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>P172863</td>
<td>Access to Finance and ID DPF (P172863)</td>
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<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
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<tbody>
<tr>
<td>LATIN AMERICA AND CARIBBEAN</td>
<td>Jun 09, 2020</td>
<td>Finance, Competitiveness and Innovation</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>United Mexican States</td>
<td>Secretaría de Hacienda y Crédito Público</td>
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Proposed Development Objective(s)

The development objective is to support the government’s efforts to increase access to finance and to enable policies for universal coverage of a robust and unique identification system (which in turn also supports financial access).

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 preparation to continue

B. Introduction and Context

1. Overcoming the challenge of limited financial access is critical to fostering inclusive growth in Mexico. Credit to the private nonfinancial sector represents only 41 percent of GDP, well below the 72 percent average for the five largest economies of the Latin America and the Caribbean region and far below the 143 percent average among emerging market economies worldwide. Furthermore, credit is not reaching MSMEs – only 8 percent of them have access to finance (ENAPROCE 2018). The agricultural sector, which is crucial to the inclusive growth of the rural sector, is also lacking sufficient access to finance with only 9.7 percent of small and medium rural productive units in Mexico receiving credit (National Agricultural Survey 2017). 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 - and significant access gaps remain for women (8 percentage points), households in the bottom 40 percent of the income distribution (18 percentage
points), and for individuals living in rural areas (12 percentage points). Such gaps in access have a large impact on the economic inequality of individuals and on the productivity, growth, and employment of microenterprises and SMEs, which provide the bulk of the jobs in Mexico. Moreover, the identity management ecosystem in Mexico is fragmented, with many different government-issued identification credentials and little coordination between the entities that issue them. This has hampered access to financial services (including to the new Fintech platforms that could accelerate inclusion), to social programs, and to different economic transactions among key vulnerable groups.

C. Proposed Development Objective(s)

2. The Program Development Objective (PDO) is to support the government’s efforts to increase access to finance and to enable policies for universal coverage of a robust and unique identification system (which in turn also supports financial access).

Key Results

3. Despite some progress over the last years, Mexico has significant space to improve access to finance, particularly for underserved populations including individuals living in rural and poorer regions of the country, women and micro, small and medium enterprises (MSMEs). This stand-alone DPF supports the authorities’ reform program aimed at deepening access to the financial sector for individuals and firms, reducing inequality in access, and promoting innovation and competition in the industry. It also supports policies needed to achieve universal coverage of a robust and unique identification system that will, among other benefits, reduce barriers to financial access and other economic opportunities.

D. Concept Description

4. The policies supported aim to: (i) boost financial inclusion for the youth; (ii) enable innovation leading to the offer of new API-enabled fintech services to enable more competition; (iii) increase access to credit to MSMEs in the agricultural sector; (iv) increase the percentage of women benefiting from financial access programs; (v) promote the offer of secured lending products with movable collateral to boost MSMEs’ access to credit and reduce cost; (vi) support the National Service of Personal Identification; and (vii) support standardization of systems across the state Civil Registries.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

5. The policy measures supported under this DPF are expected to increase the provision of financial services to traditionally underserved populations and unlock their economic potential. Moreover, actions under this DPF can help to close gender gaps in financial inclusion, helping women smooth consumption, provide security, increase saving and investment rates, and manage economic risk. Improving access to a national identification can also improve financial access, strengthen the transparency, efficiency and effectiveness of social programs, and reduce gender gaps in financial inclusion. Financial inclusion presents a critical avenue to help accelerate the pace of growth and poverty reduction in Mexico. It enables the inclusion of individuals in economic activity and supports their adaptation and recovery in case of disasters. Evidence shows that gaps in access have a large impact on the economic inequality of individuals and on the productivity, growth, and employment of microenterprises and SMEs. Digital ID also supports inclusive growth as it not only tackles one of the main barriers of access to financial services but also enables access to other rights and services including through the correct identification of beneficiaries to government social programs.
Environmental, Forests, and Other Natural Resource Aspects

6. Prior actions supported by this operation are not expected to have any negative effects on the environment, forests and other natural resources. The prior actions aimed at financial inclusion and access to finance and those establishing a single identification system to foster financial, economic, and social inclusion are not expected to have significant environmental effects.

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APPROVAL
Task Team Leader(s): Patricia Caraballo
**Approved By**

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<th>31-Jan-2020</th>
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