential and willingness to participate identified through IPDPs. The Terms of Reference for each region, including selection criteria and performance benchmarks, will be submitted for Bank no-objection. The technical committee that oversees the component will foster implementation in accordance with social development model steps.

II.D.4. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on

safeguard policies, with an emphasis on potentially affected people.

During project preparation, consultations were made with main stakeholders, including SCIs in various regions, the clients of SCIs, beneficiaries of public programs and national and local institutions related to the savings and credit sector. Two consultation workshops with indigenous peoples organizations were carried out, one in Chiapas and other in the Huateca region, to solicit their views about savings and micro-credit instruments, institutions and outreach methods and alternatives, which were incorporated into the project design.

E. Safeguards Classification. Category is determined by the highest impact in any policy. Or on basis of cumulative impacts from multiple safeguards. Whenever an individual safeguard policy is triggered the provisions of that policy apply.

- [] S1. – Significant, cumulative and/or irreversible impacts; or significant technical and institutional risks in management of one or more safeguard areas
- [X] S2. – One or more safeguard policies are triggered, but effects are limited in their impact and are technically and institutionally manageable
- [] S3. – No safeguard issues
- [] SF. – Financial intermediary projects, social development funds, community driven development or similar projects which require a safeguard framework or programmatic approach to address safeguard issues.

F. Disclosure Requirements

<i>Environmental Assessment/Analysis/Management Plan:</i>	<i>Expected</i>	<i>Actual</i>
Date of receipt by the Bank Date of “in-country” disclosure Date of submission to InfoShop Date of distributing the Exec. Summary of the EA to the ED (For category A projects)		
<i>Resettlement Action Plan/Framework:</i>	<i>Expected</i>	<i>Actual</i>
Date of receipt by the Bank Date of “in-country” disclosure Date of submission to InfoShop		
<i>Indigenous Peoples Development Plan/Framework:</i>	<i>Expected</i>	<i>Actual</i>
Date of receipt by the Bank		5/15/2002
Date of “in-country” disclosure		5/15/2002
Date of submission to InfoShop	5/21/2002	
<i>Pest Management Plan:</i>	<i>Expected</i>	<i>Actual</i>
Date of receipt by the Bank Date of “in-country” disclosure Date of submission to InfoShop		
<i>Dam Safety Management Plan:</i>	<i>Expected</i>	<i>Actual</i>
Date of receipt by the Bank Date of “in-country” disclosure Date of submission to InfoShop		

If in-country disclosure of any of the above documents is not expected, please explain why.

<u>Signed and submitted by</u>	<u>Name</u>	<u>Date</u>
Task Team Leader:	Carlos E. Cuevas	05/20/02
Project Safeguards Specialists 1:	Maria Elena Castro Muñoz	05/20/02
Project Safeguards Specialists 2:		
Project Safeguards Specialists 3:		

<u>Approved by:</u>	<u>Name</u>	<u>Date</u>
Regional Safeguards Coordinator:	Juan D. Quintero	04/09/02
Sector Manager/Director:	John Redwood	04/09/02

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