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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$ 1 BILLION

TO

UNITED MEXICAN STATES
FOR THE

COVID-19 FINANCIAL ACCESS DEVELOPMENT POLICY FINANCING
April 21 2020

Finance, Competitiveness And Innovation Global Practice
Latin America And Caribbean Region

Mexico

United Mexican States

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 21, 2020)

Currency Unit
MXN 24.41 = US$ 1

ABBREVIATIONS AND ACRONYMS

CDD	Customer Due Diligence
CNBV	National Banking and Assets Commission (*Comisión Nacional Bancaria y de Valores*)
CONAFREC	National Council of Civil Registry Officials (*Consejo Nacional de Funcionarios del Registro Civil*)
CONAIF	National Financial Inclusion Council (*Consejo Nacional de Inclusión Financiera*)
CONAMER	National Comission for Regulatory Improvement (*Comisión Nacional de Mejora Regulatoria*)
CONDUSEF	National Commission for the Defense and Protection of Financial Services Users (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*)
COVID-19	Coronavirus Disease 2019
CPF	Country Partnership Framework
CPI	Consumer Price Index
CURP	Unique Population Registration Number (*Clave Única de Registro de Población*)
DPF	Development Policy Financing
DRM	Monetary Regulation Deposit (*Depósito de Regulación Monetaria*)
EM	Emerging Market
ENAFIN	National Survey on Access to Finance for Firms (*Encuesta Nacional de Financiamiento de las Empresas*)
ENIF	National Financial Inclusion Survey (*Encuesta Nacional de Inclusión Financiera*)
FCL	Flexible Credit Line
FDI	Foreign Direct Investment
FIGI	Financial Inclusion Global Initiative
FM	Financial Management
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDP	Gross Domestic Product
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
ID	Identification
IFC	International Finance Corporation
IFPE	Electronic Payment Funds Institutions (*Instituciones de Fondos de Pagos Electrónicos*)
IMF	International Monetary Fund
INE	National Electoral Institute (*Institution Nacional Electoral*)
INEGI	National Geography and Statistics Institute (*Instituto Nacional de Estadística y Geografía*)

IPF	Investment Project Financing
ITF	Financial Technology Institutions (*Instituciones de Tecnología Financiera*)
LAC	Latin America and the Caribbean
MIC	Middle Income Country
MoUs	Memorandum of Understangings
MSME	Micro, Small and Medium Enterprises
MXN	Mexican Peso
NDC	Nationally Determined Contribution
OECD	Organization for Economic Co-operation and Development
P2B	Person to Business
PDO	Program Development Objective
PNIF	National Financial Inclusion Policy (*Política Nacional de Inclusión Financiera*)
PPP	Purchasing Power Parity
PSBR	Public-Sector Borrowing Requirements
PSIA	Poverty and Social Impact Analysis
RENAPO	National Population Registry (Registro Nacional de Población)
SCD	Systematic Country Diagnostic
SD	Standard Deviation
SDR	Special Drawing Rights
SEGOB	Ministry of Interior (*Secretaría de Gobernación*)
SHCP	Ministry of Finance (*Secretaría de Hacienda y Crédito Público*)
SME	Small and Medium Enterprises
SPEI	Interbank Electronic Payments System (*Sistema de Pagos Electrónicos Interbancarios*)
UMC	Upper Middle-Income Countries
UPI	Unified Payments Interface
USD	United States Dollar
USMCA	United States-Mexico-Canada Agreement
VAT	Value Added Tax
WB	World Bank
WBG	World Bank Group

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UNITED MEXICAN STATES
COVID-19 FINANCIAL ACCESS DPF

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P172863	No

Proposed Development Objective(s)

Contribute to the government's efforts to: (i) support liquidity in the financial sector, and (ii) establish instruments for improved financial access.

Organizations

Borrower:	UNITED MEXICAN STATES
Implementing Agency:	MINISTRY OF FINANCE AND PUBLIC CREDIT (SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO)

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**1,000.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	1,000.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
Pillar 1: Supporting liquidity in the financial sector		
Results Indicator #1: Reduction of the total amount of Monetary Regulation Deposits	320 billion MXN (March 2020)	15% reduction of the stock of monetary regulation deposit (August 2020)
Pillar 2: Enabling instruments for improved financial access		
Results Indicator #2: Number of minors ages 15 to 17 that own a bank account under their own name	0 (March 2020)	1,200,000 (December 2021)
Results Indicator #3: Share of female minors in the total number of minors ages 15 to 17 that own a bank account under their own name	0% (March 2020)	50% (December 2021)
Results Indicator #4: Percentage of licensed IFPEs in compliance with transparency and disclosure rules on contracts	0% (March 2020)	100% (December 2021)
Results Indicator #5: Number of payments processed through the CoDi platform	260,000 (March 2020)	450,000 (December 2021)
Results Indicator #6: Percentage of women benefiting from state development banks' financial access programs	46% (March 2020)	60% (December 2021)
Results Indicator #7: Percentage of schools incorporating financial education in their official curriculum.	0% (March 2020)	100% (December 2021)
Results Indicator #8: Number of entities requesting verification services	0 (March 2020)	50 (December 2021)
Results Indicator #9: Number of identification verification enquiries to the National Service of Personal Identification	0 (March 2020)	300,000 daily (monthly average) (December 2021)
Results Indicator #10: Number of states that have rolled out the ID Service to record vital events in a standardized manner and percentage of population that they represent	6 states, 18% of population covered (March 2020)	25 states, 65% of population covered (December 2021)

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE UNITED MEXICAN STATES

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) supports part of the authorities' response to the economic and social crisis unraveled by the COVID-19 global pandemic.** Beyond the health and human life consequences, which are massive, the COVID-19 pandemic brings supply and demand shocks to the economy, with trade, investment, financial, fiscal, employment, and social consequences that will generate deep impacts on firms and households. In these times of crisis, support for firms to protect jobs as well as programs to boost household incomes are critical. It is equally important to have liquidity in the financial system and efficient digital financial channels and platforms to pass-through that support while eliminating bottlenecks that hamper a fluid access to/and intermediation of resources. Focused on the financial sector, this operation supports measures that would help in the short-term as part of the relief efforts, as well as measures that would also support a solid and more resilient economic recovery.

2. **There are unprecedented conditions created by the global COVID-19 pandemic for country authorities.** Aside from the health response, the Mexican authorities have launched an initial set of monetary, financial, fiscal, economic and social measures in recent weeks. Box 1 presents a list of the measures taken so far. However, more government support is likely to be needed, and the authorities have highlighted that additional economic and social measures are being considered to respond to the evolving conditions. The measures supported under this operation are part of that initial response in the context of the short-term relief needed and the recovery stages. As part of the Bank's support, the proposed operation will be followed by another DPF, under preparation, to support economic and social response measures. Both operations are accompanied by policy dialogue and engagement across sectors. Moreover, this operation supports upstream policies that would make the support of IFC more effective to commercial banks and Fintechs, in response to the challenges brought by the COVID-19 pandemic.

3. **In the short-term context of the COVID-19 global pandemic, access to liquidity and finance play a critical role in mitigating the impact on firms and households.** Firms will require significant liquidity support through the financial sector, particularly during the early relief stages of this new economic environment. This DPF supports actions taken by the authorities to strengthen liquidity in the financial system to encourage lending to firms and households in the current context. Moreover, in times of "social distancing" micro, small and medium enterprises (MSMEs) and other firms will require further access to financial services and electronic means for making payments, receiving credit, and settling commercial transactions. In this context, digital finance would play a critical role. This DPF supports measures to enable a better operation of the digital finance ecosystem and electronic payments. This operation also supports policies needed to help in the construction of a robust and unique identification system that can help in the dispersion of social support transfers. This is important as a large number of citizens, mostly in vulnerable groups, either do not have an identification (ID), and thus could be out of the reach of social programs, or they face issues in terms of system robustness to obtain clean identity verifications, hampering their access to digital finance.

4. **For the recovery period, overcoming the challenge of limited financial access will be also central, particularly for the MSMEs that support more than 70 percent of employment.** It is difficult to foresee a solid and sustained recovery after the economic crisis triggered by the COVID-19 pandemic without the

oxygen of financial access and intermediation. In the context of Mexico, given the pre-existing shortcomings in access to finance to MSMEs and individuals, measures to support access to finance during the relief period, the recovery, and over the medium term are even more critical now than ever. A key argument of the Systematic Country Diagnostic (SCD) for Mexico is that limited access to finance has hampered private sector growth and household inclusion for decades in the country. Credit going to the private nonfinancial sector represents only 42 percent of GDP, well below the 143 percent average in emerging markets worldwide.[1] Furthermore, credit has not been reaching MSMEs in the proportions one would expect, even as they generate the lion share of employment and more than 50 percent of business income. The difference in borrowing costs between small and medium enterprises (SMEs) and large enterprises in Mexico is much higher than that in peer countries (6.4 percentage points versus 1.4 in OECD countries[2]), potentially increasing the costs of SMEs during the recovery. The financial access gaps as regards to gender, regional, and urban-rural, are also significantly larger in Mexico than those in LAC and OECD countries. Moreover, the financial sector is characterized by significant concentration: as of January 2020, the five largest banks accounted for 68 percent of assets.[3] The pre-existing issues blocking progress in access to finance would need to be tackled, otherwise even short-term liquidity measures to support the economy would be less effective and the recovery could be slowed. This DPF supports the authorities' efforts aimed at easing financial access for households and firms through measures that expand digital finance, bring more competition in the sector through the disruption of Fintechs, help bridge access gaps among groups of the population and MSMEs, and start solving (as part of a medium-term reform agenda) the lack of a unique identity system, which is a major obstacle to economic opportunities for a large group of the population.

Box 1: The authorities' initial economic response to the COVID-19 pandemic
(as of April 16, 2020)

Monetary/Financial:

- Banco de México reduced the monetary policy rate by 100 bp to 6.0 percent (during March and April, 2020).
- The foreign exchange commission announced an increase in the maximum amount of Non-Deliverable Forward Exchange program (NDF) from US$20bn to US$30bn.
- A temporary U.S. dollar liquidity arrangement (known as "swap line") from the U.S. Federal Reserve with Banco de Mexico for an amount of USD 60 billion was established. Banco de México will conduct US dollar auctions among credit institutions.
- Banco de México reduced by 50 billion pesos the amount of the Monetary Regulation Deposit held by commercial and development banks. Currently, the total Monetary Regulation Deposit amounts to approximately 320 billion pesos.
- Banco de Mexico reduced the cost of its Ordinary Additional Liquidity Facility that offers liquidity to commercial banks via secured credits or repos.
- The National Commission for Banking and Securities (CNBV) issued, on a temporary basis, special accounting criteria for the partial or total deferral of principal and/or interest payments for up to 4 months, with the possibility of extending it to an additional 2 months,

[1] Credit to private non-financial sector from all sectors, Bank of International Settlements (BIS) total credit statistics, as of Q2 2019. The weighted average for the other four largest economies in LAC includes Argentina, Brazil, Chile and Colombia. Emerging market economies comprise Argentina, Brazil, Chile, China, Colombia, the Czech Republic, Hong Kong SAR (China), Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand and Turkey.
[2] OECD Economic Survey of Mexico, 2019
[3] World Bank calculations with data from CNBV as of January 2020.

for consumer, housing and commercial credit, for customers whose source of payment is affected by the crisis. Only borrowers that were current in their payments as of February 28th are eligible.

- The National Insurance Commission allows temporary regulatory facilities so that the Insurance Institutions can extend the terms for the payment of premiums and include in their policies risks derived from the COVID-19.
- The Ministry of Finance is accelerating and ramping up its financial access agenda with focus on establishing instruments for improved access (payment system, Fintechs, unique ID system).

Fiscal/social:

- Budgetary resources were increased and released in advance for the Health sector to ensure that the Ministry of Health has sufficient resources and does not face red tape, in the purchase of medical supplies and equipment.
- The government made an advance payment for a 4-month period for the elderly pensions program (minimum pension program).
- A Health Emergency Fund is being set up to request additional resources from Congress, that could reach up to 180 billion pesos (0.7 percent of 2019 GDP).
- Procurement processes and payments to suppliers are being accelerated.
- Value added tax (VAT) refunds to the private sector will be accelerated.
- Resources from a large number of off-budget vehicles have been clawed back and these vehicles have been closed. These resources will be deployed to the budget.
- A significant number of additional medical personnel is being hired.
- Housing loans to formal workers from the National Housing Institute (Instituto del Fondo Nacional de la Vivienda para los Trabajadores – INFONAVIT) and the Housing Fund for Public Sector Employees (Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado – FOVISSSTE) are being increased.
- A new initiative on public-private investments will be launched for the energy sector.

Other economic:

- Development Banks will make available loans and guarantee facilities to support SME and the most affected sectors of the economy.
- Measures have been implemented to ensure business continuity of banking services.

5. **The macroeconomic policy framework is adequate despite the worsened economic conditions**. Economic activity halted in 2019, and in the context of the expected global fall in output in 2020 due to the COVID-19 impact, GDP would decline in Mexico. The current account deficit, which narrowed markedly during 2019, will remain small and continue to be financed by Foreign Direct Investment (FDI). Mexico has an independent Central Bank and a flexible exchange rate regime that has been the first line of defense against the external shocks experienced over the last months. Inflation converged toward the 3 percent target in 2019 and is likely to stay within the Central Bank's bounds of tolerance (2-4 percent) over the medium-term. The country still has monetary policy and balance-sheet space to respond in the context of the volatile global capital markets. The financial sector is well-capitalized, but it will require close monitoring of the authorities during the current economic downturn, including for liquidity support. Fiscal consolidation over the last years (2017-19) enabled Mexico to achieve public debt stabilization

ahead of most emerging economies and enables now some policy space to maneuver the fall in aggregate demand, which has a negative impact on revenue collection.

6. **Progress towards poverty reduction has been moderate.** The official poverty rate fell from 46.1 to 41.9 percent of the population between 2010-18 due to increased labor income and a reduction in social deprivations. Monetary poverty amounted to 23 percent in 2018 using the upper middle-income poverty line (US$5.5 a day, 2011 purchasing power parity (PPPs)). Although economic growth in the past has been relatively pro-poor, growth rates have been low and the impact on poverty has thus been much slower than in peer countries. While the majority of the poor live in urban areas (68 percent), there is a higher incidence of poverty and extreme poverty in rural areas; and 69 percent of the extreme poor live in only six of Mexico's thirty-two states (located in the southern part of the country). After a decline between 2010-14, the annualized growth rate of the median per capita income[4] reached 1.8 percent in 2016–18, still well-below the regional average.[5] Mexico's median per capita income in 2018 was US$3,295 (in 2011 PPP terms) equivalent to US$1,990 in nominal U.S. dollars. The expected drop in economic activity during 2020 will have a negative impact on the median income through the labor income effect as well as on poverty rates.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

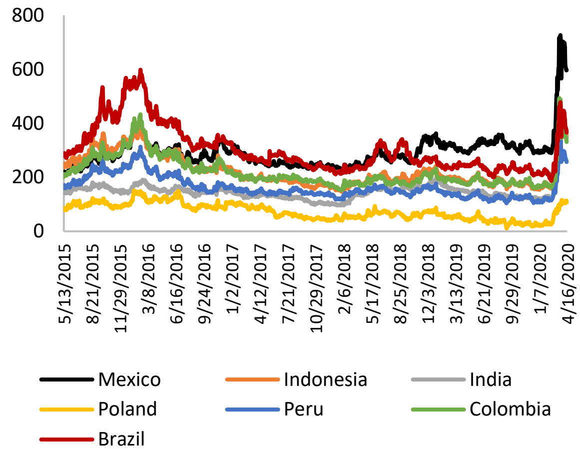
7. **Economic growth halted in 2019 and is expected to drop significantly in the second quarter of 2020 as the global recession unfolds due to the COVID-19 pandemic.** The expansion of economic activity at a moderate annual rate of 2.1 percent during 2017-8, turned into a marginal contraction of -0.1 percent in 2019. Private consumption growth dipped, whereas a change in public sector priorities and programs led to a slowdown of government consumption and a fall of public investment. A degree of uncertainty around the trajectory of some of the new administration's sectoral policies, particularly in the energy sector, slowed investment further, which had been weak since 2016. On the supply side, the decline in hydrocarbon production in the first three quarters of 2019 placed a drag on growth, even as the slide in production under way since its 2004 peak was arrested in the last quarter of 2019. The agriculture sector continued its activity at a solid pace, while industry experienced a decline of -1.8 percent, owing to the uncertainties on the United States-Mexico-Canada Agreement **(**USMCA) negotiations last year.

8. **With a marginal import compression and on the back of strong remittances growth, the current account deficit narrowed significantly in 2019.** The current account deficit continued to be fully financed by foreign direct investment, which in 2019 remained close to (albeit below) past years' levels. International reserves remained robust, at US$180.7 billion by end December 2019, and are sufficient to cover 4.2 months of imports and 291 percent of short-term external debt. At the end of 2019 the country also renewed a Flexible Credit Line (FCL) with the IMF for about US$61 billion.

[4] The median is the 50th percentile of per capita household income, which implies that half the population is above the median, and half is below the median.
[5] The average growth of the median per capita income for 13 LAC countries was 2.6 percent.

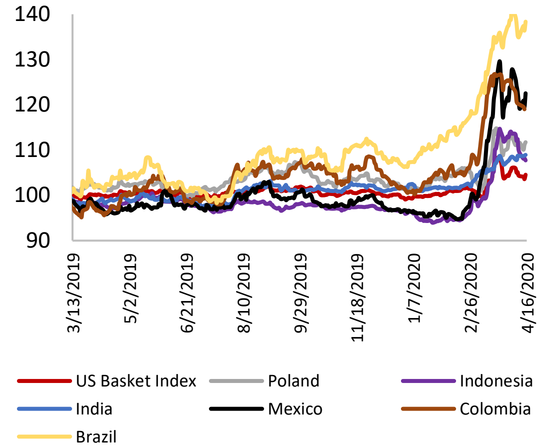
9. **Mexico has a flexible exchange rate regime that has been the first line of defense against external shocks**. In the last months, the peso was hard hit by the shocks and volatility experienced by capital markets, which prompted a rapid depreciation of the peso against the US dollar (Figure 2). This has taken place as non-resident holders of domestic currency securities, investors hedging positions with Mexican peso, and other investors have been unwinding their positions to seek dollar liquidity. In the context of the COVID-19 economic fallout, emerging market bond index (EMBI) spreads for Mexico also soared together with that of other emerging markets (EMs) (Figure 1). The Central Bank enabled a swap program with the U.S. Federal reserve for US$60 billion, together with the Ministry of Finance provided swap facilities to market participants and enabled more liquidity for the financial sector (see box 1 on the initial response from the authorities).

Figure 1. Emerging market bond index global spreads



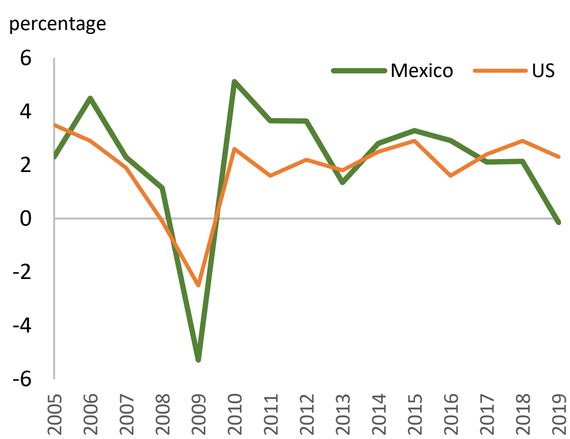
Source: Bloomberg.

Figure 2. Exchange rate indices (1/1/2019=100)



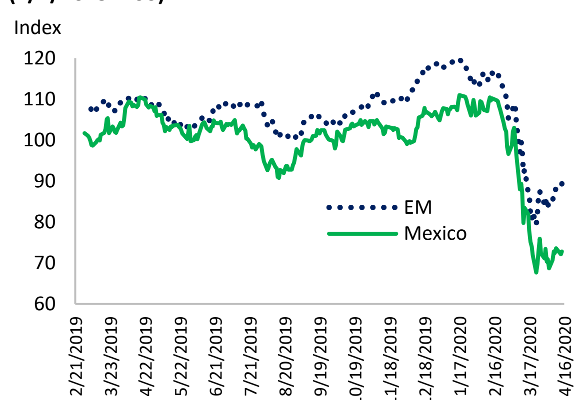
Source: Banxico.

Figure 3. Mexico and US growth rate



Source: Banxico and FRED St. Louis.FED

Figure 4. Mexico and EM capital flow index (1/1/2019=100)



Source: Bloomberg.

10. **Inflation pressures remained subdued.** Even with the significant minimum wage increase enacted at the beginning of the year, inflation converged to the Central Bank's 3.0 percent target by late-2019. Headline inflation moderated through 2018 and into 2019, as the base effect of the spike in energy prices from 2017 faded from the annualized data. With price growth slowing, and in the context of policy easing measures in the U.S. and Europe, the Central Bank reduced the policy rate from 8.25 percent to 6.0 percent between August 2019 and April 2020.

11. **The financial sector is entering the economic fallout of the COVID-19 pandemic crisis well capitalized.** Growth of bank credit to the non-financial private sector moderated in 2019, reaching a real annual rate just below 5 percent. Credit expansion was driven by corporate sector and mortgage lending, while consumer lending contracted in real terms. The banking system has a strong return on equity (15.8 percent as of September 2019) and is well capitalized (with a capital adequacy ratio of 15.6 percent).[6] The sector is characterized by significant concentration: the five largest banks account for 68 percent of assets.[7] At 2.2 percent, nonperforming loans are relatively low and have been stable around that level since 2016. However, the impact of the global economic recession in 2020 will likely put pressure on the banks' balance sheets that will need to be closely monitored by regulators even as liquidity is made available to the system.

12. **Fiscal consolidation between 2017-19 enabled public debt stabilization.** Mexico led emerging markets in stabilizing public debt as a share of GDP (44.9 percent on net terms as reported by the authorities or 53.6 percent in gross terms). Expenditure rationalization measures applied throughout 2019 plus the use of resources from its revenue stabilization fund, broadly enabled the authorities to compensate for lower than expected revenue collection during 2019. In this context, the Public-Sector Borrowing Requirements (PSBR) ended up at 2.3 percent of GDP with a primary fiscal surplus of the non-financial public sector at just above 1 percent of GDP. Amid worsening economic conditions and dragged by the vulnerabilities of PEMEX (see below), the sovereign was hit with rating downgrades and/or negative outlooks, but Mexican public debt remains investment grade.

13. **Markets have been closely following the implementation of measures to remedy the weak short and medium-term financial position of the state oil company PEMEX.** They included a lower transfer obligation and tax burden on the company vis a vis the federal budget, as well as the reprofiling of its debt obligations, to enable better cash flows. Still, PEMEX recorded losses of US$ 17.5 bn in 2019. The Mexican-Mix oil price declined to an average of US$55.6/barrel in 2019 and the annual volume of crude oil production by PEMEX dropped by 7.7 percent, even as production was finally stabilized in the last quarter of 2019 after many years of constant decline. More recently, the Mexican-Mix oil price declined drastically to US$13/barrel by end March 2020 amid the global oil production tensions. To further complicate the company's situation, on April 17, 2020 Moody's downgraded PEMEX debt to below investment grade, following the move of Fitch ratings last summer. This will further complicate future access to markets for the company in reasonable terms. All PEMEX debt was reprofiled in the fall of 2019 (with an extended maturity and minimum payments in the short term). PEMEX debt is part of the public debt figures reported for the public sector (Tables 1 and 2).

[6] Bank of Mexico and National Banking and Securities Commission (CNBV).
[7] As of January 2020.

14. **Despite the economic stagnation, both labor income growth and job creation increased in 2019 and monetary poverty likely continued to decline.** Labor incomes grew by 5.9 percent in real terms supported by an increase in minimum wages. The labor force expanded by 2.9 percent with 1.49 million jobs created, up from the 1.33 million jobs created the previous year. Most job growth took place in commerce, while there were job losses in construction, financial services and the extractive industries.

Table 1: Mexico Key Macroeconomic Indicators, 2016-2022

					Projected		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Real sector	Annual percentage change, unless otherwise indicated						
Real GDP	2.9	2.1	2.1	-0.1	-6.0	2.5	2.5
Contributions:							
Consumption	2.8	2.2	1.7	0.2	-4.3	1.2	1.6
Investment	0.2	–0.3	0.3	-1.0	-2.2	0.5	0.6
Net exports	0.3	–0.3	0.0	0.8	0.6	0.9	0.3
Unemployment rate	4.7	4.0	4.0	4.2	..	..	..
GDP deflator	5.4	6.8	5.3	3.5	3.1	4.1	3.5
CPI (end-of-period)	3.4	6.8	4.8	2.8	4.0	4.0	3.8
Fiscal accounts	Percent of GDP, unless otherwise indicated						
Revenues	24.1	22.6	21.8	22.2	21.1	20.6	20.5
Expenditures	26.9	23.7	23.9	24.6	25.6	24.6	24.2
Fiscal balance	–2.8	–1.1	–2.2	–2.3	–4.5	–4.0	–3.7
Net public debt	48.7	45.8	44.9	44.9	54.0	54.2	54.2
Gross public debt	56.8	54.0	53.7	53.6	61.2	61.4	61.4
Monetary accounts	Annual percentage change, unless otherwise indicated						
Base money	15.5	10.2	5.8	4.9	4.6	4.8	5.2
Policy interest rate	5.75	7.25	8.25	7.25	..	..	..
External sector	Percent of GDP, unless otherwise indicated						
Current account balance	-2.2	-1.7	-1.7	-0.2	-0.7	-0.7	-0.7
Imports (% change, real)	2.8	6.4	5.9	-1.1	-14.0	1.3	2.6
Exports (% change, real)	3.6	4.2	5.9	1.1	-12.3	3.7	3.4
Foreign direct investment	2.8	2.6	2.2	1.8	1.1	1.8	2.0
Gross reserves (US$ billion)	178.1	175.5	176.1	184.2	175.1	173.2	174.3
In months of imports	5.1	4.6	4.2	4.5	5.2	5.0	4.8
% of short-term ext. debt	331	334.9	288.2	329.1	364.8	338.3	320.7
Terms of trade (% change)	–0.2	1.3	0.4	2.3	--2.7	0.3	-1.0
Exchange rate MXN/US$)	18.66	18.93	19.24	18.86	..	..	..

Table 2: Mexico: Key Fiscal Indicators for the Public Sector, 2016-2022 (% of GDP)

	2016	2017	2018	2019	Proj. 2020	2021	2022
Revenue	**24.1**	**22.6**	**21.8**	**22.2**	**21.1**	**20.6**	**20.7**
Federal Government	17.8	17.5	16.5	16.5	16.0	15.4	15.4
Tax revenue	13.5	13.0	13.0	13.2	12.9	12.9	12.9
Nontax revenue	4.3	4.5	3.4	3.3	3.1	2.5	2.5
Oil	1.5	2.0	2.3	1.8	0.9	1.0	1.1
Revenue Stabilization Fund/oil hedge*	0.3	0.0	0.0	0.5	1.4	0.0	0.0
Other	2.5	2.5	1.1	1.0	0.7	1.5	1.4
Public enterprises	6.3	5.1	5.3	5.7	5.1	5.3	5.3
PEMEX	2.4	1.8	1.9	2.2	1.5	1.7	1.7
Other	3.9	3.3	3.4	3.5	3.7	3.5	3.5
Expenditure	**26.9**	**23.6**	**23.9**	**24.6**	**25.7**	**24.7**	**24.4**
Programmable	20.7	17.6	17.3	17.4	17.7	17.3	17.2
Current	14.8	14.0	14.2	14.4	14.8	14.4	14.3
Wages	5.5	5.2	5.2	5.0	5.0	4.9	4.9
Pensions	3.2	3.2	3.4	3.6	4.0	3.9	3.9
Subsidies and transfers	3.6	3.1	2.9	3.2	3.2	3.2	3.2
Other operating expenses	2.5	2.5	2.7	2.6	2.5	2.4	2.3
Capital	5.9	3.6	3.1	3.0	2.9	2.9	2.9
Physical capital	3.6	2.6	2.6	2.3	2.6	2.6	2.6
Financial capital	2.3	1.0	0.4	0.7	0.4	0.3	0.3
Nonprogrammable	5.9	6.0	6.5	6.4	6.8	6.8	6.8
Revenue sharing	3.4	3.5	3.6	3.6	3.7	3.7	3.7
Interest payments	2.4	2.4	2.6	2.7	3.0	3.0	3.0
Other	0.1	0.1	0.3	0.1	0.1	0.1	0.1
Adjustments to the budgetary balance	0.3	0.0	0.1	0.7	1.1	0.5	0.4
Overall Fiscal Balance (PSBR)	**-2.8**	**-1.1**	**-2.2**	**-2.3**	**-4.5**	**-4.0**	**-3.7**
Primary Budgetary Balance	-0.2	1.3	0.5	1.1	-0.4	-0.6	-0.3
Financing needs	**13.6**	**7.5**	**7.8**	**10.1**	**11.8**	**11.7**	**11.7**
Overall fiscal balance (PSBR)	2.8	1.1	2.2	2.3	4.5	4.0	3.7
Amortizations	10.8	6.4	5.6	7.8	7.3	7.7	8.0
Net public debt	48.7	45.8	44.9	44.9	54.0	54.2	54.2
Gross public debt**	56.8	54.0	53.7	53.6	61.2	61.4	61.4

*includes the payout of oil price hedge acquired by MoF.
**includes the use of cash balances of non-financial public sector entities and trust funds. Different levels of use would change gross debt.

Table 3: Balance of Payments Financing Requirements and Sources, 2016-2022 (US$ billion)

	2016	2017	2018	2019	2020	2021	2022
Financing requirements	**153.3**	**109.5**	**108.4**	**110.4**	**94.6**	**94.9**	**104.1**
Current account deficit	24.0	20.2	23.0	2.4	7.0	7.0	8.8
External debt amortization	129.4	91.9	84.9	99.9	96.8	89.8	94.2
Medium and long term	59.1	38.1	32.4	38.8	40.8	41.8	43.0
Short term	70.3	53.8	52.4	61.1	56.0	48.0	51.2
Gross reserve accumulation	-0.1	-2.6	0.6	8.1	-9.1	-1.9	1.0
Financing sources	**153.3**	**109.5**	**108.4**	**110.4**	**94.6**	**94.9**	**104.1**
FDI (net)	30.0	29.8	27.0	22.7	12.0	20.0	24.0
External debt disbursements	114.6	111.7	98.6	115.0	98.7	105.3	111.7
M/L term	60.8	59.3	37.5	59.1	50.7	54.1	57.4
Short term	53.8	52.4	61.1	56.0	48.0	51.2	54.3
Other capital flows (net)	8.7	-32.0	-17.2	-27.3	-16.1	-30.3	-31.6

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

15. **A significant contraction of the economy is expected for 2020 as a result of the COVID-19 global pandemic economic fallout.** A global recession (including a drop in output in the U.S.,- Mexico's main trading partner), disruptions in supply chains globally and domestically, domestic measures to flatten the contagion curve, financial disruptions and investment risk aversion, among other, are likely to take heavy toll on the Mexican firms and households. Through the trade, finance, and commodity prices (mainly oil) channels, coupled with massive uncertainty, it is expected that the key components of aggregate demand will experience significant declines. Slower exports will only be mitigated in 2020 by an even sharper import compression. In the current context, it is hard to forecast a point estimate (even as one is presented in Table 1 to anchor estimates), but growth is projected to contract within a range of between -5 and -7 percent in 2020. Moreover, there is still a lot of uncertainty on the course and duration of the pandemic and its impacts.

16. **A recovery in 2021 and 2022 in Mexico is predicated on the assumption of a rapid rebound in the U.S. economy.** Against this backdrop, the ratification of the USMCA and more openness from the authorities toward private sector involvement in infrastructure would enable a boost in domestic demand. If not lifted, some residual sectoral policy uncertainty, particularly in the energy sector, as well as negative perceptions of the domestic security situation, may hold the economy back from achieving higher potential growth rates over the medium term.

17. **The current account deficit is expected to widen modestly in 2020.** Declining external demand and a slowdown in remittances growth, as the U.S. enters into a recession, will only be partially offset by a compression of imports. FDI will slow significantly but would still be enough to cover the moderate current account deficit (CAD). The ratification of the USMCA should ease uncertainties which limited export and FDI performance in 2019 and be another engine to support the recovery into 2021. Volatility in financial markets over the next 12 months may tighten external finance, even as the forex reserves level would remain strong.

18. **Inflationary pressures are expected to remain within the Central Bank's 2-4 percent band of tolerance over the medium term.** Even with a temporary increase in prices in 2020 due the pass-through effect of the exchange rate depreciation and supply side considerations, the widening output gap will eventually curb price increase pressures. Moreover, continued vigilance by the Central Bank, which underpins the institution's long-established credibility in maintaining price stability, is expected to keep inflation within the 2-4 percent tolerance band. The monetary policy trajectory in the U.S. (and Europe), as well as the level of risk aversion to EMs, including Mexico, is likely to determine the extent of exchange rate overshooting and the space for further monetary easing during 2020.

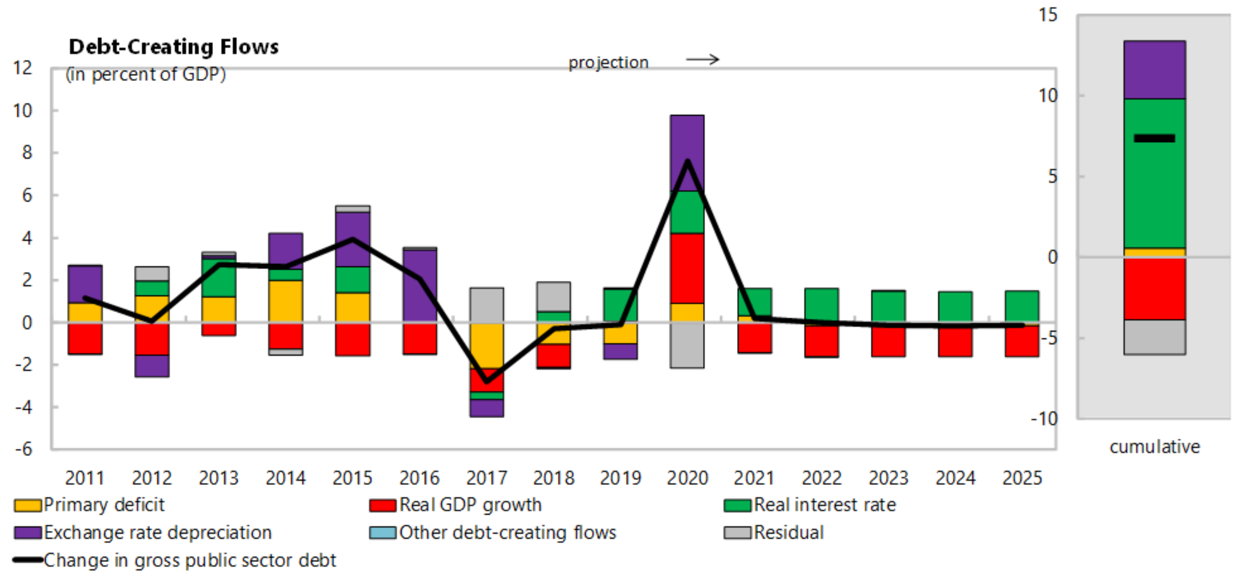
19. **Adherence to overall fiscal prudence is expected to continue, even though a deterioration of revenue performance can be expected in 2020.** The administration presented its 2020 budget with a primary surplus. However, net revenues are expected to decline compared to 2019 in line with the output decline (even after accounting for the utilization of the resources from the revenue stabilization fund and the receipt of the payments of oil hedge contracted by the authorities). In these circumstances, the automatic stabilizers on the revenue side will operate, while a marginal increase as percent of GDP on the spending side is expected. Overall, a re-prioritization of spending would take place, away from wages and

financial capital transfers, and toward health needs and social assistance to vulnerable groups. At the same time, priority would be given to infrastructure with short completion cycles (except for the flagship projects of the administration that will continue). State development banks have strong balance sheets and will support liquidity and credit to SMEs and firms in the most affected sectors. PEMEX is expected to receive further relief from its tax and transfer obligations as oil prices for the Mexican mix continue to be low and production costs in some areas exceed market/export prices of crude. But clearly the state oil company would require a strong package of measures to reduce its losses and reduce its vulnerabilities, including to avoid further negative effects on the sovereign. The medium term, and particularly 2021-22, will be challenging. With a negative output gap widening, eroding fiscal buffers, and growing spending pressures—including the need for higher infrastructure investment to support growth— further fiscal space will be needed. This space may need to come from a tax reform.

20. **Public debt is expected to have a one-off increase due to the larger overall deficit in 2020 and the exchange rate depreciation effect on external debt, but it would stabilize again after that.** Public debt is expected to reach about 54 percent of GDP (in net terms, as reported by the authorities) or 61 percent of GDP in gross term in 2020, before stabilizing and beginning a gradual decline over the medium term. Public gross financing needs would jump from 7.8 percent of GDP in 2018 to 11.8 percent of GDP in 2020 before declining to around 10 percent of GDP over the medium-term.

21. **Stress test scenarios suggest that public debt sustainability is relatively resilient to a range of different shocks.** Since more than two thirds of public debt is denominated in local currency, and the sovereign benefits from a long maturity structure[8], rollover and foreign exchange risks to the debt trajectory are relatively moderate.

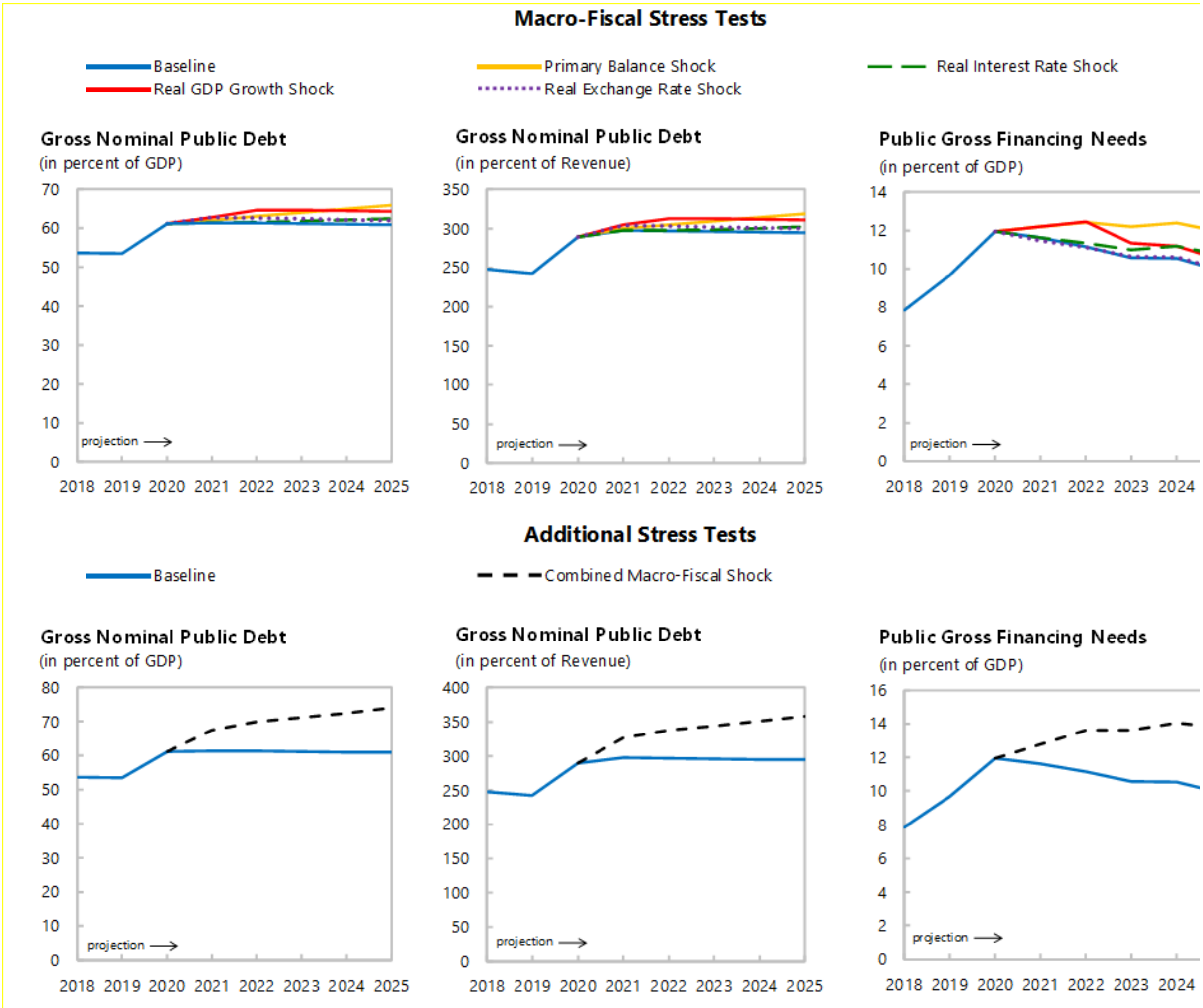
Figure 5: Mexico Debt Sustainability Analysis Debt-Creating Flows (in percent of GDP)



Source: World Bank staff estimations

[8] The federal government debt denominated in pesos has an average maturity of about 8 years. The average maturity of FX bonds is 20.7 years.

Figure 6: Mexico Debt Sustainability Analysis Stress Test



Source: World Bank staff estimations

22. **Mexico faces significant external and domestic risks.** Triggered by the COVID-19 pandemic, the global economic landscape has deteriorated drastically, and it is still evolving. There is a high degree of uncertainty as to the duration of the pandemic in different countries, including in Mexico, and to its economic, social, and health ramifications in each economy. On the health side, limited public health supplies globally and domestically and capacity constraints could translate into a longer period of social distancing policies needed and increases in out-of-pocket health expenditures for COVID19-affected households, forcing them to reduce expenditures on food or to sell assets, with long-lasting negative impacts. On the economic front, there is uncertainty about when the transmission channels of the crisis, e.g., trade, finance, commodity prices (oil chiefly in the case of Mexico) would start to normalize globally, having significant impact on the shape of the recovery. Domestically, the vulnerabilities represented by PEMEX will be heightened and further measures to enable financial soundness and sustainability in the state company will be needed. The impact of the economic crisis on employment and labor incomes,

formal and especially informal, could further undermine the economy through even lower consumption and could hamper the recovery. In this context, measures to support liquidity in the system and that of MSMEs are critical. Moreover, measures to support poor and vulnerable households as well as workers in the formal and informal sectors will require significant resources. The authorities will have to maneuver the short-term fiscal impulse needed with a prudent fiscal framework over the medium term. Looking toward 2021, the recovery expected may be slowed if some residual sectoral policy uncertainty as regards to private investment (including in the energy sector) is not lifted.

23. **There are also important mitigation factors.** The flexible exchange rate will continue to be the first line of defense against external shocks. Moreover, the independent Central Bank of Mexico still has monetary policy and balance-sheet space to respond in the context of the volatile global capital markets. The financial sector is entering the crisis well-capitalized, but it will require close monitoring of the authorities during the current economic downturn, including for liquidity support. Mexico has a strong track record of responsible fiscal policy, which has been maintained and further emphasized under the current administration.

24. **The macroeconomic policy framework is adequate and public debt is sustainable despite the deterioration of global and domestic economic conditions.**

2.3 IMF RELATIONS

25. **On November 4, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mexico and on November 22, 2019, approved a two-year precautionary FCL arrangement.** The IMF Board commended the authorities for the continued maintenance of a strong policy framework, which contributed to the resilience of the Mexican economy in the face of elevated uncertainty. The review welcomed the authorities' resolve to maintain fiscal discipline, though stressed that more ambitious fiscal targets are necessary to put the public debt ratio on a downward path and underscored the need to increase non-oil tax revenue. Subsequently, on November 22, 2019 the Executive Board of the IMF approved a two-year precautionary FCL arrangement for SDR 44.6 billion (about US$61 billion). This is a successor arrangement to the 2017 FCL to an initial amount equivalent to SDR 62.4 billion (about US$88 billion) that was reduced in November 2018 to SDR 53.5 billion (about US$74 billion) with a subsequent reduction in the current arrangement at the request of the Mexican authorities. The IMF and WB maintain close collaboration on macroeconomic and structural issues, which has been further intensified.

3. GOVERNMENT PROGRAM

26. **Aside from the health response to the COVID-19 crisis, the Mexican authorities have launched an initial set of monetary, financial, fiscal, economic and social support measures**. Box 1 (in Section 1 of this Program Document) presents a list of the measures taken as of April 16, 2020. It is expected that there will be several waves of measures to respond to the evolving economic and social consequences in the following weeks/months.

27. **The initial economic response of the authorities is geared to enable liquidity in the financial system, protect poorer households, and (an initial) support to SMEs and the informal sector**. The Central

Bank had a quick response with a number of instruments that included lowering the policy rate, establishing a swap-line with the U.S. Federal Reserve, and enabling more liquidity in the system through lower reserve requirements and lower rates to access its liquidity facility (Box 1). The 2019-2024 National Development Plan (NDP) and the specific sectoral plans that implement it, had already proposed a reorientation of public spending toward new and expanded social programs. The government announced that social programs have now been further enlarged to protect the poorer households from the crisis. The fiscal authorities have mandated a more rapid Value Added Tax (VAT) refund to firms and a faster timetable of payments to government suppliers (including advanced payments). The authorities are also prioritizing their limited capital spending to on-going (initiated) infrastructure projects and short-cycle completion projects, in order to enable a faster use of resources and higher fiscal multipliers. The state development banks, and the government are currently developing lending facilities for firms, with a focus on SMEs (formal and informal) and firms in the most affected sectors.

28. Financial access is a top priority for the government, which has been further emphasized as part of the response to the COVID-19 economic fallout and the economic relief and recovery efforts. Urgency is being placed in establishing instruments for improved financial access. In times of "social distancing" MSMEs and other firms will require further access to financial services and electronic means for making payments, receiving credit, and settling commercial transactions. In this context, digital finance would play a critical role. At the same time, the authorities highlight that it is difficult to foresee a solid recovery after the economic crisis without the oxygen of financial access and intermediation across the economy. Given the pre-existing shortcomings in access to finance to MSMEs and individuals in Mexico, measures to support access to finance during the relief period, the recovery, and over the medium term are even more critical than ever. Consequently, the authorities have launched, are accelerating, and ramping up a new and ambitious financial inclusion policy (Box 2).

Box 2. Mexico's New and Accelerated National Financial Inclusion Policy

Mexico lags behind in terms of financial inclusion. Only 37 percent of adults has an account and just 32 percent has made or received digital payments - both significantly below countries with a similar level of development (Findex 2017). Faster progress in access to traditional financial services, coupled with new innovative approaches leveraging technology, represent a great opportunity to attend the needs of this crisis and enable a faster and sustained recovery. In this context, the Mexican authorities launched the 2020-2024 National Financial Inclusion Policy (PNIF) (on March 2020) that delineates the objectives and actions to increase financial inclusion. The PNIF comprises six objectives: (1) to facilitate access to financial products and services for people and micro, small and medium-sized companies; (2) to increase digital payments among the population, businesses, and government; (3) to strengthen infrastructure to facilitate access and provision of financial products and services and reduce information asymmetries; (4) to increase the economic-financial skills of the population; (5) to strengthen access to information tools and financial consumer protection mechanisms; and (6) to favor the financial inclusion of people in vulnerable situations, such as women, migrants, older adults, indigenous people and the rural population. This DPF supports specific reforms aligned to four of the six objectives of the PNIF.

By the end of 2024, among other goals, it is expected that 77 percent of the adult population will have at least one financial product, more than 90 percent of the municipalities will have at least one financial access point (including agents).

29. **But much more economic support is likely to be needed, and the authorities have highlighted that additional measures are being developed as the situation evolves**.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

30. **The Program Development Objective (PDO) is to contribute to the government's efforts to: (i) support liquidity in the financial sector; and (ii) establish instruments for improved financial access.** Insufficient financial inclusion and lack of access to credit are some of the factors contributing to low growth and limited poverty reduction in Mexico, as highlighted by the SCD and the government's own assessment. In the context of the economic and social fallout of the COVID-19 pandemic, the program supported by this operation is as critical today and it was before, but even more urgent. The role of access to finance and a fluid intermediation of resources have become even more pressing in the context of the COVID-19 crisis, mitigating the impact on the real economy and households. Providing short time and sustained credit to firms and making social transfers to poor households or workers require efficient financial services networks including remote digital payment systems. Measures to enable digital technology solutions, bridge access gaps among groups of the population and MSMEs, and ease financial intermediation, are central to this operation.

31. **Under COVID-19, the Mexican financial system faces important challenges for the banking system to channel resources in the most efficient way possible.** Authorities are responding to a fast-moving and extraordinary situation creating liquidity buffers. In this context, this operation's pillar 1 supports measures to enable banks' access to liquidity facilities and the reduction of the monetary regulation deposit requirements to free up resources for banks to increase their liquidity.

32. **Furthermore, the National Financial Inclusion Policy (PNIF), recently launched, frames specific policies supported by this operation, which are important for the short-term relief phase and critical for a solid recovery**. Pillar 2 of the proposed operation focuses on: (i) enabling the youth (aged 15-17, many of which work) to obtain access to a bank account; (ii) implementing Fintech sector regulation on transparency consumer protection; (iii) facilitating electronic payments for merchants and individuals; (iv) promoting women's access to financial services by prioritizing women's targeted access to finance programs and ensuring gender parity in state development banks' corporate governance; (v) mandating financial education to be at the core of children and youth's education; (vi) implementing a National Personal Identification System that will allow for an effective verification of identity by third parties, including financial institutions for secure and reliable access; and (vii) supporting the foundations for more efficient registration and identity systems through coordination with the civil registries around the country. While some of the policy and institutional changes supported are country-specific, several angles of the reform program supported can also bring knowledge and lessons that can be used in other countries and regions.

33. **In addition to the reforms proposed in this operation, the financial sector can play an important role in the immediate term in mitigating the COVID-19 impact on the real economy**. In order to support MSMEs and individuals who face difficulties in paying their existing loans during the COVID-19 crisis, the Mexican government (through CNBV), announced a temporary and time-bound measure to defer loan

principle and interest payments for up to 6 months (see Box 1). The temporary special accounting criteria apply to consumer, corporate and mortgage loans that were current in their payments as of February 28th, 2020. With special accounting criteria, financial institutions will continue to classify the loans as current for up to six months even without payment and will not report the payment deferral as late payment to the credit reporting systems. This measure could help avoid a wave of defaults in the short term and can offer immediate relief to the real sector and additional time to banks and borrowers, but it should be cautiously implemented. In particular, it should be time-bound (as it is in this particular case of Mexico), maintaining the net present value of the loans, under strong and clear risk management assessments and closely monitored, as to avoid any moral hazard practices, financial disclosure veracity problems and other unintended consequences. It is also critical that entities affected by the moratoria have access to liquidity, if needed. Supervisors should closely monitor the implementation of this measure and this is the commitment of the CNBV.

34. Moreover, to provide US dollar liquidity to banks, Banco de México, by instruction of its foreign exchange commission[9], initiated credit auctions in dollars in the interbank market. This facility is financed by the temporary mechanism of exchange of currencies (known as the "swap line") established between Banco de Mexico and the U.S. Federal Reserve in the amount of US$60 billion dollars. Under the agreement, the U.S. Federal Reserve exchanges dollars for a corresponding equal amount of Mexican Peso, which facilitates financing to private sector participants who face pressures in obtaining dollar funding. The first auction of credit in dollars was conducted on April 1, 2020 where the full US$5 billion offered with a maturity of 84 days were placed with a weighted interest rate of 0.9056 percent. The second auction took place on April 6, 2020 and placed US$1,6 billion. Authorities will continue evaluating the operations of the exchange market and take additional actions, as necessary.

35. The design of this DPF considers lessons learned from prior engagements through DPFs in Mexico. Mexico is an upper MIC with well-established institutions which, given its political and economic context, has adopted and implemented financial sector reforms in waves. A stand-alone DPF provides the needed flexibility for capturing key structural reforms in a complex country context. DPFs should also be accompanied by a broader program of technical and analytical tools to support implementation of the wider reform agenda and respond to the country's needs and demands. The World Bank Group (WBG) has actively supported the authorities' comprehensive financial inclusion agenda through ongoing dialogue and operational engagements. The Bank has been working with the authorities on technical assistance through the Financial Inclusion Global Initiative (FIGI) which has helped expand the dialogue in the area of financial inclusion and has created opportunities to support critical policy reforms of the authorities. Moreover, this operation follows the Financial Inclusion DPF (P167674) approved by the World Bank Board in June 2019 and an Expanding Rural Finance Investment Project Financing (IPF)(P153338/P169156). It also complements the Mexico National Digital Identity System IPF (P172647) currently under preparation. And, in the context of the COVID-19 crisis, there is a parallel DPF under preparation that would support economic, financial, and social measures in response to the economic impacts.

[9] Banco de Mexico Foreign Exchange Commission is the body in charge of foreign exchange policy in the country and is comprised by the Secretary and the Undersecretary of Finance and Public Credit, another Undersecretary of said agency, the Governor of Banco de México and two members of the Governing Board of Banco de Mexico.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1 - Supporting liquidity in the financial sector

Prior Action #1: The Borrower's Central Bank has increased banks' liquidity by reducing the monetary regulation deposit, as evidenced by Circular 7/2020 published in the Official Gazette on April 1, 2020.

36. ***Rationale:*** Global financial markets are experiencing increased volatility due to the uncertain effects of COVID-19 on economic activity. Cash flow disruptions of affected firms and shifts in demand for cash by the public could tighten funding and liquidity conditions for banks and, subsequently, lending to firms and households. The fixed income and foreign exchange markets in Mexico have exhibited adjustments and reduced liquidity. In this regard, added liquidity in the financial sector helps significantly in stabilizing volatility and encouraging lending. The Central Bank of Mexico requires commercial and development banks to keep a long-term deposit at the Central Bank – the Monetary Regulation Deposits (DRM). In general, the DRMs do not have a maturity date and thus cannot be withdrawn by the financial institutions. The DRMs pay an interest rate to financial institutions. While the DRM is a similar instrument to the legal deposit requirement established by other central banks, the DRM is not directly adjusted with changes in liabilities. Instead, the Central Bank fixes the total amount of DRM based on the liquidity it wants to withdraw from the market and is prorated by bank based on its liabilities (for example, total bank deposits).

37. ***Substance of the prior action.*** Banco de Mexico's Circular 7/2020 modifies Circular 9/2014 on Monetary Regulation Deposits to support banks' lending operations by reducing the total amount of Monetary Regulation Deposits. The measure, which was adopted in early April, frees resources for banks to increase their liquidity. On September 7, 2020, banks will have to submit a report to the Central Bank describing how these resources were employed and detailing in particular the balance of credit provided to the private sector between April and August 2020. The measure is time-bound, the Circular also states that in November 2020, the Central Bank will adjust the DRM to the original level.

Prior Action #2: The Borrower's Central Bank has further enabled banks' access to liquidity facilities by reducing the cost of its ordinary additional liquidity facility, as evidenced by Circular 4/2020 published in the Official Gazette on April 1, 2020.

38. ***Rationale.*** The COVID-19 crisis poses several challenges for the Mexican financial system. The most salient challenges according to the Mexican Financial Stability Committee include, among others: (i) maintaining the flow of credit that firms and individuals need; (ii) maintaining adequate liquidity conditions; and (iii) enabling financial institutions to manage their market and credit risks. To support relief to the economy and in the context of its recovery, it is necessary to ensure that the financial sector can obtain liquidity at an adequate cost to enable its operations with firms and households. The Central Bank provides liquidity to commercial banks through the Ordinary Additional Liquidity Facility since 2008 via secured credits or repos with a cost of 2 to 2.2 times Banco de Mexico's target for the overnight interbank interest rate.

39. ***Substance of the prior action.*** Banco de Mexico has reduced the cost of the Ordinary Additional Liquidity Facility in order to strengthen the financing alternatives of commercial banks so they can have the necessary liquidity to adequately perform their operations. As of early April of 2020, the cost of the referred credits and repos has been lowered from 2.2 to 1.1 times Banco de Mexico's target for the overnight interbank interest rate. In order to facilitate the application to these credits during the COVID-19 crisis, Banco de Mexico has also added an Electronic Service Module to receive applications.

40. ***Expected results.*** Together the main objective of these actions is to support short-term liquidity for the financial sector to encourage lending to the economy. The first measure will result in a 15 percent reduction of the stock of monetary regulation deposit. Moreover, Banks whose individual share of the total increase in credit to the private sector between April and August 2020 is below their share of DRM reduction received within their segment (development or commercial) will have to increase their DRM proportionately. In the medium term, Banco de Mexico will sterilize the monetary impact of these measures.

Pillar 2 – Enabling instruments for improved financial access

Prior Action #3: The Borrower has enacted the Reform to the Credit Institutions Law, published in the Borrower's Official Gazette on March 27, 2020, enabling minors between 15 and 17 years old, who are wage earners with an active payroll and/or receive social benefit programs to: (i) open bank saving accounts under their own name; and (ii) use and manage the underlying funds without requiring representation from an adult.

41. ***Rationale.*** Lack of access to finance, including access to transactional accounts, is one of the institutional constraints to productive inclusion in the labor market, especially among youth and women. In the context of the COVID-19 crisis, this is particularly critical for these vulnerable groups. In the short term, millions of young people are entitled to receive social program transfers, but this constraint can effectively limit their ability to receive them, including due to social distancing. For the recovery period, the youth (and their employment) can be a boost to the economy instead of being further excluded from economic activity. Under the previous legal framework, individuals under 18 years old in Mexico could not open accounts under their own name, but only with representation from their parents or legal guardian(s). Likewise, they could not use the funds (execute transactions) in those accounts unless authorized by their parent or guardian. There are almost 7 million people aged 15 to 17, legally part of the working age population, of which 1.4 million already have a paying formal job and were excluded from having an account at a formal financial institution to receive their salaries. The fact that parents or legal guardians were the legal owners and beneficiaries of those accounts limited the ability of employers to formally (i.e. through the formal financial system) pay young people in this age group (15-17), creating negative incentives for employers to hire young workers. Similarly, government agencies that operate social assistance programs encounter difficulties in channeling salaries/program benefits targeted at youth groups (such as scholarships and on-the-job training programs) through digital means—there are over 3.4 million youth eligible to receive a cash benefit under government programs.

42. ***Substance of the prior action.*** The reform allows people aged 15-17 years old to open and manage a bank account under their own name becoming the legal and beneficial owners of those accounts.[10] The legislation limits the functionality of the accounts explicitly establishing that only electronic transfers from

[10] The existing regulatory framework allows the bank supervisor (CNBV) to determine acceptable means of identification for the opening of accounts.

government social programs and wage payments from employers can be received in the account for minors (between 15 and 17 years old). Cash deposits or transfers from other sources will not be supported by these accounts. The regulation also explicitly forbids to obtain loans that would be collected via these accounts.[11] Financial education will be crucial in order to achieve the medium-term objectives portion of this reform.[12]

43. ***Expected results.*** This prior action is expected to lead to a significant share of youth (ages 15 to 17) being financially included for the first time by having a bank account under their own name, in times that accounts are critical to receive social payments and later, for youth, to be included in the economic recovery. The number of minors that open their own bank account is expected to increase from a baseline of zero in March 2020 to a target of 1,200,000 by December 2021. The share of female minors in this total number is expected to reach 50 percent by December 2021. Beyond the timeframe for the evaluation of the results of this DPF, over the medium term, this opportunity for youth to open accounts and enter the financial system is expected to contribute to greater access and more responsible use of financial products and services, and to a reduction of the overall financial access gender gap.[13]

Prior Action #4: The Borrower has issued regulations aimed at strengthening transparency practices applicable to ITFs, as evidenced by the Financial Services Consumer Protection Authority (CONDUSEF) general dispositions for Fintech institutions published in the Borrower's official Gazette on July 9, 2019.

44. ***Rationale.*** In the short term, and in times of "social distancing" due to the COVID-19 pandemic, Fintech solutions, such as digital payments, deposits, crowdfunding lending and investments can play a critical role. But they would also be critical to fuel financial intermediation and help to the economic recovery. Moreover, as access to digital financial services to unserved populations expands, there is an increasing concern that new financial consumers be properly protected. Having an appropriate financial consumer protection framework is critical to build and maintain trust in the financial system that can lead to higher financial intermediation and inclusion. Up to 18 percent of the adult population in Mexico does not have mobile banking due to distrust.[14] While the Fintech Law includes general financial consumer protection provisions, it mandates CONDUSEF to issue secondary regulation on transparency for all Fintech firms. Transparency measures do not only increase consumer comprehension, allowing them to choose appropriate products to best fit their circumstances, but they also increase market competition by allowing comparison shopping by consumers.[15] This may help lower prices and improve the quality of products offered by Fintech companies, and other financial service providers in similar markets.[16]

[11] Note that the Federal Civil Code was changed to be aligned with the Banking Law.
[12] Based on the WB mapping and assessment of public-sector financial education programs conducted in 2018 under the FIGI program, the government already has in place financial education programs that reach the youth.
[13] Focusing on the financial inclusion of youth is important for several reasons, including that good financial habits formed at an early age are likely to benefit standards of living throughout adulthood. In this context, the government's National Financial Education Strategy lays out the need to provide 15 to 17-year-old minors with opportunities to acquire the needed financial skills for using their new accounts, thus better planning their own future and wellbeing. Evidence suggests that financially included youth are more likely to afford unexpected expenses and save for emergencies, and less likely to carry burdensome debt. Moreover, in a country like Mexico, where the gender gap in access to accounts reaches 8 percentage points, it is especially crucial to provide access to financial services to young women. Empowering women is central to sustained economic and social development and access to financial services can contribute to women's empowerment.
[14] ENIF, 2019.
[15] World Bank (2017) "Good Practices for Financial Consumer Protection"
[16] Ibid.

45. ***Substance of the prior action.*** The Borrower has issued regulation on July 9, 2019 to continue the implementation of the Fintech Law and to contribute to the safety, transparency and competition of the Mexican Fintech industry. The regulation, issued by CONDUSEF provides general guidelines and provisions to regulate contracts, transparency of information provided in statements, and proper disclosure of fees and charges (including amounts, description and frequency), among others. It includes specific requirements for crowdfunding institutions and electronic payment fund institutions (IFPEs). It also regulates advertisement and sales practices of all Fintech firms, and includes specific requirement for lending Fintechs to disclose the total annual cost of credit (CAT) to consumers, so they can be both informed and able to compare among institutions.

46. ***Expected results.*** This regulation is expected to increase the percentage of licensed IFPEs in compliance with transparency and disclosure rules on contracts from zero in March 2020 to 100 percent by December 2021. Beyond the timeframe for the evaluation of the results of this DPF this regulation is expected to contribute to an improvement of competition and quality of products offered by Fintech companies.

Prior Action #5: The Borrower's Central Bank has issued regulations to support the implementation of the electronic payment platform ("CoDi") and provide the legal framework for third-party non-SPEI participants to offer the service of payment request generator, as evidenced by Circulars: (i) No. 11/2019 published in the Official Gazette on October 1, 2019 and (ii) No.12/2019 published in the Official Gazette on October 3, 2019.

47. ***Rationale.*** In view of the current COVID-19 crisis, this avenue (CoDi) of electronic payments could be even more crucial for people receiving social payments support and to facilitate payment transactions among individuals and firms (particularly MSMEs). In the very short term, electronic payments also help to the social distancing policies, including by reducing paper money transactions. A year ago, the financial inclusion DPF (P167674) supported the legal establishment of CoDi, a new, cheaper and more accessible electronic payments system platform that enables mobile phone transactions and Quick Response code (QR) transactions. The proposed measure supports the implementation of this payment system, enabling needed measures to ensure a faster take up among businesses and people. Acceptance of electronic payments remains extremely low in Mexico, with only 35 percent of merchants accepting such means of payments.[17] According to the 2018 ENIF data, only 5 percent of transactions under 500 pesos are completed through digital payments (as opposed to cash) and for transaction equal to or above 501 pesos only 13 percent are digital. In 2016, payments with debit and credit cards in Mexico were equivalent to only 8.9 percent of GDP, compared to 17.6 percent in Brazil, 20.1 percent in India, 31.7 percent in the US, and 75.7 percent in China.[18] In 2019, Banco de Mexico launched the digital payment platform CoDi, which was developed jointly with the payments industry, and enables payees (mainly small, and micro merchants, e-commerce merchants, and individuals) to have an alternative for accepting and receiving electronic payments safely and in a cost-effective and transparent manner. The new payment method can be operated easily and safely by consumers through their mobile devices via Banco de Mexico's Real-Time Gross Settlement (RTGS) system, providing real-time availability of funds for the merchants and reduction of fraud. The platform uses three technologies for initiating the payment: QR code, Near Field

[17] ENAFIN, 2019.
[18] Source: presentation made by the Deputy Secretary of the SCHP of the *Programa de Impulso al Sector Financiero*, which in turn uses FINDEX and the IMF as sources.

Communication (NFC) technology and instant messaging over the Internet. As of March 26, 2020, there were 2.4 million accounts validated in CoDi, and an average of 2,265 daily transactions during the month.

48. ***Substance of the prior action.*** Fostering more immediate use of the system while promoting competition in the retail payments market, in particular for merchant payments or person-to-business (P2B) payments, is critical to the new CoDi. These objectives have been reinforced by the newly issued regulations: (i) any party holding an account with any Interbank Electronic Payments System (SPEI) participant (as long as that participant has 3,000 account or more - Circular 12/2019) can generate a "request to pay" message that automatically reaches the mobile of the payer for her/his acceptance, which then triggers the actual funds transfers in SPEI, therefore CoDi can compete with other alternatives like card payments, with key advantages like the instant transfers of funds and zero cost for merchants and payers; and (ii) allowing third parties (i.e. non-SPEI participants) to be involved in the issuance and processing of "request to pay" messages (Circular 11/2019), which could lead to service and product improvements for accountholders as well as for SPEI participants.[19] In India, for example, the latter has been one of the key success factors for the fast growth and wide acceptance of the Unified Payments Interface (UPI) system: any UPI app can issue payment requests and transfer funds orders from and to UPI-enabled banks. These adjustments will support CoDi's ease of use and wider acceptance is expected to foster that more individuals open an account. It would also bring greater competition in the P2B payments market. The use of technology to disburse e-payments rather than cash has also been proven to increase transparency, reduce corruption[20], and in the context of the COVID-19 pandemic reduce contagion through transactions with paper money or in face-to face settings.

49. ***Expected results*****.** The number of payments made using CoDi is expected to increase from a baseline of 260,000 in March 2020 to 450,000 by December 2021. These are short term milestones that are conservative and are expected to be exceeded rapidly. Moreover, in the medium term, beyond the timeframe for the evaluation of the results framework of this DPF, CoDi is expected to have over 25 million users and 40 million transactions. Moreover, the expansion of CoDi is expected to contribute to greater financial inclusion, especially among SMEs. In addition, in situations of natural disasters, where physical infrastructure may not be available, and cash may be in short supply, CoDi could help ensure that victims can receive funds and pay for vital goods and services.

Prior Action #6: The Borrower has enacted the Amendment to the Credit Institutions Law, published in the Borrower's Official Gazette on June 4, 2019, mandating the prioritization of programs and projects targeting women's financial needs and gender parity in state development banks' corporate governance structure.

50. ***Rationale.*** Increased women participation in economic activity in Mexico, which is low and below that of peer countries and LAC regional averages across indicators, could be a critical engine of the needed economic recovery needed over the next 2 years, following the COVID-19 pandemic crisis. But policies in this regard need to be taken now, so they are fully in place 6 to 9 months from now when they are needed. Accordingly, government programs to prioritize women entrepreneurs and more voice of women in key governance bodies would be important. While financial access gaps between men and women exist in

[19] At no cost to the client, a message confirming the money transfer will be sent to the sender and beneficiary at most one second after the transaction has been completed or rejected.
[20] Muralidharan, et al., 2016.

many countries, these gaps are larger in Mexico compared to the average of the LAC region and OECD countries.[21] Due to their financial exclusion, women are more vulnerable to economic shocks like the one the world is going through and are more likely to fall into poverty. Only one in five women in Mexico can obtain emergency funds to deal with an unexpected shock, such as unemployment, droughts or floods or the loss of a breadwinner, and most of these funds come from friends and family. The evidence shows that having access to and use of a range of financial services enhances not only the contribution of female-owned businesses to economic growth, but also contributes to women's empowerment, allows for better use of resources, and reduces the vulnerability of their households. The National Survey on Access to Finance for Firms (ENAFIN) shows that only 25 percent of majority partners or owners are women, and this percentage decreases with firm size. Relatedly, a 2017 IMF study[22]shows that worldwide women hold less than 20 percent of board seats of banks and banking supervision agencies. More women on bank boards and banking supervision boards has shown a positive link with bank stability.[23] There is also evidence that access to financial inclusion of women is especially linked to the presence of women in leadership roles.[24] In Mexico, although more than half of higher education graduates are women, fewer than one in every ten corporate board members across sectors are women. While a number of aspects of corporate governance will need to be addressed in development banks in Mexico over time, this is an important and urgent measure, including in the context of these trying times.

51. ***Substance of the prior action.*** The reform to the Credit Institutions Law supports the Government's efforts to promote financial inclusion and literacy among women, as well as to increase women's access to productive financing. Article 44 Bis 4 of the Credit Institutions Law was modified to mandate state development banks and Federal Government Trusts supporting financial activities to prioritize products and programs targeting women's financial needs, in particular programs related to savings, credit and consumer protection. Access to credit can open economic opportunities for women to support the economic recovery of the country. Furthermore, Article 40 of the Credit Institutions Law requires that state development banks´ boards of directors be evenly comprised by men and women. According to the transitory articles, this gender parity shall be achieved progressively by filling vacancies on the board of directors with individuals who represent the gender minority.

52. ***Expected results.*** It is expected that the percentage of women among beneficiaries of state development banks' financial access programs increases from 46 percent in March 2019 to 60 percent by December 2021. Beyond the timeframe for the evaluation of the results of this DPF, this reform is expected to encourage other financial institutions to strengthen women's financial inclusion, thus leading to greater gender parity in access to finance beyond beneficiaries of state development banks.

Prior Action #7: The Borrower has enacted the Education Law, published in the Borrower's Official Gazette on September 30, 2019 and issued the Training Program Operational Guidelines, published in the Borrower's Official Gazette on December 29, 2019 determining that financial education be part of

[21] In 2017, the gender gap in account ownership in Mexico was 8 percentage points and still higher than in peer countries (5 percentage points in Brazil, zero in Korea, -1 in Russia, -2 in South Africa and -4 in Argentina.)
[22] Sahay, R. et. al., 2017. Banking on Women Leaders: A case for more? IMF.
[23] Ibid.
[24] World Bank, 2018.Women's Financial Inclusion and the Law.

the official school curricula from preschool through high school, and that selected primary and secondary public-school educators be trained on the subject to promote financial inclusion.

53. ***Rationale.*** In order to achieve higher financial inclusion/access to enable a medium term and sustained economic recovery, working on the demand side of the equation of financial access is also critical. Like in many LAC countries, financial literacy is a shortcoming in the educational system of the country. Financial education is a key element in promoting a healthy and responsible financial inclusion given that it promotes greater financial knowledge, leads to long-term changes in behavior, providing a foundation for children, youth and adults to confidently approach the financial sector (i.e., stronger demand) and become financially capable consumers. A 2018 WB analysis of the federal-level financial education programs found evidence of relatively lower financial well-being and capability among Mexicans[25]. In general, Mexicans: (i) do not have or prepare budgets (only over one-third of Mexicans have a budget); (ii) do not have savings to face an emergency; and (iii) are not prone to save for retirement.[26] Critically, the Bank analysis found that Mexico's public sector federal-level financial education activities showed gaps and overlaps in terms of population coverage, content and delivery channels. In particular, the 24 million children and youth in Mexico's public education system were not being served by a financial education program integrated into the school curriculum.

54. ***Substance of the prior action.*** To promote financial education from an early age, Article 30, item XIV of the General Education Law, mandates the inclusion of financial education content in the official school curricula for students from preschool to high school starting in the 2021-2022 school year. To complement this initiative, the new National Financial Inclusion Policy (PNIF), enacted in March 2020, also incorporates financial education as one of its objectives, providing a stronger governance structure to support the implementation of this reform. Moreover, specific actions were established in the PNIF to support financial education among school-aged children and youth, including training for educators on financial-economic content. In December 2019, the operational guidelines for training programs targeting primary and secondary educators from public schools with a large number of students with low academic achievement results and in regions with high rates of poverty, violence or indigenous population were issued, also incorporating financial education as a core topic.

55. ***Expected results.*** It is expected that the percentage of schools (including all private[27] and public preschool, primary, secondary and high schools) incorporating financial education as part of their official curriculum increases form a baseline of zero in March 2020 to 100 percent by December 2021.[28] Beyond the timeframe for the evaluation of the results of this DPF, this reform is expected to contribute to increased financial literacy and capability of children and youth, which will help create a more responsible generation of financial consumers. The authorities will conduct an impact evaluation of the educator training program to assess this longer-term impact as well.

[25] World Bank (2018) "Improving Financial Education Delivery in Mexico: A Financial Education Report and Roadmap."
[26] National Financial Inclusion Survey (ENIF), 2015.
[27] Private schools that are accredited by the Ministry of Education.
[28] In order to measure the degree of progress with regards to including financial education in schools' curricula, the Borrower will provide qualitative information (for example, the final curricula with contents of financial education used by schools).

Prior Action #8: The Borrower has established the National Service of Personal Identification which will enable the verification of individuals' identity to third parties including financial institutions, as evidenced by article 58 of the Reglamento Interior de la Secretaría de Gobernación, published in the Borrower's Official Gazette on May 31, 2019.

56. ***Rationale.*** The rationale for prior actions #8 and #9 requires a context related to the shortcomings of the identification system in Mexico and its relation to financial access, economic opportunities, and the possibility of receiving government social transfers— all critical in general but very urgent in the current economic context brought by the COVID-19 global pandemic. The right to a unique identity is a human right that enables individuals to exercise a number of critical civil rights, but also provides access to critical economic transactions and opportunities to improve individuals' wellbeing, such as financial services, social programs, education, and employment. Mexico has a highly fragmented identity management ecosystem with many different government agencies issuing identification credentials, with little coordination between them. The lack of a strong foundational ID system that creates and maintains the legal identity of all individuals in Mexico and Mexicans abroad (from birth to death) has led to significant overlapping, fraud, and still a large number of people without a legal ID—more than 3.7 million according to the Identification for Development (ID4D) 2018 dataset. This number is high relative to regional and similar income-level peer countries. Among the most affected are those financially underserved or unserved. The WB's analysis show that the lack of single ID system has hampered access to financial services (including through Fintech solutions), to social program transfers for large segments of the poor, and to different economic transactions among key vulnerable groups. This has highly negative consequences for a large segment of the population in the context of a major economic and social crisis like the one brought by the COVID-19 pandemic.

57. More concretely in terms of prior action #8, the use of digital technologies to verify the identity of prospective customers is critical to advance the deployment of safe and efficient financial services and to enable more access to them in Mexico. This is particularly true when deploying digital financial services (DFS), as the risks of fraud and ID theft increase when using the digital environment, which in turn can hamper access/inclusion.[29] Financial institutions in Mexico face regulatory and compliance challenges when establishing their customer due diligence (CDD) processes due to the lack of a robust ID verification service.[30] Article 115 of the Credit Institutions Law establishes that the requirements for CDD (i.e. name and date of birth) should be obtained from an official document. In addition, regulation issued by the CNBV requires verification of the Unique Population Registration Number (CURP). Currently, financial institutions rely on credentials presented by their clients and verification of some data attributes included in the credentials (e.g. name and date of birth) against the voter database maintained by the Instituto Nacional Electoral (INE) which also allows partial verification of fingerprints. Unlike the CURP, the INE is a separate ID system which only covers the adult population who have actively enrolled to vote. This verification is not sufficiently robust to mitigate fraud and identity theft[31]. Furthermore, the verification system is currently based on bilateral memorandum of understandings (MoUs), which have only been

[29] Mexico has the second highest number of identity thefts in Latin America and the Caribbean and occupies the eighth place in the world.
[30] The Financial Action Task Force (FATF) under its recommendation 10 (a) requires regulated financial entities to verify the identification documents, data and records against an independent and reliable source.
[31] 53 percent of the cases of identity theft are due to misuse of credit and debit card related data.

established with the Banker's Associations from the private sector. This means that individual non-bank financial intuitions (such as IFPEs) would need to approach and establish their own MoUs.

58. ***Substance of the prior action***. This reform gives the mandate to the Ministry of Interior (SEGOB) to which RENAPO reports, to establish and maintain the National Service of Personal Identification. The establishment of the National Service of Personal Identification would simplify access to verification services from all types of financial institutions (including ITFs) reducing the cost associated with onboarding new clients and facilitating access to financial services. Other government agencies and other private sector stakeholders that require the verification of the individual´s identity to provide a service, or facilitate individuals meet their obligations or exercise their rights will also benefit from this service. Those agencies that require the validation for beneficiaries to access social programs would also benefit from this service by adequately identifying beneficiaries, reducing potential fraud or exclusion risks. The National Service of Personal Identification will enable, based on the information included in RENAPO, the validation of identification attributes and the verification of individuals' identity. Third parties will be allowed to use the National Personal Identification System to validate an individuals' identity, as long as that individual authorizes the access. This specific measure is one piece of a broader policy and institutional reform agenda to create a unique system of personal identification in Mexico.

59. ***Expected results***. It is expected that government agencies and private sector institutions (including financial service providers) use the verification service to increase the level of certainty when conducting identification of individuals accessing different services. The number of entities[32] requesting verification services is expected to increase from zero in March 2020 to 50 by December 2021. The number of enquiries to the National Personal Identification Service is expected to increase from zero in March 2020 to a monthly average of 300,000 enquires daily by December 2021. Beyond the timeframe for the evaluation of the results of this DPF, the reform is also expected to reduce the incidence of fraud and thus create more trust in the financial system, which should lead to greater access and use of financial services, more efficient account opening and reduced risk of money laundering and terrorism financing.

Prior Action #9: The Borrower has enabled mechanisms to exchange data between civil registries related to individual's identity and its verification through adequate technological infrastructure and standardized operating rules in civil registries at the state level, including the binding of the legal identity with biometric data, as evidenced by the twenty-seven (27) Coordination Agreements signed with states of the Borrower.

60. ***Rationale.*** This measure is another piece of the broader policy and institutional reform agenda to create a unique system of personal identification in Mexico, as highlighted earlier. In the current health, economic and social crisis, and in order to support a sound and inclusive recovery, this is very urgent. The adoption of a unique identity in Mexico requires a holistic approach with a circular and dynamic link between the civil registration and the national ID system. Registration is decentralized in Mexico and mandatory under each Civil Code of the 32 states, which are divided into 2,460 municipalities. Each municipality is responsible for creating civil registration records for its residents, and the records are also stored in the central state archives. While RENAPO is the coordinator of the National Council of Civil Registry Officials (CONAFREC), it did not have effective mechanisms to ensure that the collection and processing of data related to birth, vital events and death from the different registries is conducted in a

[32] All entities, including financial institutions.

standardized manner. This created a situation in which each civil registry had different operational rules, processes and procedures that make it difficult to link this information to the National Population Registry. The lack of harmonization between the different registries impedes efficiency and accuracy in the collection of data to the National Identification Registry, affecting its reliability.

61. ***Substance of the prior action***. The adoption of bilateral agreements with civil registries in all 32 states of the country serves as an instrument to achieve nationwide common rules, including enabling biometric data collection, interoperability, efficiency and strengthening the institutional capacity of the national identification registry. These agreements also bring the opportunity of including the civil registries as biometric enrollment agencies for the deployment of the upgraded CURP that the Ministry of Interior (SEGOB) is planning. In particular these agreements will: (i) contribute to the consolidation of the national ID system by upgrading and modernizing the current systems and registry services; (ii) lead to the implementation, with the support of SEGOB, of technological infrastructure that allows for the enrollment and automated update of vital records enabling standardization and exchange of information between the registries and the SEGOB; (iii) establish the adoption of standard formats for enrolment and certification of vital status of the registry as designed and approved by CONAFREC; (iv) provide standard security measures for all civil registries;(v) lead to the adoption and usage of the CURP in all registries; (vi) foster cooperation agreements between municipal authorities for the inclusion of the CURP; and (vii) launch campaigns to reach vulnerable people in regions of difficult access and offer them registration services.

62. ***Expected results.*** It is expected that by December 2021, the civil registry offices of 25 states covering over 65 percent of the population have rolled out the ID service to record vital events in a standardized manner, compared to 6 states covering 18 percent of the population in March 2020. In addition, in the medium term, it is expected that the number of birth and death registrations increases in all civil registries. Furthermore, this reform will enable massive processing of data from the different registries directly to the RENAPO in a more efficient manner. The standardization will increase the capture points of biometric data and their association with the CURP number will strengthen the reliability of the identity assertion.

Table 4: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Supporting liquidity in the financial sector	
Prior action #1	BIS (2020) “Basel Committee coordinates policy and supervisory response to Covid-19 – Press Release” BIS (2019) “Macroprudential Policy with Capital Buffers”. WB (2020) “Macroeconomic Policy in the Time of COVID-19: A Primer for Developing Countries” *Using capital resources to support the real economy and absorb losses should take priority at present over discretionary distributions.* *Optimal regulation requires banks to hold more equity when loan supply is high, but also allows banks to hold little equity when loan supply is low.*

	Central banks around the world are cutting interest rates and widening lending facilities to banks to ensure sufficient liquidity and in the hope that credit to businesses is not disrupted.
Prior action #2	IMF (2020) "Monetary and Financial Stability During the Coronavirus Outbreak – Blog Post". WB (2020) "Macroeconomic Policy in the Time of COVID-19: A Primer for Developing Countries". *Central banks can act quickly to help ease the tightening of financial conditions by injecting liquidity and cutting interest rates, thus preventing a possible credit crunch.*
Pillar 2: Supporting liquidity in the financial sector	
Prior Action #3	FSAP World Bank/IMF (March 2017). "Financial Sector Assessment – Mexico". World Bank (2017). "The Global Findex Database 2017 – Measuring Financial Inclusion and the Fintech Revolution". *Mexico should strengthen mechanisms to foster financial inclusion.*
Prior Action #4	World Bank (2017) "Good Practices for Financial Consumer Protection". World Bank (2019) "Achieving Effective Financial Inclusion in Mexico: The Payments Perspective". *Main immediate recommendations to strengthen the financial consumer protection in Mexico: Focus on disclosure regulatory requirements that reflect key and easy to understand information, and are comparable between providers, including at pre-contractual stages. This is especially important for consumers with low levels of financial capability and in relation to innovative financial services.*
Prior action #5	FSAP World Bank/IMF (March 2017). "Financial Sector Assessment – Mexico". World Bank (Jan 2019) "Achieving Effective Financial Inclusion in Mexico: The Payments Perspective". *Mobile transaction accounts and transaction volumes are still low in Mexico.* *Authorities should foster the adoption of new technologies, including innovative card acceptance devices/methods that are less onerous for merchants.*
Prior action #6	World Bank (2018). "Women's Financial Inclusion and the Law". *Worldwide women hold less than 20 percent of board seats of banks and banking supervision agencies.* *Econometric analysis suggests that, controlling for relevant bank- and country-specific factors, banks with higher shares of women leaders had higher capital buffers, lower nonperforming loans, and higher distance to distress, according to an IMF study.*

Prior action #7	World Bank (Jan 2019) "Achieving Effective Financial Inclusion in Mexico: The Payments Perspective". World Bank (2018) "Improving Financial Education Delivery in Mexico: A Financial Education Report and Roadmap*".* World Bank (2018) "Toolkit: Integrating Financial Capability into Government Cash Transfer Programs". *The analysis suggests there is a large gap in the delivery of financial education to the 24 million children and youth in Mexico's public education system, which has not yet integrated financial education into its core curriculum.* *Based on international experiences, proper teacher training will be key to the success of the autonomous curriculum.*
Prior action #8	World Bank (2018). "Digital Identification Mexico". FSAP World Bank/IMF (March 2017). "Financial Sector Assessment – Mexico". World Bank (Jan 2019) "Achieving Effective Financial Inclusion in Mexico: The Payments Perspective". *Interoperable, technology-neutral national database system, where appropriate, that links relevant civil registration and identity systems and is appropriately and securely accessible to authorized parties, such as financial service providers, subject to client consent where required by data protection laws should be considered as a key action to enable digital financial inclusion.*
Prior action #9	World Bank (2018). "Digital Identification Mexico". *Efforts led by RENAPO to introduce the CURP from birth and enhance civil registration at the state level should be strengthen and supported. The following aspects are to be considered; (i) harmonization of laws, procedures and administrative responsibilities to the extent possible, (ii) development of electronic registration processes (record, storage and Indexing) (iii) continue working towards interoperability of registries universality of the CURP by creating the necessary architecture and interoperability platforms and (iv) enhance coordination through the CONAFREC. Mobile technologies could be considered to support these efforts in close collaboration with Consejo Nacional de Funcionarios de Registro Civil (CONAFREC) and RENAPO.*

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

63. **The proposed operation is fully aligned with the new Country Partnership Framework (CPF) 2020–25 (Report No. 137429-MX), discussed by the Board in February 2020, and with the WBG and the authorities' efforts to respond to the COVID-19 crisis.** As part of the WB support for the response to this COVID-19 crisis, this operation runs in parallel and reinforces another DPF under preparation that supports economic and social response measures. Both operations are accompanied by policy advice and engagement across sectors. Moreover, this DPF also supports upstream policies that would make the

support of IFC more effective to commercial banks and Fintechs, in response to the current challenges brought by the COVID-19 pandemic. The DPF supports actions that have short term/relief aspects, but also lay out critical actions to support a solid economic recovery and growth. The operation also contributes directly to Objective 1 of the CPF, "foster financial intermediation and inclusion". The operation is also based on the findings of the 2016 Financial Sector Assessment Program (FSAP), tackling some of the key recommendations to develop a more inclusive and competitive financial sector in Mexico. This DPF follows a financial inclusion DPF (P167674) approved in June 2019, and it is supported by the technical work developed under the thematic Programmatic Approach (PA) for Mexico and the FIGI program, as well as other analytical work as described in Table 4. The technical, IT infrastructure and institutional follow up of the policy actions related to the unique identification systems will be part of a Bank-financed project with RENAPO that will reach the board in FY21.

64. **Moreover, the program is fully aligned with the WBG Maximizing Finance for Development (MFD) approach in that it addresses constraints to access to finance for individuals through the private sector via new technologies (i.e. Fintech).** As highlighted earlier, upstream policies critical to the financial sector supported by this operation, would help IFC and its financial sector clients to play a critical role in financial intermediation and access in these difficult times. This operation is also aligned with the WB's Universal Financial Access (UFA) 2020 initiative.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

65. **The government's reform program included an open process of consultations.** The approval of laws, in general, follow months of consultation with public and private sector stakeholders, including financial institutions, associations and academic institutions. Moreover, in terms of regulations, the National Commission for Regulatory Improvement (CONAMER) is the agency responsible for the promotion of the transparent development and implementation of regulatory reform policies. Prior to submission to CONAMER, the government undertakes specific consultations of proposed regulations with key stakeholders. For instance, a consultation process was launched for prior actions 4, 8 and 9 on their website where the public submitted online comments for consideration. In the specific case of Banco de Mexico regulations, a consultation process was launched on their website for prior action 5, where the public submitted online comments for consideration. After the public consultation has been carried out and following publication in the Official Gazette of the Federation, the relevant authority publishes a pronouncement regarding the comments, opinions and proposals received, specifying where appropriate, which of them resulted in adjustments and specifications. These policies reflect the best practices promoted by the Organization for Cooperation and Economic Development (OECD).

66. **The Bank has collaborated closely with the IMF and IFC.** Collaboration and communication with the IMF focused on macroeconomic and structural developments. Within the WBG, the team has coordinated and received inputs from IFC colleagues on areas related to access to finance and Fintechs.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

67. **The policy measures supported under this DPF are expected to contribute to avoid a liquidity crunch in the context of the ongoing COVID crisis.** A liquidity crunch, in addition to the ongoing health crisis, would lead to job losses and hit the poor and vulnerable who have limited resources to cope with a negative shock. The ongoing COVID crisis is an international global shock, it has led to a sudden stop in financial flows to emerging markets. Such an event could easily lead to financial instability without measures to ensure that there is sufficient liquidity in the system, disrupting the payment systems, increasing borrowing costs, potentially forcing businesses to reduce their workforce and default on their debts to input providers. In severe cases, it could lead to strict capital controls and short-term bank closures. The main losers in such scenarios are the poor, who may have trouble accessing remittances, government transfers, and their wages, making it impossible for them to meet their basic needs. The prior actions aimed at increasing liquidity can ensure the functioning of the financial system and enhance the role of bank lending, protecting the poor from more severe economic losses.

68. **In addition, policy measures under this DPF will support the poor and vulnerable by increasing the provision of financial services to traditionally unserved populations.** The share of adults with a bank account increased between 2012 and 2018, however it is still very low, particularly among the poor and those in rural areas. In 2017, only 7 percent of the rural population and less than 4 percent of those in the bottom 40 percent of the distribution saved at a formal financial institution. Similarly, only 8 percent of microenterprises received finance, while 26 percent of SMEs needed to invest but could not do so due to financial constraints.

69. **Actions under this DPF can also help close gender gaps in financial inclusion, helping women smooth consumption, provide security, increase saving and investment rates, and manage economic risk.** Between 2012 and 2018, the gender gap in bank account ownership decreased by 10 percentage points. This was largely driven by an increase in rural areas, where the percentage of women with a bank account increased by 23 percentage points. The evidence shows that having access to and use of a range of financial services enhances not only the contribution of female-owned business to growth, but also contributes to women's empowerment, allows for better use of resources, and reduces the vulnerability of their households and businesses. In what follows we summarize the expected poverty and social impact of each prior action. Details are presented in Annex 5.

70. **Enabling access to bank accounts for minors will improve access to finance to younger generations and teach important saving behaviors to young adults in the long term.** Focusing on the financial inclusion of the youth is important for several reasons. Good financial habits formed at an early age are likely to benefit standards of living throughout adulthood. Moreover, having a financially knowledgeable young population can also have a trickle-up effect on their parents and their households' financial decisions. In addition, in the short term, it provides incentives for the employers to pay formally through the banking system to young people. Finally, to the extent that the youth are more likely to use mobile accounts, access to the banking system may also enable them to tap lower-cost financial products.

71. **Regulations meant to support transparency can increase trust in the financial system, while increases in electronic payments and the extension of CoDi to third-party participants can lower transaction costs, potentially fostering financial inclusion in the medium term.** Regulations that support transparency measures will be an opportunity to create trust in the financial sector, which is much needed, and which will improve financial intermediation and overall access to finance. Moreover, the new electronic payments platform, CoDi, is expected to expand access to alternative electronic payment options, reducing the cost of doing business for micro and small firms and providing a path for these firms to establish a record in the financial system, potentially enabling a future access to credit. However, it is also important to note that the expansion of digital finance also poses new risks, as people with no financial education are vulnerable to become overindebted or hacked due to poor password management or simple scams.

72. **Mandating financial education as part of the official curricula from preschool to high school and the training of educators on financial education is expected to raise financial capabilities and ensure sound financial management.** School-based programs can provide financial education to children and youth in a cost-effective way. International evidence has shown that financial education programs based in schools have sizeable and robust impacts on financial knowledge for the youth. Moreover, school-based financial education programs encourage long-term planning, and to the extent that the curriculum emphasizes the importance of accumulating wealth and savings, children and youth may be motivated to engage in paid work and/or increase the share of time allocated to work.

73. **Moreover, actions fostering the inclusion of women into the financial system are critical to access economic opportunities and improve the family's welfare.** Closing gender gaps in financial inclusion could have positive effects in smoothing consumption, providing security, increasing saving and investment rates, and managing economic risk. The evidence shows that having access to and use of a range of financial services not only enhances the contribution of female-owned business to growth, but also contributes to women's empowerment, allows for better use of resources, and reduces the vulnerability of their households and businesses (Aker et al. 2016; Ashraf, Karlan, and Yin 2010; Delavallade et al. 2015; Dupas and Robinson 2013; Prima 2015). Furthermore, supporting a gender balanced administration of development banks is expected to contribute to gender equity. In Mexico, women accounted for less than 25 percent of the decision-makers at the financial regulators (Global Microscope, 2019). Moreover, there is evidence that a higher share of women on bank and supervisory boards is associated with greater bank stability and profitability.

74. **Finally, improving access to a national identification can improve financial access, strengthen the transparency, efficiency and effectiveness of social programs, and reduce gender gaps in financial inclusion.** The lack of a unique and secure digital ID system is one key constraint in the effective implementation of social programs. Biometric IDs can help financial institutions and the public sector to reduce fraud and leakage in transfers, facilitate new forms of service delivery, and increase overall administrative efficiency. Moreover, improving access to a national identification can also help women to gain access to financial services partly because despite having the same access in legal terms to a national ID, the take-up among men outpaces the one from women. For instance, in India, the gender gap in access

to accounts shrunk 14 percent in 3 years thanks to a strong government push to increase account ownership through biometric identification cards.[33]

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

75. Prior actions supported by this operation are not expected to have any significant negative effects on the environment, forests and other natural resources. The prior actions are expected to contribute to economic inclusion, unlocking economic potential of particularly women and youth and in rural areas, bringing about economic growth. Measures to promote the use digital financial services will bring indirect positive environmental effects associated with reduced need of travel due to increasing opportunities for the use of electronic payments.

76. Mexico has a solid and comprehensive national environmental legislation to promote sustainability of growth. The legislation was formally developed based on the General Law of Ecological Equilibrium and Environmental Protection (LGEEPA) of 1988. Since then, Mexico has established laws, regulations and rules e.g. for the protection of wildlife, forestry development, waste management, pollution control, addressing climate change and managing environmental impacts, which establish the environmental requirements regarding investments. Moreover, the Government of Mexico has committed to supporting adaptation to climate change as reflected in its ambitious Nationally Determined Contributions (NDCs) under the United Nations Framework Convention on Climate Change (UNFCCC). Mexico's NDCs recognize the important role of rural development in enhancing climate resilience. The prior actions geared to increase economic inclusion in rural areas can have indirect positive effects on increasing climate resilience among rural population.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

Fiduciary Aspects

77. The overall integrated fiduciary risk to this operation arising from México's public financial management (PFM) including public procurement system and FOREX control environment is low. The Mexican Government has introduced a number of reforms in public finances in line with international good practices. More recent reforms were related to public sector accountability, integrity and transparency with the creation of the National Anti-Corruption System, the National Transparency System and the National Auditing System (*Sistema Nacional de Fiscalización*). Additionally, Mexico established accrual accounting, harmonized accounting and budgeting norms across all levels of government and created the National Council of Accounting Harmonization (*Consejo Nacional de Armonización Contable*). The Bank is supporting the Government in reforms related to transparency and accountability efforts to improve the design, effectiveness, and implementation of open government initiatives, public integrity and anticorruption policies and tools.

[33] Demirgüç-Kunt, et. al 2018. The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Washington, DC: World Bank

78. **The analytical underpinnings confirm that the foundations of PFM systems in Mexico are in place.** They are supported by an adequate legal framework, human resources and technical skills. Reforms include the introduction of internationally recognized good practices, such as the publication of financial statements four months after the end of the fiscal year. There is therefore reasonable assurance that the country's PFM system manages the country's resources in a manner that is adequate to support this operation. In some areas, however, PFM practices could be improved, such as for example the inclusion of missing assets/liabilities, the creation of a comprehensive framework for the financial governance and oversight of non-financial public corporations, and over PFM system integration.

79. **As for external oversight, the Federal Supreme Audit Institution conducts, on a regular basis, a number of performance, financial and compliance audits on federal programs.** The annual public accounts are prepared and sent to Congress within four months after the end of each fiscal year. The external audit of the annual public accounts is undertaken by the Auditor General's office and submitted to the legislature fourteen months after the end of each fiscal year. Audit reports are comprehensive and there is a system in place to follow up on audit findings and recommendations. The results of audits by the Auditor General's office are reviewed and assessed by designated Committees appointed by Congress (*Comisión de Vigilancia de la Auditoría Superior de la Cámara de Diputados and Comisión de Presupuesto y Cuenta Pública de la Cámara de Diputados*) and made public in the Annual Audit Report on the Federal Public Accounts.

Disbursement and Audit

80. **Disbursement arrangements.** Once the DPF becomes effective and the Borrower complies with any withdrawal tranche release conditions, following the Borrower's request, the Bank will deposit the funds into an account denominated in U.S. dollars owned by the Central Bank (*Banco de México*) for subsequent credit into the account of the National Treasury (*Tesorería de la Federación*). The Bank will notify the Borrower three days before making the deposit. The SHCP will provide the Bank with a written confirmation of the transaction and accreditation in the budget within thirty days after the funds are disbursed by the Bank.

81. **The banking control environment into which the DPF proceeds would flow is deemed adequate.** The FM assessment was based on the experience of Mexico managing WB-financed DPFs, the Bank’s analysis of project flow of funds and the review of the audited annual report of Banco de México from 2017 and 2018 with clean opinions under standards aligned with International Financial Reporting Standards (IFRS). The FM assessment concluded that from a fiduciary point of view, the control environment, procedures and regulations governing this Bank-supported operation are adequate. Therefore, and based on the flow of funds described above, no additional FM-related arrangements are needed for this operation.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

82. **The SHCP will be responsible for collecting the data necessary and for monitoring the indicators.** The SHCP, in close coordination with Banco de Mexico, CNBV and other supervisory authorities, will take the lead in monitoring progress and implementation of this operation, with ongoing support from the WB. The results indicators selected to monitor and evaluate implementation progress and the achievement of

program outcomes will be monitored by the institution that takes the coordination lead for the respective prior actions. While most of the indicators are new and will be collected for the monitoring of this operation, some of the indicators selected are already collected and monitored by the associated institution. The results matrix for the proposed operation can be found below in Annex 1.

83. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

84. **The overall level of risk for the proposed operation is assessed as substantial.** The key risk ratings are included in the table below. Before the COVID-19 crisis and given the macroeconomic policy adequacy that Mexico maintained for many years and continues to maintain today, the macroeconomic risk would have been considered as moderate. However, the COVID-19 has brought multiple shocks to emerging economies. Triggered by the COVID-19 pandemic, the global economic landscape has deteriorated drastically, and it is still evolving. There is a high degree of uncertainty as to the duration of the pandemic in different countries, including in Mexico, and to its economic, social, and health ramifications in each economy. There is also uncertainty about when the transmission channels of the crisis, e.g., trade, finance, commodity prices (oil chiefly in the case of Mexico) would start to normalize globally.

85. **In this context, Mexico faces significant macroeconomic risks.** Domestically, the vulnerabilities represented by PEMEX will be heightened and further measures to enable financial soundness and sustainability to the state company will be needed. The impact of the economic crisis on employment and labor incomes (both formal and informal) could further undermine the economy through even lower consumption and could hamper the recovery. In this context, measures to support liquidity in the system, regulatory support for firms and households, avoiding unintended consequences, and direct support to MSMEs will be critical. It would also be critical to protect jobs, to avoid the re-matching costs that would affect the recovery, if jobs shedding is massive. The authorities will have to maneuver the short-term fiscal impulse needed with a prudent fiscal framework over the medium term. Looking toward 2021, the recovery expected may be slowed if some residual sectoral policy uncertainty as regards to private investment (including in the energy sector) is not lifted.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Low
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions	Results		
Prior Actions under the DPF	Indicator Name	Baseline	Target
Pillar 1: Supporting liquidity in the financial sector			
Prior Action #1: The Borrower's Central Bank has increased banks' liquidity by reducing the monetary regulation deposit, as evidenced by Circular 7/2020 published in the Official Gazette on April 1, 2020. **Prior Action #2:** The Borrower's Central Bank has further enabled banks' access to liquidity facilities by reducing the cost of its ordinary additional liquidity facility, as evidenced by Circular 4/2020 published in the Official Gazette on April 1, 2020.	**Results Indicator #1:** Reduction of the total amount of Monetary Regulation Deposits	320 billion MXN (March 2020)	15% reduction of the stock of monetary regulation deposit (August 2020)
Pillar 2: Establishing instruments for improved financial access			
Prior Action #3: The Borrower has enacted the Reform to the Credit Institutions Law, published in the Borrower's Official Gazette on March 27, 2020, enabling minors between 15 and 17 years old, who are wage earners with an active payroll and/or receive social benefit programs to: (i) open bank saving accounts under their own name; and (ii) use and manage the underlying funds without requiring representation from an adult.	**Results Indicator #2:** Number of minors ages 15 to 17 that own a bank account under their own name. **Results Indicator #3:** Share of female minors in the total number of minors ages 15 to 17 that own a bank account under their own name.	0 (March 2020) 0% (March 2020)	1,200,000 (December 2021) 50% (December 2021)
Prior Action #4: The Borrower has issued regulations aimed at strengthening transparency practices applicable to ITFs, as evidenced by CONDUSEF's general dispositions for Fintech institutions published in the Borrower's official Gazette on July 9, 2019.	**Results Indicator #4:** Percentage of licensed IFPEs in compliance with transparency and disclosure rules on contracts.	0% (March 2020)	100% (December 2021)

Prior actions	Results		
Prior action #5: The Borrower's Central Bank has issued regulations to support the implementation of the electronic payment platform ("CoDi") and provide the legal framework for third-party non-SPEI participants to offer the service of payment request generator, as evidenced by Circulars: (i) No. 11/2019 published in the Official Gazette on October 1, 2019 and (ii) No.12/2019 published in the Official Gazette on October 3, 2019.	**Results Indicator #5:** Number of payments processed through the CoDi platform	260,000 (March 2020)	450,000 (December 2021)
Prior Action #6: The Borrower has enacted the Amendment to the Credit Institutions Law, published in the Borrower's Official Gazette on June 4, 2019, mandating the prioritization of programs and projects targeting women's financial needs and gender parity in state development banks' corporate governance structure.	**Results Indicator #6:** Percentage of women benefiting from state development banks' financial access programs	46% (March 2020)	60% (December 2021)
Prior Action #7: The Borrower has enacted the Education Law, published in the Borrower's Official Gazette on September 30, 2019 and issued the Training Program Operational Guidelines, published in the Borrower's Official Gazette on December 29, 2019 determining that financial education be part of the official school curricula from preschool through high school, and that selected primary and secondary public-school educators be trained on the subject to promote financial inclusion.	**Results Indicator #7:** Percentage of schools incorporating Financial Education in their official curriculum.	0% (March 2020)	100% (December 2021)
Prior Action #8: The Borrower has established the National Service of Personal Identification which will enable the verification of individuals' identity to third parties including financial institutions, as evidenced by article 58 of the *Reglamento Interior de la Secretaría de Gobernación*, published in the Borrower's Official Gazette on May 31, 2019.	**Results Indicator #8:** Number of entities requesting verification services. **Results Indicator #9:** Number of identification verification enquiries to the National Service of Personal Identification	0 (March 2020) 0 (March 2020)	50 (December 2021) 300,000/daily (December 2021)

Prior actions	Results		
Prior Action #9: The Borrower has enabled mechanisms to exchange data between civil registries related to individual's identity and its verification through adequate technological infrastructure and standardized operating rules in civil registries at the state level, including the binding of the legal identity with biometric data, as evidenced by the twenty-seven (27) Coordination Agreements signed with states of the Borrower.	**Results Indicator #10:** Number of states that have rolled out the ID Service to record vital events in a standardized manner and percentage of population that they are covering	6 states, 18% of population covered (March 2020)	25 states, 65% of population covered (December 2021)

ANNEX 2: FUND RELATIONS ANNEX

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 19/431
FOR IMMEDIATE RELEASE
November 25, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Approves New Two-Year US$61 Billion Flexible Credit Line Arrangement with Mexico

On November 22, 2019, the Executive Board of the International Monetary Fund (IMF) approved a successor two-year arrrangement for Mexico under the Flexible Credit Line (FCL) in an amount equivalent to SDR 44.5635 billion (about US$61 billion[1]) and canceled the previous arrangement. The Mexican authorities stated their intention to treat the arrangement as precautionary.

The previous two-year FCL arrangement for Mexico was approved by the IMF's Executive Board on November 29, 2017 for an original access amount equivalent to SDR 62.3889 billion (about US$86 billion) (see Press Release No. 17/459), which, at the request of the Mexican authorities, was reduced to SDR 53.4762 billion (about US$74 billion) on November 26, 2018 (see Press Release No. 18/440). Mexico's first FCL arrangement was approved on April 17, 2009 (see Press Release No. 09/130), and was renewed on March 25, 2010 (see Press Release No. 10/114), January 10, 2011 (see Press Release No. 11/4), November 30, 2012 (see Press Release No. 12/465), November 26, 2014 (see Press Release No. 14/543), and May 27, 2016 (see Press Release No. 16/250).

Following the Executive Board's discussion on Mexico, Mr. David Lipton, First Deputy Managing Director and Acting Chair, made the following statement:

"Very strong policies and policy frameworks have helped Mexico navigate a complex external environment. Fiscal policy has stemmed the rise in the public debt ratio in the past two years; a very tight monetary policy stance has helped reduce headline inflation to the central bank's target; and financial supervision and regulation are strong. The flexible exchange rate is playing a key role in the economy's adjustment to external shocks.

"The Mexican economy, nonetheless, remains exposed to external risks, including renewed volatility in global financial markets, increased risk premia, and a sharp pull-back of capital from emerging markets, as well as continued uncertainty about Mexico's trade relations with the United States. The new arrangement under the Flexible Credit Line (FCL) will continue

[1] Amount based on the Special Drawing Right (SDR) quote of November 21, 2019 of 1 USD=SDR0.72635.

to play an important role in supporting the authorities' macroeconomic strategy by providing insurance against tail risks and bolstering market confidence.

"The authorities have a successful record of sound policy management and are firmly committed to maintaining prudent policies going forward. They intend to continue to treat the arrangement as precautionary. The lower level of access is appropriate and consistent with the authorities' strategy to gradually phase out Mexico's use of the facility. As external risks facing Mexico recede, they intend to request a further reduction in access under the FCL in the future."

ANNEX 3: LETTER OF DEVELOPMENT POLICY

HACIENDA | 2020 LEONA VICARIO

Subsecretaría de Hacienda y Crédito Público

Oficio No. 102 - B-062
Ciudad de México, a 13 de abril de 2020

David Malpass
Presidente del Banco Mundial
P R E S E N T E

El Gobierno de México tiene entre sus objetivos impulsar una agenda de transformación del sistema financiero que permita convertirlo en un mercado más incluyente. Incrementar el acceso de mayor población a más y mejores productos y servicios financieros, entre ellos, el financiamiento, será primordial para contribuir al crecimiento económico y el bienestar social.

Derivado de las medidas adoptadas por las autoridades y el sector privado para atender el escenario de contingencia sanitaria actual y evitar el contagio acelerado del virus SARS-CoV-2 (COVID-19), se han producido diversos efectos, entre ellos la disminución de la actividad económica, por lo cual las acciones tendientes a propiciar la reactivación económica y la profundización del sistema financiero se hacen más urgentes. Tanto las personas como las empresas deben ser capaces de acceder a su dinero y a servicios financieros de manera remota y en condiciones seguras. En este sentido, en línea con las acciones implementadas por los gobiernos de otros países, se han puesto en marcha diversas acciones regulatorias que permitirán a los participantes del sistema financiero estar en condiciones de continuar ofreciendo sus servicios aún bajo los impactos de la contingencia, y a la población recibir no solo apoyos del gobierno, sino acceso a financiamiento de las propias instituciones financieras, que permitan suavizar el consumo; el acceso a medios electrónicos para transaccionar de manera segura y expedita; así como apoyos que permitan a los individuos manejar mejor las obligaciones de sus créditos y a las entidades financieras flexibilizar las condiciones para que puedan continuar su oferta.

A pesar de las ventajas de un sistema financiero verdaderamente inclusivo, México aún enfrenta retos de distinta naturaleza en la materia. En infraestructura financiera, contamos con menores niveles de puntos de acceso en comparación con economías similares. Brasil tiene el doble de corresponsales de intermediarios financieros, 10 por cada 10 mil adultos, mientras que México sólo cuenta con 5.[1] El uso de pagos digitales sigue siendo escaso pues solo 28% de la población utiliza este medio de pago mientras que, en Chile, lo hace el 61%.[2] Entre grupos vulnerables, el acceso al sistema financiero también es limitado. Las mujeres que tienen una cuenta representan el 33%; en el caso de los hombres es el 41%, mientras que solo 1 de cada 3 jóvenes entre 15 y 24 años tienen una cuenta.[3] Por otro lado, el acceso a financiamiento de las micro, pequeñas y medianas empresas es escaso. Durante el 2018, sólo 20%, 32% y 52% de ellas contaron con acceso al crédito.[4] El país carece de un sistema

[1] Financial Access Survey, Fondo Monetario Internacional, 2017.
[2] Global Findex, Banco Mundial, 2017
[3] Global Findex, Banco Mundial, 2017
[4] Encuesta Nacional de Financiamiento de las Empresas 2018.

HACIENDA
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO
2020 LEONA VICARIO
Subsecretaría de Hacienda y Crédito Público

de identidad fundacional digital que además de ser la base de la identidad poblacional, ofrezca certeza y facilite de manera adecuada el acceso a todo tipo de servicios, entre ellos los servicios financieros. Los sistemas de identificación, en especial aquellos que incorporan información biométrica de manera digital, permiten a las personas y las instituciones acceder a servicios financieros formales de manera más expedita y eficiente a través de sus distintas etapas, solicitud, autenticación, contratación y transaccionalidad. En 2017, el 10% de la población mexicana aún no contaba con un documento de identificación, mientras que en economías similares como Brasil dicha población equivalía solo al 2%.[5]

A la luz de estos retos pendientes, la presente administración ha trabajado de manera continua en el último año para emitir normas y cambios regulatorios que permitan un mayor acceso y uso del sistema financiero entre la población. Se trabajó en el desarrollo y publicación de la regulación secundaria derivada de la Ley Fintech en materia de transparencia en la provisión de información sobre productos y servicios ofrecidos por las Instituciones de Tecnología Financiera y contratación de comisionistas. Se emitió regulación que fomentara una mayor adopción de la plataforma de Cobro Digital (CoDi) anunciada por el Banco de México en enero de 2019 y se publicaron normas regulatorias que permitieran un mayor uso de productos y servicios financieros entre grupos desatendidos como jóvenes y mujeres. Se continuaron los trabajos para la consolidación de un sistema de identificación que permita a los ciudadanos ejercer su derecho de contar con una identidad. Finalmente, para asegurar un uso responsable de productos y servicios financieros, se estableció el fundamento legal para fomentar la educación económico-financiera a través del sistema educativo.

Cabe destacar que todos estos esfuerzos abonan a la materialización de los objetivos de la Política Nacional de Inclusión Financiera anunciada el pasado 11 de marzo de 2020. Desde inicios de 2019 entidades del Gobierno de México en conjunto con el Banco de México iniciaron un proceso de revisión de los esfuerzos en inclusión financiera, así como de actualización de la política hasta ese momento vigente. Este ejercicio derivó en una nueva política cuyos objetivos principales son:

1. Facilitar el acceso a productos y servicios financieros para personas y micro, pequeñas y medianas empresas (Mipyme).
2. Incrementar los pagos digitales entre la población, comercios, empresas y los tres niveles de gobierno.
3. Fortalecer la infraestructura para facilitar el acceso y provisión de productos y servicios financieros y reducir las asimetrías de información.
4. Incrementar las competencias económico-financieras de la población.
5. Fortalecer el acceso a herramientas de información y a mecanismos de protección financiera.
6. Favorecer la inclusión financiera de personas en situación de vulnerabilidad, como mujeres, migrantes, personas adultas mayores, indígenas y población rural.

[5] Global Findex, Banco Mundial, 2017

Además, la política fue diseñada con mecanismos de transparencia y rendición de cuentas que la harán más efectiva en el cumplimiento de sus objetivos:

1) Establece metas específicas hacia 2024 para cada uno de sus objetivos.
2) Incorpora los comentarios de actores relevantes en inclusión financiera tanto del sector privado y académicos, así como de organismos internacionales como el Banco Mundial. A su vez, establece esquemas de coordinación con estos mismos actores para el periodo de implementación de la política.
3) Fue consultada con autoridades del sector público fuera del sector financiero para alinearse a los esfuerzos de otras políticas de gobierno como el despliegue de los programas sociales.
4) Establece instituciones públicas como responsables para cada una de sus acciones.
5) Señala un conjunto de acciones que son prioritarias y estratégicas por su impacto en la inclusión financiera.
6) Prevé mecanismos para monitorear los avances en la implementación de la misma política.

En virtud de lo anterior, solicitamos amablemente su apoyo para obtener un préstamo de desarrollo de políticas que reconozca las acciones de política pública, regulación y supervisión diseñadas e implementadas en el sector financiero anteriormente mencionadas, considerando sus efectos en la respuesta y recuperación de la pandemia COVID-19, así como la profundización de la inclusión financiera en el país. A continuación, se describen de forma detallada dichas acciones y los avances del Gobierno en la materia.

En el contexto de la pandemia COVID-19, el sistema financiero mexicano enfrenta el desafío de mantener un flujo de financiamiento adecuado ante la disminución del crecimiento y la volatilidad derivada de la incertidumbre sobre los efectos de la pandemia. Para promover la oferta de crédito, el Banco de México redujo el depósito de regulación monetaria para liberar a la banca comercial y de desarrollo de manera inmediata en 50 mil millones de pesos y que se deposita obligatoriamente de manera permanente en el Banco Central. La regulación emitida incluye incentivos para los intermediarios financieros que canalicen mayor liquidez al financiamiento del sector privado. Asimismo, con el fin de mantener condiciones de liquidez adecuadas, el Banco de México redujo el costo de la facilidad de liquidez adicional ordinaria para la banca comercial de 2.2 a 1.1 veces la tasa de interés interbancaria a un día, con el fin de fortalecer las alternativas de financiamiento de la banca comercial, para que cuente con la liquidez necesaria para realizar adecuadamente sus operaciones.

En materia de atención a sectores vulnerables, el 27 de marzo del año en curso se publicó en el Diario Oficial de la Federación la modificación al marco legal para que los jóvenes de entre 15 y menos de 18 años de edad puedan abrir su primera cuenta de bancaria y fungir como titulares de la misma. Esto se traducirá en beneficios potenciales para alrededor de 7 millones de jóvenes. Cabe destacar que, conforme a la Encuesta Nacional de Ingreso y Gastos de los Hogares 2018 realizada por el INEGI, México cuenta con 2.4 millones de personas de entre 16 y 18 años de edad que, respecto de un universo de 7.2 millones, forman parte de la población económicamente activa que se encuentra trabajando, los cuales requieren contar con una cuenta bancaria de la que sean titulares por sí mismos y en la que puedan depositar sus ingresos, los cuales conforme a la legislación civil nacional pueden ser administrados y dispuestos libremente por ellos, sin requerir del consentimiento de sus padres o tutores, por provenir de su propio trabajo.

A su vez, se publicaron regulaciones que complementan el marco jurídico para un adecuado desarrollo del sector FinTech. En particular, se emitieron lineamientos de transparencia a los que deben sujetarse las instituciones de tecnología financiera al momento de otorgar información a los clientes sobre sus productos y servicios financieros. Por ejemplo, a través de publicidad, contratos de productos o servicios, así como estados de cuenta. Cabe destacar que otras regulaciones enfocadas a impulsar el sector también serán emitidas en los próximos meses. Se establecerán los lineamientos bajos los cuales las Instituciones de Fondos de Pago Electrónico podrán contratar a comisionistas para ofrecer servicios de apertura de cuentas, retiros y abonos de efectivo, consultas de saldos y movimientos. Asimismo, se emitirán las disposiciones de banca abierta (*Open Banking*) con el propósito de compartir datos financieros agregados y transaccionales de las personas, bajo esquemas de consentimiento apropiados, a través de interfaces de programación de aplicaciones informáticas estandarizadas. Lo anterior permitirá el diseño, así como la oferta de productos más adecuados a las necesidades del cliente y con ello mayor competencia en el mercado de productos y servicios financieros. Además, el Banco de México emitió disposiciones adicionales para expandir el uso de la plataforma de Cobro Digital (CoDi) anunciada en enero 2019. Particularmente, se emitieron reglas para que actores no conectados a la plataforma de pagos electrónicos interbancarios del Banco de México, SPEI, pudieran desarrollar aplicaciones para la emisión de mensajes de cobro vinculados a la plataforma.

En materia de género, a través de la Banca de Desarrollo se promueve un impulso a la economía, concentrando sus esfuerzos en aquellos sectores con mayor impacto para el desarrollo económico y social de México, como lo es el crédito a mujeres que tienen oportunidades productivas, pero que en ausencia de la Banca de Desarrollo no tienen acceso a créditos. Con la entrada en vigor de la Reforma Financiera, ahora las instituciones de la Banca de Desarrollo deberán promover la igualdad entre hombres y mujeres, a fin de adoptar una perspectiva de género en todos los productos y servicios que ofrecen. El artículo 44 Bis 4 de la Ley de Instituciones de Crédito señala que "Las instituciones de banca de desarrollo, los fideicomisos públicos constituidos por el Gobierno Federal para el fomento económico que realicen actividades financieras, y la Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero, deberán procurar y priorizar, dentro de los recursos destinados a la oferta de productos y servicios financieros, programas y proyectos que atiendan las necesidades específicas de las mujeres en materia de ahorro, inversión, crédito y mecanismos de protección".

Adicionalmente, para promover que la población desarrolle mayores capacidades económico-financieras, empezando por los niños y jóvenes del país, el 30 de septiembre de 2019 se publicó la Ley General de Educación, la cual es el marco legal que regula la educación impartida por el Estado. Dentro de esta Ley, en el artículo 30, fracción XIV, se estableció que la educación financiera se incluyera en los planes y programas de estudio de la educación que imparte el Estado, sus organismos descentralizados y los particulares con autorización o validez oficial de estudios. En línea con lo anterior, se reconoce que los directivos y docentes de las escuelas tienen un papel importante en este desarrollo de competencias económico-financieras de los alumnos. Por ello, se emitieron los lineamientos de un programa enfocado en educación económico-financiera de supervisores y maestros de escuelas con altos indices de vulnerabilidad y bajo desempeño académico de los estudiantes. Lo anterior en su conjunto, permitirá que niños y jóvenes desarrollen habilidades que los lleven a tomar decisiones financieras adecuadas a sus necesidades, generar resiliencia ante choques financieros mediante el hábito del ahorro e incrementar su bienestar y el de sus familias.

Finalmente, el derecho de las personas a la identidad debe constituir la base para el acceso y ejercicio de sus demas derechos. La Constitución Política de los Estados Unidos Mexicanos en su artículo 4°, establece el derecho a la identidad de todas personas, el cual debe ser garantizado por el Estado. Por ello, el Gobierno de México ha establecido dentro de sus principales estrategias, trabajar en la construcción de la identidad nacional, para lo cual se han realizado las siguientes adecuaciones normativas y los siguientes proyectos:

1. Se incluyó en el Reglamento Interior de la Secretaría de Gobernación expedido en el Diario Oficial de la Federación el 31 de mayo de 2019, como parte de las atribuciones de la Dirección General del Registro Nacional de Población e Identidad (RENAPO), la operación del Servicio Nacional de Identificación Personal (SNIP), en concordancia a lo dispuesto en el artículo 27, fracción VI de la Ley Orgánica de la Administración Pública Federal, que le otorga dicha atribución a la Secretaría de Gobernación. Hasta antes de la expedición del nuevo Reglamento Interior, no existía precepto alguno que indicara con toda claridad que el SNIP es competencia del RENAPO, servicio que es fundamental para garantizar la identidad de las personas, a través de su información de identidad jurídica y biométrica.

2. Se integraron, formalizaron y se suscribieron 29 de los 32 Convenios de Coordinación para la operación del Programa Presupuestario E012 Registro e Identificación de Población, que se tienen programados al primer semestre de 2020, a través de los cuales el RENAPO se coordinará con los Registros Civiles del país para implementar entre otras acciones, el Sistema Nacional de Registro e Identidad (SID); único sistema a través del cual se registrará a todas y todos los mexicanos, cuyo diseño modular, permitirá integrar los datos biométricos de la población. Los 3 convenios pendientes, se suscribirán durante el primer semestre de este 2020. Con estas acciones se logra la coordinación entre las autoridades encargadas del registro de la población y permite establecer bases sólidas para garantizar de manera efectiva el derecho a la identidad de todas las personas.

HACIENDA
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

2020 LEONA VICARIO

Subsecretaría de Hacienda y Crédito Público

Estos proyectos irán acompañados de otras reformas adicionales del sistema nacional de identificación que está trabajando el RENAPO y que se vuelven ahora más urgentes en el contexto económico del COVID-19.

El Gobierno de México ha mantenido una estrecha relación de colaboración con el Banco Mundial, y por ello hemos hecho un esfuerzo conjunto por emitir regulaciones eficientes y programas financieros, que propicien las condiciones para la creación de un sector financiero más dinámico y competitivo para apoyar a los sectores más vulnerables durante la pandemia COVID-19, además de propiciar su inclusión financiera. En virtud de lo anterior, agradecemos el reconocimiento del Banco Mundial a las acciones que hemos emprendido para promover nuestra visión de un sistema financiero incluyente y con oportunidades de acceso al financiamiento para todos los mexicanos.

Sin más por el momento, hago propicia la ocasión para enviarle un cordial saludo.

ATENTAMENTE
EL SUBSECRETARIO

KM **GABRIEL YORIO GONZÁLEZ**

C.c.p. **Mtro. Arturo Herrera Gutiérrez.** Secretario de Hacienda y Crédito Público. Para su conocimiento. Presente

6

Unofficial translation of the Letter of Development Policy

LETTERHEAD – Ministry of Finance and Public Credit

Office Memorandum No. 102 - B-062
April 13, 2020
Mexico City

David Malpass
President of the World Bank Group

Dear Mr. Malpass,

Among the objectives of the Mexican Government is advancing a financial system transformation agenda that leads to a more inclusive market. Increasing the access of a larger portion of the population to more and better financial products and services - amongst them, financing - will be paramount in contributing to economic growth and social wellbeing.

The measures adopted by public authorities and the private sector to address the current health contingency scenario and prevent the rapid spread of the SARS-CoV-2 virus (COVID-19), have led to several effects including the slowdown of economic activity, which makes actions to foster economic reactivation and deepen the financial system even more urgent. Individuals as well as businesses must be able to access their money and financial services remotely and under safe conditions. In this context, and in line with the measures implemented by the governments of other countries, a number of regulatory actions are being implemented to allow financial sector participants to continue offering their services even under the constraints of the contingency, and allow people to receive not only government aide, but also access to financing from financial institutions, which can help smooth consumption; access electronic means to perform transactions in a safe and speedy manner; as well as, actions to help individuals better handle their credit obligations and provide greater flexibility to allow financial institutions to continue offering credit.

Despite the advantages of a truly inclusive financial system, Mexico still faces various challenges. On financial infrastructure, we have a lower level of access points relative to similar economies. Brazil has double as many financial service provider agents, 10 for every 10,000 adults, while Mexico stands at 5.[1] Use of digital payments is still scarce, with only 28% of the population using this payment method as opposed to 61% in Chile[2]. Amongst vulnerable groups, access to the financial system is also limited. Only 33% of women have an account, while 41% of male are accountholders, and only 1 in every 3 young adults between the ages of 15 and 24 have an account[3]. Moreover, access to finance for micro, small and medium enterprises is scarce. In 2018, only 20%, 32% and 52% of these businesses had access to credit[4]. The country lacks a foundational digital identity system which in addition to serving as the foundation for the population's national identity, also offers certainty and adequately facilitates access to all types of

[1] Encuesta de Acceso a Servicios Financieros, Fondo Monetario Internacional, 2017.
[2] Findex Global, Banco Mundial, 2017
[3] Findex Global, Banco Mundial, 2017
[4] Encuesta Nacional de Financiamiento de las Empresas, 2018

services, including financial services. Identity systems, especially those that incorporate digital biometric information, allow people and institutions to access formal financial services in a more expeditious and efficient manner throughout its different stages - request, authentication, hiring and transacting. In 2017, 10% of the Mexican population still did not have an identification document, while in similar economies like that of Brazil, this was only 2%.[5]

In light of the pending challenges, the current Administration has worked continuously during the past year to issue rules and regulatory reforms that allow for greater access and use of the financial system among the population. Work has been done on the preparation and issuance of the secondary regulation derived from the Fintech Law on transparency in the provision of information regarding the products and services offered by Financial Technology Institutions and the hiring of agents. Regulations promoting a wider adoption of the Digital Payments Platform (CoDi, in Spanish) announced by the Central Bank of Mexico (*Banco de México*) in January 2019 were issued, and regulations allowing for greater use of financial products and services amongst financially excluded youth and women were issued. Work on consolidating an identification system that will enable citizens to exercise their right to identity has also been continued. Finally, to ensure a responsible use of financial products and services, the legal foundation to promote economic-financial education through the education system was established.

It is worth noting that all of these efforts support the materialization of the objectives established in the National Policy for Financial Inclusion announced on March 11, 2020. Since early 2019, Mexican Government Institutions, in cooperation with the Central Bank, initiated a revision process for efforts made on financial inclusion and to update the then current policy. This exercise resulted in a new policy which main objectives are to:

1. Facilitate the access to financial products and services for individuals as well as micro, small and medium enterprises (*Mipyme*, in Spanish).
2. Increase digital payments among the population, merchants, businesses and the three levels of government.
3. Strengthen the infrastructure to facilitate access and provision of financial products and services and reduce information asymmetries.
4. Increase the economic-financial skills among the population.
5. Strengthen access to information tools and mechanisms for financial protection.
6. Enable financial inclusion of the most vulnerable population groups such as women, migrants, the elderly, and the indigenous as well as rural population.

Furthermore, the policy's design includes transparency and accountability mechanisms that will make it more effective in achieving its objectives:

1) It establishes specific goals for 2024 for each one of its objectives.
2) It incorporates feedback from relevant financial inclusion stakeholders from the private and academic sectors as well as international organizations, such as the World Bank. It also outlines coordinated activities with these same stakeholders during the implementation stage of the policy.

[5] Findex Global, Banco Mundial, 2017

3) It benefits from consultations with public sector authorities outside the financial sector in order to align efforts with other government policies such as the deployment of social programs.
4) It establishes public sector institutions as responsible entities for each of its actions.
5) It highlights several measures that are considered priority and strategic due to their impact on financial inclusion.
6) It incorporates mechanisms to monitor implementation progress.

In virtue of the above, we kindly request your support to obtain a policy development loan that recognizes the aforementioned designed and implemented financial sector policy, regulation and supervision measures , considering their effect in the response and recovery from the COVID-19 pandemic, as well as the country's deepening of financial inclusion. A detailed description of the measures taken by the Government and the progress made are as follows.

In the context of the COVID-19 pandemic, the Mexican financial system faces the challenge of maintaining adequate financing streams in light of the economic slowdown and the volatility derived from the uncertainty of the effects of the pandemic. To promote credit supply, Mexico's Central Bank reduced the monetary regulation deposit –a mandatory and permanent deposit at the Central Bank - by 50 thousand million pesos which would be immediately released to commercial and development banks. The issued regulation includes incentives for the financial intermediaries that channel this greater liquidity towards financing of the private sector. Additionally, in order to maintain adequate liquidity conditions, the Central Bank reduced the cost of the ordinary additional liquidity facility for commercial banks from 2.2 to 1.1 times the overnight interbank interest rate, with the purpose of strengthening financing alternatives for commercial banks, so they have the necessary liquidity to adequately conduct their operations.

With regard to tending to vulnerable sectors, on March 27 a legal reform was published in the Official Gazette allowing minors between 15 and 18 years to open their first bank account on their own name. This will translate into potential benefits for approximately 7 million individuals. It is important to note that, according to the 2018 National Household Income and Expenditure Survey conducted by the National Institute of Statistics, Geography and Informatics (INEGI, in Spanish), Mexico has 2.4 million people between the ages of 16 and 18 that, with respect to a universe of 7.2 million, are part of the economically active population currently working, and who need a bank account on their own name where their earnings can be deposited, which according to national civil legislation, may be freely administered and managed by them without requiring consent of parents or tutors, as they originate from their own labor.

Moreover, regulations that complement the legal framework for an adequate development of the FinTech sector were published. In particular, transparency guidelines to which the financial technology institutions must abide when providing clients with information on their financial products and services. For example, in marketing, product or service contracts, as well as account statements. It is important to mention that other regulations focused on boosting this sector will also be issued in the upcoming months. Guidelines on how Electronic Payment Fund Institutions will be able to hire agents to offer account opening, withdrawal, cash deposit, balance check, and transaction services will also be established. Furthermore, measures for open banking, to share financial aggregate and transactional data under the appropriate consent framework, through application programming interfaces will be issued. The latter will allow for the design and offer of products more adequate to client needs and thus, generate greater competition in the financial products and services market. Furthermore, Mexico's Central Bank issued additional measures to expand the use of the Digital Payments platform (CoDi), which was announced in January 2019. In particular, rules have been issued so that third parties not connected to the Central Bank's interbank electronic payment platform, SPEI, may develop apps to issue request-to-pay messages linked to the platform.

In terms of gender, Development Banking promotes economic growth, focusing its efforts on sectors with greatest impact on economic and social development in Mexico, such as credit for women who have productive opportunities, but who without Development Banking would lack access to credit. With the Financial Reform, all Development Banking institutions must now promote equality between men and women, with the goal of adopting gender perspective in all products and services offered. Article 44 Bis 4 of the Credit Institutions Law notes that "development banking institutions, public trusts with financial activities established by the Federal Government for economic development, and the National Agricultural, Rural, Forestry and Fishing Development Agency, must procure and prioritize within the funds destined for financial products and services, programs and projects that address women's specific needs in terms of savings, investment, credit and protection mechanisms".

Additionally, to promote the development of greater economic-financial skills among the population, starting with children and youth, the General Education Law, which serves as the legal framework that regulates education provided by the State, was published on September 30, 2019. Within this Law, in Article 30, Fraction XIV, it is established that financial education shall be included in the curriculum for State-provided education, its decentralized organizations and private institutions with authorization or valid official recognition. In line with this, it is recognized that both school directives and teachers play an important role in the development of economic-financial skills among students. Therefore, guidelines for a program focused on economic-financial education of supervisors and teachers in schools with high vulnerability indexes and low-academic performance in students were issued. The abovementioned, will allow children and youth to develop skills that will lead them to make adequate financial decisions, generate resilience from financial shocks through the habit of saving and increase their overall wellbeing and that of their families.

Finally, individuals' right to identity must constitute the basis for the access and exercise of all other rights. In the Political Constitution of the United Mexican States, Article 4 establishes the right to identity for all individuals, which must be guaranteed by the State. Thus, the Mexican Government has established working on the construction of national identity as one of its main strategies and therefore has undertaken the following legislative reforms and projects:

1. In the Official Gazette, on March 31, 2019, the operation of the National Personal Identification System (SNIP) was included as part of the responsibilities of the General Directorate for National Population and Identity Registry (RENAPO, in Spanish) in the Ministry of the Interior's Internal Regulations, in accordance with article 27, fraction VI of the Organic Law of the Federal Public Administration, which grants said attribution to the Ministry of the Interior. Prior to the issuance of the new Internal Regulations, there was no precept that clearly stated the SNIP, a fundamental service to guarantee people's identity through biometric and legal identity data, as a direct responsibility of RENAPO.

2. 29 out of the 32 Coordination Agreements for the operation of the Budgetary Program E012 of the Population and Identification Registry programmed for the first semester of 2020 were integrated, formalized and subscribed. Through them, RENAPO will coordinate with Civil Registries in the country the implementation of, among other measures, the National Identity and Registry System (SID); the only system through which all Mexicans will be registered, which modular design will allow for biometric data integration. The three pending agreements will be subscribed during the first semester of 2020. With these measures, coordination among the authorities in charge of the population's registry and a solid base that effectively guarantees the people's right to identity will be achieved.

These projects will be accompanied by further additional reforms to the national identification system that RENAPO has been working on and that are now even more urgent within the economic context of COVID-19.

The Government of Mexico has maintained a close collaborative relationship with the World Bank, and therefore we have made a joint effort to issue efficient regulations and financial sector programs that fosters the conditions needed to create a more dynamic and competitive financial sector which supports the most vulnerable sectors during the COVID-19 pandemic, and advance their financial inclusion. In virtue of the above, we thank the World Bank for the recognition of the actions that we have undertaken to promote our vision of a more inclusive financial system with opportunities of access to financing for all Mexicans.

With this, I take the opportunity to extend my warm regards.

Sincerely,

Gabriel Yorio González
Undersecretary of Finance and Public Credit

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Prior Action #1: The Borrower's Central Bank has increased banks' liquidity by reducing the monetary regulation deposit, as evidenced by Circular 7/2020 published in the Official Gazette on April 1, 2020.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Positive impact in the short and long term.
Prior Action #2: The Borrower's Central Bank has further enabled banks' access to liquidity facilities by reducing the cost of its ordinary additional liquidity facility, as evidenced by Circular 4/2020 published in the Official Gazette on April 1, 2020.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Positive impact in the short and long term.
Prior Action #3: The Borrower has enacted the Reform to the Credit Institutions Law, published in the Borrower's Official Gazette on March 27, 2020, enabling minors between 15 and 17 years old, who are wage earners with an active payroll and/or receive social benefit programs to: (i) open bank saving accounts under their own name; and (ii) use and manage the underlying funds without requiring representation from an adult.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Limited impact in the short-term, but positive in the medium and long term.
Prior Action #4: The Borrower has issued regulations aimed at strengthening transparency practices applicable to ITFs, as evidenced by CONDUSEF's general dispositions for Fintech institutions published in the Borrower's official Gazette on July 9, 2019.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Limited impact in the short-term, but positive in the medium and long term.
Prior action #5: The Borrower's Central Bank has issued regulations to support the implementation of the electronic payment platform ("CoDi") and provide the legal framework for third-party non-SPEI participants to offer the service of payment request generator, as evidenced by Circulars: (i) No. 11/2019 published in the Official Gazette on October 1, 2019 and (ii) No.12/2019 published in the Official Gazette on October 3, 2019.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Limited impact in the short-term, but positive in the medium and long term.

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Prior Action #6: The Borrower has enacted the Amendment to the Credit Institutions Law, published in the Borrower's Official Gazette on June 4, 2019, mandating the prioritization of programs and projects targeting women's financial needs and gender parity in state development banks' corporate governance structure.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Positive short-term effects of the prioritization of programs and projects targeting women in the short run. Positive medium- and long-term effects of a gender balanced administration.
Prior Action #7: The Borrower has enacted the Education Law, published in the Borrower's Official Gazette on September 30, 2019 and issued the Training Program Operational Guidelines, published in the Borrower's Official Gazette on December 29, 2019 determining that financial education be part of the official school curricula from preschool through high school, and that selected primary and secondary public-school educators be trained on the subject to promote financial inclusion.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Limited impact in the short-term, but positive in the medium and long term.
Prior Action #8: The Borrower has established the National Service of Personal Identification which will enable the verification of individuals' identity to third parties including financial institutions, as evidenced by article 58 of the *Reglamento Interior de la Secretaría de Gobernación*, published in the Borrower's Official Gazette on May 31, 2019.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Positive in the short term by improving access and positive in the long term by reducing leakages in social assistance programs.
Prior Action #9: The Borrower has enabled mechanisms to exchange data between civil registries related to individual's identity and its verification through adequate technological infrastructure and standardized operating rules in civil registries at the state level, including the binding of the legal identity with biometric data, as evidenced by the twenty-seven (27) Coordination Agreements signed with states of the Borrower.	No, this prior action is not likely to generate significant positive or negative environmental effects.	Positive short-term effects through impacts on verification of beneficiaries of social protection programs, and potential for increased access to financial services.

ANNEX 5: DETAILED POVERTY AND SOCIAL IMPACT ANALYSIS

1. **The Poverty and Social Impact Analysis (PSIA) is developed according to WB guidelines and is designed to provide an analysis of the potential poverty and social impacts of the policy actions outlined in this DPF**. The PSIA outlines the expected impacts from a gender-informed, social and distributional perspective. The assessment is meant to provide analysis of the policy actions with outcomes in the key objectives of this operation.

2. **The policy measures supported under this DPF series are not expected to have large short-term poverty or social impacts.** Over the medium term, the set of prior actions under the program are expected to enable increased access to finance for the population and provide identification that would allow access to multiple services, including finance. The expected individual impacts of prior actions under the specific pillars are summarized in the table above. Information from several surveys on financial inclusion and on identification in Mexico was gathered to inform this analysis. In addition, a literature review of the empirical evidence on potential impacts of these prior actions has been gathered, including academic research papers and previous evaluations by the WB and other multilateral organizations.

Prior Action 1: Banks' liquidity - Monetary Regulation Deposit

The Borrower's Central Bank has increased banks' liquidity by reducing the monetary regulation deposit, as evidenced by Circular 7/2020 published in the Official Gazette on April 1st, 2020.

Prior Action 2: Banks' liquidity - Ordinary Additional Liquidity Facility

The Borrower's Central Bank has further enabled banks' access to liquidity facilities by reducing the cost of its ordinary additional liquidity facility, as evidenced by Circular 4/2020 published in the Official Gazette on April 1st, 2020.

3. **A liquidity crunch, in addition to the ongoing health crisis, would lead to job losses and hit the poor and vulnerable who have limited resources to cope with a negative shock.** The ongoing COVID crisis is an international global shock, it has led to a sudden stop in financial flows to emerging markets. Such an event could easily lead to financial instability without measures to ensure that there is sufficient liquidity in the system, disrupting the payment systems, and having an immediate effect on people´s ability to pay for their immediate needs. When the financial system suffers a negative shock, banks begin to hoard liquidity resulting in a credit crunch. As banks increase their cost of credit to recoup lost interest income, short term borrowing costs rise and reductions in credit could force businesses to fire their workers and default on their debts to input providers. In severe cases, bank runs and capital flight could lead to strict capital controls and short-term bank closures. The main losers in such scenarios are the poor, who may not have access to remittance, government transfers, and their wages, making it impossible for them to meet their basic needs. For instance, in the context of the 2000 Argentine financial crisis, it was mostly poorly educated urban workers who experienced larger than average declines in income (Corbacho et al, 2003). Habib, Narayan, Olivieri and Sanchez (2010) find that due to the 2008 financial crisis, poverty reduction slowed in the Philippines and actually increased in Mexico. More recent empirical evidence, based on the Laeven and Valencia (2012) international banking crisis database, suggests that a banking crisis could reduce the income of the poor by as much as 10.6 percent (Rewilak, 2018).

4. **Additional liquidity can enhance the role of bank lending during the crisis and protect the poor from more severe economic losses.** Recent literature highlights the effect of bank liquidity on lending. Cornett et al. (2011) find that banks' efforts to manage liquidity caused a decline in bank lending during the 2008 financial crisis. Ivashina and Scharfstein (2010) show that the decline in bank lending was greater for banks with less access to deposit financing and higher exposure to credit line drawdowns. Results from U.S. commercial banks over the period 1993–2010, find no evidence that bank liquidity mattered for the relationship between bank capital and lending in small and medium-sized banks. However, the authors find that for large banks, greater liquidity was associated with a stronger positive correlation between bank capital and lending, particularly during the global financial crisis (Kim and Sohn, 2017). These findings suggest that Basel III liquidity requirements complement capital requirements and can help smooth lending by large banks during times of crisis (World Bank, 2020).

Prior Action 3: Access to bank accounts for minors

The Borrower has enacted the Reform to the Credit Institutions Law, published in the Borrower's Official Gazette on March 27, 2020, enabling minors between 15 and 17 years old, who are wage earners with an active payroll and/or receive social benefit programs to: (i) open bank saving accounts under their own name; and (ii) use and manage the underlying funds without requiring representation from an adult.

5. **Financial inclusion is important for poverty reduction.** The literature has found that when people are part of the financial system, they are better able to start a business, invest in health and education or absorb unexpected financial shocks.[1] The empirical evidence for Mexico shows that the expansion in the supply of financial services has proven to have a positive effect on the economic opportunities for the poor. For instance, in 2002 a new bank (Banco Azteca) that targets low income households and least populated municipalities, led to a massive increase in banking services in Mexico, enabling the poorest to smooth consumption and accumulate more durable goods (Ruiz, 2013). The increase in financial services had positive effects on labor market activity and income levels with impacts more pronounced for individuals below-median income levels (Bruhn and Love, 2009). A similar regulation introduced in 2007 –which authorized five more banks that targeted low-income households–also had effects on employment outcomes and entrepreneurial activities, particularly for informal business owners.

Table A1. Account ownership (% age 15+) by individual characteristics, Findex, 2017

	Mexico	LAC	UMC
Total	36.9	54.4	73.1
Older adults (ages 25+)	38.3	59.5	74.6
In labor force	42.9	59.5	78.4
Out of labor force	26.0	43.3	61.6
Primary education or less	24.5	43.9	65.6
Secondary education or more	43.8	60.1	80.2
Income, poorest 40%	25.8	41.9	62.4
Income, richest 60%	44.0	62.7	80.3
Rural	29.3	52.6	72.9

Source: Global Findex (Global Financial Inclusion Database), *https://globalfindex.worldbank.org/* .

[1] See Burguess and Pande (2005), Karlan and Zinman (2010) Dupas and Robinson (2013), Kast and Pomenraz (2014), and Brune et. al (2016)

6. **Although access to finance has been increasing in Mexico, it continues to be low relative to peer countries, particularly among the bottom of the distribution.** A larger share of the population had a bank account in 2018 comparted to 2012. However, account ownership continues to be very low compared to other regional and upper middle-income countries, particularly in rural areas (29.3 vs 72.9 percent). Moreover, less than 4 percent of people at the bottom 40 and only 7 percent in rural areas saved at a formal financial institution in 2017.

7. **Enabling access to bank accounts for minors will improve access to finance to younger generations and teach important saving behaviors to young adults**. Focusing on the financial inclusion of the youth is important for several reasons. Good financial habits formed at an early age are likely to benefit standards of living throughout adulthood. Moreover, having a financially knowledgeable young population can also have a trickle-up effect on their parents and their households' financial decisions.

8. **Although young adults save and borrow more than the rest of the population in Mexico, they mostly operate outside of the financial system.** In Mexico, as in LAC and other UMC, young adults (ages 15-25) save more than the rest of the population (Table A2). About 46.6 percent of young adults in Mexico saved any money over the last year compared to 38.4 percent of older adults (ages 25+). However, in LAC and UMC, young adults save less at financial institutions compared to the rest of the population. In Mexico, 10.6 percent of young adults saved at a financial institution while only 9.5 percent of older adults did. Moreover, young adults in Mexico borrow slightly more money than older adults, but they mostly borrow from friends and family. Enabling the youth to begin a relationship with a financial institution will likely increase their chances of enjoying the benefits, including eventually being able to access a loan and unlocking their economic potential.

Table A2. Financial access for young adults (ages 15-24) and older adults (ages 25+)

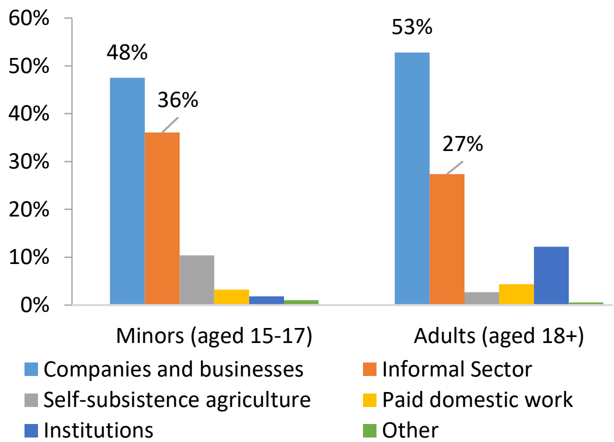
	Mexico		LAC		UMC	
	Young adults	Older adults	Young adults	Older adults	Young adults	Older adults
Account ownership	32.8	38.3	39.3	59.5	65.9	74.6
Saved any money	46.6	38.4	45.7	34.3	48.3	46.1
Saved at a financial institution	10.6	9.5	10.7	12.8	23.3	27.6
Borrowed any money	32.3	31.5	34.4	38.6	37.5	45.8
Borrowed from a financial institution	4.7	6.1	6.2	10.4	6.4	10.7
Borrowed from family or friends	18.0	12.6	19.0	14.0	23.4	26.7
Made or received digital payments	29.7	32.4	33.4	49.0	59.8	62.8
Mobile money account	11.6	3.5	1.7	3.6	1.0	2.2

Source: Findex, World Bank, 2017
Note: Variables refer to over the last 12 months

9. **To the extent that the youth are more likely to use mobile accounts, they may also be able to tap lower cost financial products.** The share of young adults with mobile money accounts in Mexico is more than 3 times higher than older adults. More striking is the fact that in Mexico close to 12 percent of young adults have a mobile money account while in LAC and in other UMC only 1.7 and 1 percent of young adults did.

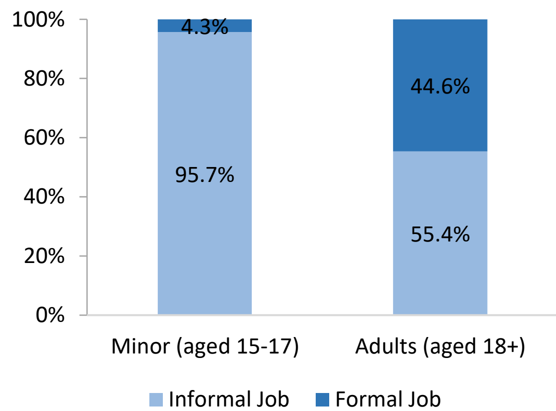
10. **Enabling minors to open accounts provides incentives for employers to pay them formally through the banking system** There are almost 7 million people aged 15 to 17, legally part of the working age population, who are excluded from owning and using bank accounts, of which 1.5 million are currently employed (70 percent of those working minors are men and 30 percent female). This situation limits the ability of employers to pay formally through the banking system to young people in this age group and may carry negative incentives for employers to hire young workers or hire them informally. As measured by the labor force survey, the vast majority of minors (95.6 percent) performed informal jobs, in contrast to the adult population (55.4 percent). However, only 36 percent of these young population work in the informal sector, which means in most cases young workers could be paid through the financial system. Out of the 1.5 million employed minors, 47.5 percent work in companies and businesses (Figure A1). Most minor women working in companies and businesses do so in retail (36 percent), services (29 percent) and manufacture (23 percent), whereas men work in agriculture (40 percent), services (22 percent) and retail (20 percent).

Figure A1. Distribution of employed population by sector of employment, IIIQ 2019



Source: *Encuesta Nacional de Ocupación y Empleo*, IIIQ 2019

Figure A2. Type of job, IIIQ 2019



Prior Action 4: Regulations to increase transparency practices for Fintechs

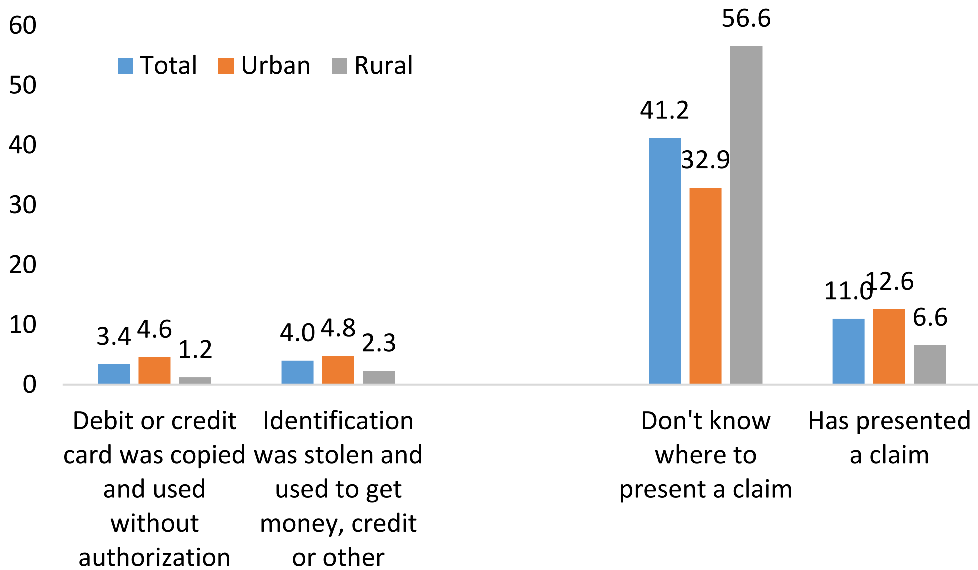
The Borrower has issued regulations aimed at strengthening transparency practices applicable to ITFs, as evidenced by CONDUSEF's general dispositions for Fintech institutions published in the Borrower's official Gazette on July 9, 2019.

Prior Action 5: Implementation of CoDi

The Borrower's Central Bank has issued regulations to support the implementation of the electronic payment platform ("CoDi") and provide the legal framework for third-party non-SPEI participants to offer the service of payment request generator, as evidenced by Circulars: (i) No. 11/2019 published in the Official Gazette on October 1, 2019 and (ii) No.12/2019 published in the Official Gazette on October 3, 2019.

11. **Regulations that support transparency measures will be an opportunity to create trust in the financial sector, which is much needed**. In 2017, 26.7 percent of the unbanked population (aged 15+) declared that the lack of trust in financial institutions as a barrier for owning an account in Mexico. Moreover, out of the 23.2 million of adults with a savings account that have not contracted mobile banking services, 18 percent declared it was because they lack trust, according to the ENIF 2018. The use of technology to disburse payments rather than cash has been proven to increase transparency and reduce corruption (Muralidharan, et. al, 2016). In fact, a secure payment infrastructure is an investment that could improve the implementation of social programs. To the extent that new regulations support transparency measures, this could improve trust in the financial system.

Figure A3. Customers who have faced financial crimes & knowledge about available recourse, 2018



Source: ENIF, INEGI 2018

12. **Greater flexibility and security through an increased use of electronic payments can lead to greater financial inclusion and positive social and poverty impacts.** Most transactions in Mexico have traditionally been done in cash (Table A4). This is true for large transactions as well as for regular payments including taxes, fees, public and private services. The new electronic payments platform, CoDi, is expected to expand access to alternative electronic payment options, reducing the cost of doing business for micro and small firms and providing a path for these firms to establish a record in the financial system, potentially enabling a future access to credit. Moreover, evidence has shown that digital payments increase the security, privacy and control over the funds received, especially for women (Docquier, Lowell and Marfouk, 2009; Dupas and Robinson, 2009; Morawcynski and Pickens, 2009; Duflo, 2012).

Table A3. Mexico. Forms of Payment Used

	For payments of MX500+			Form of payment used by type of transaction				
	National	Urban	Rural	Rent	Taxes or fines	Utilities: electricity, water, other	Private services: phone, cable, internet, other	Public transport
Cash	87.5%	83.5%	95.0%	89.8%	92.3%	95.2%	91.5%	97.6%
Debit card	9.3%	12.4%	3.3%	3.3%	4.0%	2.4%	4.2%	0.4%
Credit card	2.6%	3.3%	1.3%	0.3%	1.3%	0.6%	1.5%	0.2%
Electronic transfer	0.4%	0.5%	0.1%	3.6%	1.7%	1.3%	1.5%	0.1%
Check	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
Prepaid card	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	1.6%
Automatic debit to account/card	0.0%	0.0%	0.0%	1.5%	0.3%	0.4%	1.1%	0.1%
Other	0.2%	0.1%	0.2%	1.3%	0.3%	0.1%	0.1%	0.1%

Source: ENIF, INEGI 2018

Table A4. Made digital payments in the past year (% age 15+) by individual characteristics, 2014-2017

	Mexico		**LAC**		**UMC**	
	2014	2017	2014	2017	2014	2017
Total	29.4	31.7	37.7	45.1	44.4	62.3
Male	31.7	35.8	43.3	47.7	47.3	65.9
Female	27.3	28.2	32.3	42.6	41.6	58.7
Young adults (% age 15-24)	26.2	29.7	29.1	33.4	46.4	59.8
Older adults (% age 25+)	30.6	32.4	40.6	49.0	43.9	62.8
In labor force	39.2	38.7	46.7	51.1	49.5	68.7
Out of labor force	14.2	19.0	23.1	32.0	32.6	48.3
Primary education or less	17.0	19.6	23.6	32.1	28.1	50.5
Secondary education or more	38.8	38.3	46.7	52.0	62.2	73.4
Poorest 40%	17.2	20.2	24.2	32.4	29.4	48.5
Richest 60%	37.5	39.1	46.6	53.4	54.1	71.6
Rural areas	22.9	23.7	32.0	42.5	36.9	60.4

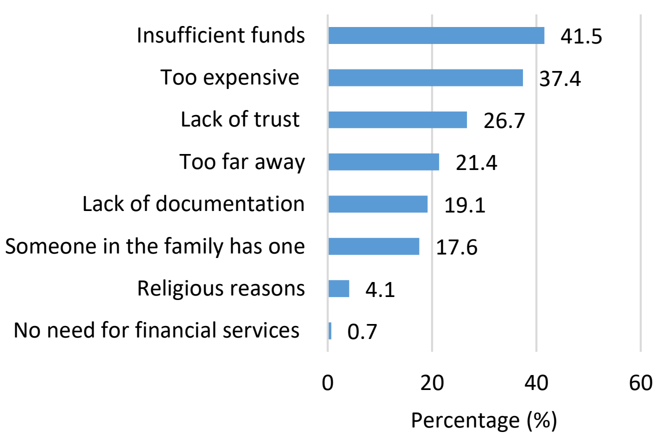
Source: Global Findex (Global Financial Inclusion Database), World Bank, Washington, DC, *https://globalfindex.worldbank.org/* .
Note: people who report using mobile money service in the past 12 months

13. **Electronic payments and the extension of CoDi to third-party non-SPEI participants, can lower transaction costs, potentially fostering financial inclusion.** In 2017, 31.7 percent of adults (aged 15+) made or received digital payments, representing a smaller share compared to the LAC region and to the average Upper Middle Countries (Table A5). Moreover, while 39 percent of individuals in the top 60 percent of the distribution had made payments, the same was true for only 20 percent of the bottom 40 percent of the distribution. Similarly, electronic payments were more common among men compared to women, among those with higher education, and among people in the labor force. Increases in electronic payments and the ability for third-party participants to offer electronic payment options, are expected to lower indirect transaction costs by facilitating access to money and reducing the cost of checking balances. To the extent that these forms of payments become the norm, they will foster inclusion, including those

at the bottom of the distribution. In fact, the share of the population that made digital payments among the bottom 40 increased by 3 percentage points between 2014 and 2017, more than the increased among the top 60 percent of 1.6 percentage points.

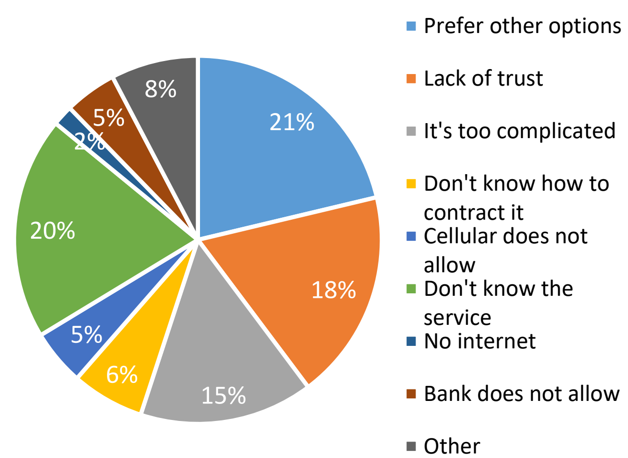
14. **The expansion of electronic payments also presents a risk; therefore, regulations must protect new technology users and the previously unbanked population.** In 2018, 59 percent of the customers in the financial system in Mexico in 2018 knew where to present a claim if they needed to, and in rural areas almost 57 percent of the customers did not know where to go. As electronic payments and access to financial services to populations that were previously unbanked expands, there is also a growing concern that new technology users are especially in need of consumer protection.

Figure A4. Barriers for owning an account, Findex 2017



Source: Findex, World Bank, 2017

Figure A5. Reasons for not using mobile banking services among account holders, ENIF 2018



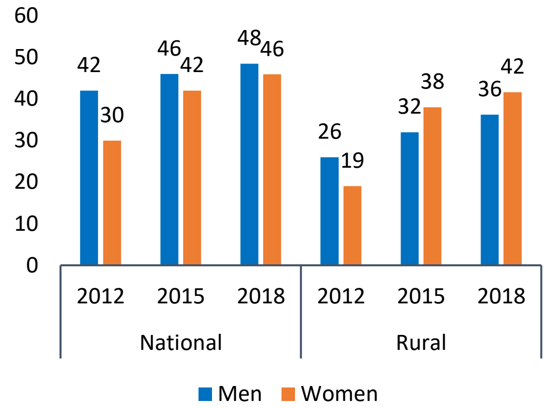
Source: ENIF, INEGI 2018

Prior Action 6: Gender balanced administration of development banks and prioritization of programs and projects targeting women.

The Borrower has enacted the Amendment to the Credit Institutions Law, published in the Borrower's Official Gazette on June 4, 2019, mandating the prioritization of programs and projects targeting women's financial needs and gender parity in state development banks' corporate governance structure.

15. **The gender gap in financial inclusion has decreased, mostly driven by a large increase in access for women in rural areas.** Between 2012 and 2018, account ownership improved for both men and women, while the gender gap decreased by 10 percentage points. The share of women who reported owning a bank account increased by 16 percentage points (from 30 percent to 46 percent) while it increased by 6 percentage points for men (from 42 percent to 48 percent). This was largely driven by an increase in rural areas, where the percentage of women with a bank account increased by 23 percentage points, effectively reversing the sign of the gender gap. In 2018, 42 percent of women in rural areas owned a banking account compared to 36 percent of men, up from 19 and 26 percent for 2012.

Figure A6. Percentage of adults with a bank account, 2018



Source: ENIF 2018.

16. **Access to finance is key for women's access to economic opportunities.** Closing gender gaps in financial inclusion has positive effects in smoothing consumption, providing security, increasing saving and investment rates, and managing economic risk. The evidence shows that having access to and use of a range of financial services enhances not only the contribution of female-owned business to growth, but also contributes to women's empowerment, allows for better use of resources, and reduces the vulnerability of their households and businesses.[2] Therefore, closing the gender gap in access to finance can enable economic growth, inequality reduction, and social inclusion. In Mexico, the recent expansion of financial services has had positive impact on employment, but the effects are differentiated by gender. While, for women, it has increased the opportunities for salaried employment, it has encouraged the creation among men of new businesses, mostly of an informal nature (Bruhn and Love, 2009).

17. **Women are underrepresented at all levels of the financial system, not only as of users but also as providers and regulators.** In Mexico, women accounted for less than 25 percent of the decision-makers at the financial regulators (Global Microscope, 2019). In the financial regulatory and supervisory body, CNBV, about 44 percent of decision-making positions were held by women in 2017, whereas less than 20 percent at the Central Bank did. Moreover, only 4.7 percent of Mexico's top corporation had more than 3 women in their board of directors compared to 47 percent for the OECD average.[3]

18. **A higher share of women on bank and supervisory boards is associated with greater bank stability and profitability.** Econometric analysis suggests that, controlling for relevant bank- and country-specific factors, banks with higher shares of women leaders had higher capital buffers, lower nonperforming loans, and higher distance to distress, according to an IMF study. After testing for different explanations, the study concludes that the observed higher stability is due to the beneficial effects of greater diversity of views and due to discriminatory hiring practices, that lead to hiring better qualified or more experienced women than men (Sahay and Cihak, 2018).

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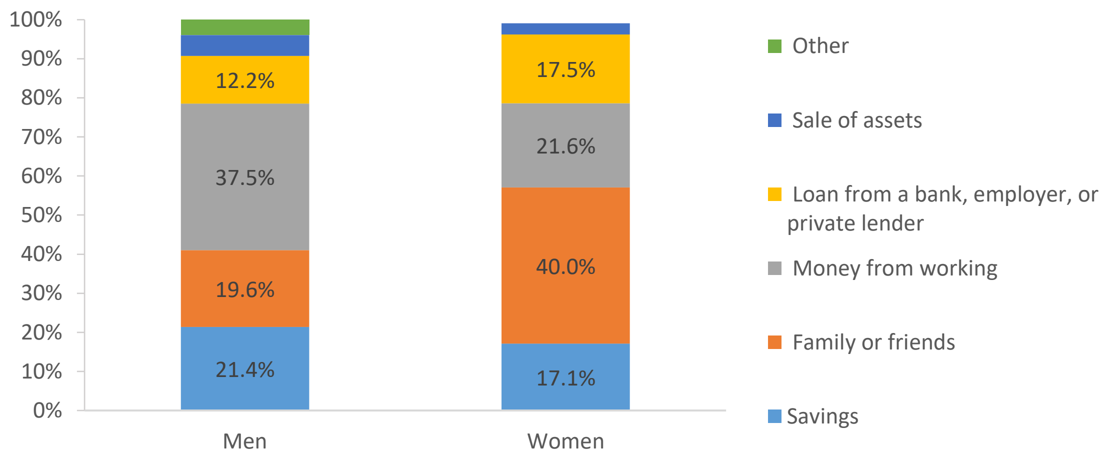
[2] See Delavallade et al, 2015; Aker et. al, 2015; Ashraf et. al, 2010; and Dupas and Robinson, 2013.
[3] *http://www.oecd.org/centrodemexico/medios/mujeresenmexicoeltalentoolvidado.htm*

19. **In terms of users, due to their financial exclusion, women are more vulnerable to economic shocks and to falling into poverty.** Only one in five women in Mexico are able to obtain emergency funds to deal with an unexpected shock, such as unemployment, drought or floods or the loss of a breadwinner, and most of these funds come from friends and family. According to the WB's Global Financial Inclusion Database (Global Findex), 33.8 percent of men in 2017 were able to come up with emergency funds, while only 20.8 percent of women could do so, putting women in a more vulnerable situation. The main source of emergency funds for women comes from social networks such as friends and family (40 percent for those who were able to raise emergency funds) (Figure A7). In contrast, the main source of emergency funding for men is labor income (for 37.5 percent of men). Therefore, financial inclusion of women can help to reduce poverty by providing ways to survive economic shocks or preventing people from falling into poverty in the first place.

Figure A7. Main source of Emergency Funds, by Gender, 2017



Source: Global Financial Inclusion Database (Global Findex) 2017, World Bank, *https://globalfindex.worldbank.org/*.
Note: Survey covers the population aged 15 years or more.

20. **Actions fostering the inclusion of women into the financial system are critical to access economic opportunities and improve the family's welfare.** Mounting evidence has shown that financial services help women smooth consumption, make investments, provide security, increase saving and investment rates, and manage economic risk. The evidence shows that having access to and use of a range of financial services not only enhances the contribution of female-owned business to growth, but also contributes to women's empowerment, allows for better use of resources, and reduces the vulnerability of their households and businesses. For instance, access to insurance helped women farmers in Burkina Faso and Senegal increase yields and better manage food security (Delavallade and others 2015). In the Philippines, women who used a savings account reported greater control over household decisions and shifted spending towards female-oriented durable goods (Ashraf, Karlan, and Yin 2009). In Kenya, women merchants who received a basic account invested more in their businesses (Dupas and Robinson 2013). Women-headed households in Nepal spent 20 percent more on education and 15 percent more on nutritious food after receiving a savings account (Prina 2015). From the supply-side, providing women greater access to the formal financial system represents an unexploited profitable market for financial institutions. Evidence suggests that women have lower default rates and thus require lower capital

reserves. Studies have also shown that, on average, loans would require 4 percent less capital due to nonperforming loans from women (CONAIF, 2018).

21. **Improving ownership and control of assets of women through financial inclusion may reduce their exposure to violence and domestic abuse.** One of the largest obstacles in combating domestic abuse and violence against women is their inability to seek help when they find themselves in abusive situations. In addition to fear, one important reason why many women do not seek help is because of their financial dependency. In 2018, 65 percent of women in Mexico did not own a high-value asset, and asset ownership for women in rural areas often relies on inheritance. Absence of property ownership affects women's agency, as assets boost voices and bargaining power in household decision making, improve access to capital, and increase overall economic independence. Financial inclusion initiatives, especially mobile and digital banking, can facilitate women's access to financial services in a safe and discreet way, promoting independence. Evidence from India shows that women who have access to bank accounts and other financial services may also have more options to leave abusive relationships and experience reduced exposure to intimate partner violence (Garikipati 2008; Panda 2014).

Prior Action 7:

The Borrower has enacted the Education Law, published in the Borrower's Official Gazette on September 30, 2019 and issued the Training Program Operational Guidelines, published in the Borrower's Official Gazette on December 29, 2019 determining that financial education be part of the official school curricula from preschool through high school, and that selected primary and secondary public-school educators be trained on the subject to promote financial inclusion.

22. **Financial education programs for the youth can be helpful in raising awareness and ensuring sound financial management.** Although the effectiveness of financial literacy programs remains inconclusive for the full population, they do have an impact on certain groups such as those with low initial levels of education and financial literacy (Cole et. al., 2011) and the youth. In Brazil, a financial education program for the youth led to a 1.4 percentage point increase in savings among them, and improvements in parent financial knowledge and savings and spending behavior (Bruhn et. al., 2013). Some other positive impacts can be found in China, where financial education sessions for rural farmers increase take-up rates for insurance (Cai et al, 2013). In South Africa, financial messages delivered through a popular soap opera improved desirable financial behaviors such as borrowing from a formal financial institution instead of another higher cost option (Berg and Zia, 2013).

23. **School-based programs can provide financial education to children and youth in a cost-effective way.** Children and youth are priority targets in the governments' efforts to improve financial education for several reasons. First, they are still developing habits and, thus, are more malleable than adults. Second, as adults they will bear more financial risks and face with complex and sophisticated financial products that will be hard to navigate without the right set of skills. Lastly, school-age populations are easily reached through schools and youth organizations, which reduces the costs and difficulties of implementation and increases participation rates (Frisancho, 2019). In Mexico, around 30 percent of the population aged 3 and older attends school based on the *Encuesta Intercensal 2015*. Moreover in 2017, net school enrollment rates were 73.6 percent for preschool, 98.6 for primary school and 84.4 for secondary school.

24. **Financial education programs based in schools have sizeable and robust impacts on financial knowledge for the youth.** With numerous experimental studies between the period 2012 and 2018, a meta-analysis by Kaiser and Menkhoff (2019) estimated the average effect size of school-based education programs on financial knowledge at 0.19 SD. In particular, studies in Peru, Spain, and Brazil identify large and comparable knowledge gains among high school students between 0.15 and 0.21 SD (Frisancho, 2018, Bruhn, de Souza Leao, Legovini, Marchetti and Zia, 2016, Bover, Hospido and Villanueva, 2018). These measured learning gains are substantial and double the effect size of other successful educational interventions trying to improve math and language performance in schools (McEwan, 2015). In turn, the delivery of similar content through voluntary programs implemented after or outside the school setting has a very modest or null impact on financial knowledge (Jamison, Karlan and Zinman, 2014, Berry, Karlan and Pradhan, 2018).

25. **School-based financial education programs do not seem to have unintended pervasive effects such as incentivized youth to drop out from school nor widened initial inequalities in financial skills.** Although financial education programs encourage long-term planning, as the material emphasizes the importance of accumulating wealth and savings, children and youth may be motivated to engage in paid work and/or increase the share of time allocated to work. Yet, empirical evidence shows that although there is an effect on labor market participation, this does not affect students' academic performance. In Brazil, high school financial education led to a 9 percent increase in the rate of participation in work outside the household or in a family business but did not undermine students' academic success as passing rates improved by 1.2 percentage points and failure rates went down by 0.8 percentage points (Bruhn et al, 2016). Moreover, financial education for children and youth allows all students to improve their measured financial literacy levels, regardless of their characteristics or baseline financial knowledge. In Peru, the heterogeneity analysis of the treatment identifies uniform effects along several dimensions, including baseline levels of financial skills and math performance (Frisancho, 2019).

Prior Action #8: National Service of Personal Identification

The Borrower has established the National Service of Personal Identification which will enable the verification of individuals' identity to third parties including financial institutions, as evidenced by article 58 of the Reglamento Interior de la Secretaría de Gobernación, published in the Borrower's Official Gazette on May 31, 2019.

Prior Action #9: Data Exchange Between Civil Registries

The Borrower has enabled mechanisms to exchange data between civil registries related to individual's identity and its verification through adequate technological infrastructure and standardized operating rules in civil registries at the state level, including the binding of the legal identity with biometric data, as evidenced by the twenty-seven (27) Coordination Agreements signed with states of the Borrower.

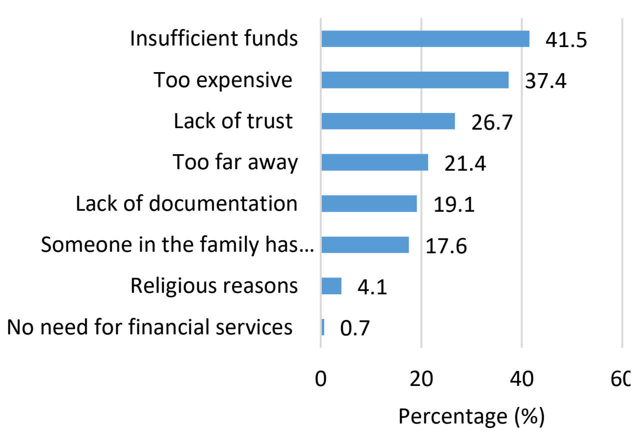
26. **The identification system in Mexico is fragmented resulting in unnecessary costs for the government and constraints for the population.** As different government agencies use their own form of identification, the duplication of systems results in wasted resources for each agency and prevents effective targeting. Without a unique identifier with universal coverage that can be used for multiple purposes, efficient cross-checking of databases is not possible. Moreover, individuals require different

type of forms of identification to gain access to different services; while the voter card is the dominant ID for formal financial transaction, government programs depend on the Clave Única de Registro de Población (CURP) or their own form of identification (World Bank, 2017).

27. **In terms of civil registration, each state has its own law and is responsible for registering vital events of its own population.** RENAPO is the central repository of birth and death certification as well as the regulating body for all civil registration activities. In the past, the decentralized system created differences in the quality of certificates and allowed for the possibility of multiple birth certificates for the same individual in different states. But since 2015, there was an agreement to create a new system that centralizes the records of these events, and a standardized birth certificate is now issued with a CURP. This represents a major improvement to the previous decentralized system. However, it continues to have a backlog of duplicated IDs. As a result, there has been a plethora of parallel identification systems. The 'silo' ID system that has emerged not only results in duplicating costs of identification, but also limits integration of databases that often cover much of the same population. For instance, in the area of social protection, this makes it difficult or impossible to enforce eligibility rules that limit benefits to one program or to monitor which households are receiving what benefits from the government (World Bank, 2017). Moreover, the inability to ensure uniqueness continues to allow for duplicate beneficiaries.

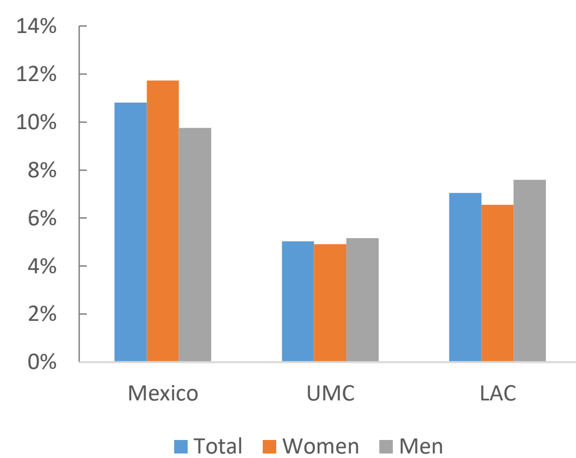
28. **Moreover, the lack of a national identification is a critical barrier to accessing financial services.** Know-your-customer (KYC) regulations require a government issued identification to open accounts. In 2018, 10.8 percent of the population (aged 15 and older) declared not having a national ID, while only 5 and 7 percent of the population in UMC and LAC did not according to ID4D-Findex. Furthermore, 19 percent of population declared the lack of documentation as the main barrier for owning a bank account.

Figure A8. Barriers for owning an account, Findex 2017



Source: Findex, World Bank, 2017

Figure A9. Share of the population (age 15+) without a national ID



Source: ID4D-Findex Survey Data, 2018. Note: Numbers present here for UMC and LAC are unweighted averages.

29. **Biometric identification systems can lower barriers for financial access and prevent fraud.** A biometric is a measure of identity based on a physiological (fingerprint, face, eye iris or retina) or behavioral (speech or signature) characteristic. It is an effective personal identifier because it is unique to and embodied in each person. Biometric identification cards can lower barriers to open banking accounts.

In India, where more than 90 percent of the unbanked have a proof of identity after a big push from the government, research suggest that government-provided biometric ID cards were among the factors behind the recent rapid decline of adults without a banking account (Demirgüç-Kunt, et al, 2017). Furthermore, biometric technology can make the threat of future credit denial credible because it makes it easier for financial institutions to withhold new loans from past defaulters, and to reward responsible past borrowers with increased credit. In fact, research from Malawi suggest that biometric identification has increased loan repayment rates among borrowers most at risk of default (Giné, 2010). Notwithstanding these effects, there are still some concerns and challenges when collecting and using biometric information to establish an identification system at a national level such as: i) people may refuse to provide their biometrics, ii) the cost of collecting can be high and, iii) technology can be hacked.

30. **A digital ID system can also strengthen the transparency, efficiency and effectiveness of social programs and reduce costs to the poor.** The lack of a unique and secure digital ID system is one key constraint in the effective implementation of social programs. Biometric IDs can help the public sector reduce fraud and leakage in government-to-person (G2P) transfers, facilitate new forms of service delivery, and increase overall administrative efficiency. Evidence from India and Mexico has shown that switching to a biometrically authenticated payment infrastructure can substantially reduce administrative costs and "leakages" (Pickens, Porteous and Rotman, 2009; CGAP, 2012; Muralidharan et al, 2016). Moreover, a digital ID system is likely to lead to a reduction in government spending and reduced costs for the poor. In 2015, the budget allocation for RENAPO represented less than 0.1 percent of the total spending of the five main social protection programs[4] . Although not a large amount, it suggests that there is potential to reduce wasted social spending due to duplication of enforcement of eligibility conditions that could be achieved with a better identification system (World Bank, 2017). Importantly, such a system would reduce many of the enrollment costs to legitimate program beneficiaries, who are mostly poor.

31. **Moreover, improving access to a national identification, in general, can reduce the gender gap in financial inclusion.** Although the gender gap has narrowed between 2012 and 2018 by 2.4 percentage points, still 72 percent of men own a financial product as opposed to 65 percent of women as measured by Mexico's National Survey of Financial Inclusion (ENIF). The reduced access to a national ID for women perpetuates the gender gap in financial inclusion. Despite having the same access in legal terms to a national ID, the take-up among men outpaces the one from women. In 2018, 11.7 percent of women (aged 15+) in Mexico lacked a national ID while 9.8 percent of men did. While the gender gap in access to a national ID continues in Mexico, in UMC or in the LAC region it has disappeared or reversed. Improving access to a national identification could help women to gain access to financial services. For instance, in India, the gender gap in access to accounts shrunk 14 percent in 3 years thanks to a strong government push to increase account ownership through biometric identification cards (Demirgüç-Kunt, et. al 2018).

[4] The main social programs are PROSPERA, *Seguro Popular, Programa Adultos Mayores*, IMSS and ISSSTE, and their combined budget for 2015 was 622,609 million of MX pesos.

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