Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-May-2019 | Report No: PIDA26843
BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Mexico</td>
<td>P167674</td>
<td>Mexico Financial Inclusion DPF (P167674)</td>
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<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
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<tr>
<td>LATIN AMERICA AND</td>
<td>18-Jun-2019</td>
<td>Finance, Competitiveness and Innovation</td>
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<tr>
<td>CARIBBEAN</td>
<td></td>
<td>Development Policy Financing</td>
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<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Secretaría de Hacienda y Crédito Público</td>
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Proposed Development Objective(s)

Support the government’s efforts to increase financial inclusion.

Financing (in US$, Millions)

**SUMMARY**

| Total Financing | 500.00 |

**DETAILS**

| Total World Bank Group Financing | 500.00 |
| World Bank Lending               | 500.00 |

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

1. **Despite some progress over the last years, Mexico has significant space to improve in terms of access to finance.** Credit to the private non-financial sector is just above 40 percent of GDP, well below the 72 percent average for the large 5 Latin American countries (LAC-5) and far below the 143.2 percent average for emerging markets worldwide. The country’s unbanked population is far larger than the country’s level of economic and financial-sector development would predict. A large share of the population still lacks access to financial services—only 37 percent of adults had an account in a formal financial institution in 2017. Among households in the bottom 40 percent of the income distribution, only one of four of adults has a bank account (Findex 2017). These gaps in
access, among other factors, have a significant impact on economic inequality of individuals and on productivity, growth, and employment of MSMEs in Mexico.

C. Proposed Development Objective(s)

2. The Program Development Objective (PDO) is to support the government’s efforts to increase financial inclusion. The policy and institutional reforms carried out by the authorities (and supported by this operation) focus on: deepening access to the financial sector, further developing a more accessible electronic payment system, and enabling innovation in the industry. Reforms in these areas represent an important first stage in a reform agenda of expanding access to financial services, which has historically been limited in Mexico.

Key Results

3. The supported prior actions are expected to: (i) facilitate and expand the usage of electronic payments between individuals and businesses; (ii) increase competition in consumer credit market; (iii) enable the sound and safe development of the Fintech industry, which in turn will contribute to the financial inclusion and overall financial sector development agenda; and (iv) increase the use of development banks to contribute to an improved financial inclusion, especially among the poorer segments of the population and the country.

D. Project Description

4. The proposed Development Policy Financing (DPF) supports the government’s efforts to deepen financial inclusion as a way to foster economic activity, especially for the poor. This operation supports the authorities’ policy and institutional reform program aimed at deepening access to the financial sector, further developing a more accessible electronic payment system, and expanding access to financial services including through Fintech legislation (the first Fintech in the world) and institutions, while enabling innovation in the industry.

5. Increased access to financial services can lead to a significant increase in income, particularly among low-income individuals and those located in areas with lower preexisting commercial bank penetration. Financial inclusion promotes economic well-being by assisting vulnerable households to build up productive assets, manage risks, and respond to financial shocks, including those resulting from climate change. Faster progress in traditional access to financial services, together with new innovative approaches through technology, present a great opportunity to boost investments and broad-based growth.

E. Implementation

Institutional and Implementation Arrangements

6. The preparation of this operation is being led by the SHCP. The SHCP, in close coordination with Banxico, CNBV and other supervisory authorities, will take the lead in collecting the data necessary, monitoring progress and implementation of this operation, with ongoing support from the World Bank. The Program outcomes will be monitored through the measurement of the indicators included in the policy matrix. The indicators seek to assess progress towards the implementation of the reforms supported by the proposed DPF and will be evaluated through December 2020.
F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

7. The actions supported by this operation are not likely to have any negative poverty, social or distributional effects in the short term, but rather contribute to positive effects in these areas over the short and medium term. Information from several surveys on financial inclusion and the use of technology in Mexico was gathered to inform this analysis. In addition, a literature review of the empirical evidence on potential impacts of the reforms has been gathered, including academic research papers and previous evaluations by the World Bank and other multilateral organizations.

Environmental Aspects

8. The prior actions supported under this operation are not expected to cause significant effects on the environment, forests and other natural resources. Indirect positive environmental effects are associated with reductions in the use of cash, more efficient connectivity, and reduced travel times for individuals and businesses to make financial transactions.

G. Risks and Mitigation

9. The overall level of risk for the proposed operation is assessed as Moderate. The reforms that underpin this operation involve various public stakeholders including SHCP, Banxico, Bansefi, CNBV, and other supervisory authorities.

CONTACT POINT

World Bank
Patricia Caraballo, Jasmin Chakeri
Senior Financial Sector Specialist

Borrower/Client/Recipient
Secretaría de Hacienda y Crédito Público
Gabriel Yorio González
Titular de la Unidad de Crédito Público
gabriel_yorio@hacienda.gob.mx

Implementing Agencies
FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

<table>
<thead>
<tr>
<th>Task Team Leader(s):</th>
<th>Patricia Caraballo, Jasmin Chakeri</th>
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Approved By

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<tr>
<th>Country Director:</th>
<th>Pablo Saavedra</th>
<th>28-Mar-2019</th>
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