

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA15862

Date ISDS Prepared/Updated: 02-Nov-2015

Date ISDS Approved/Disclosed: 29-Jul-2015

I. BASIC INFORMATION

1. Basic Project Data

Country:	Mexico	Project ID:	P153338
Project Name:	MX: Expanding Rural Finance (P153338)		
Task Team Leader(s):	Steen Byskov, Rekha Reddy		
Estimated Appraisal Date:	17-Aug-2015	Estimated Board Date:	20-Nov-2015
Managing Unit:	GFM04	Lending Instrument:	Investment Project Financing
Sector(s):	General agriculture, fishing and forestry sector (20%), SME Finance (40%), Other non-bank financial intermediaries (40%)		
Theme(s):	Other Financial Sector Development (80%), Other rural development (20%)		
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)?			No
Financing (In USD Million)			
Total Project Cost:	405.00	Total Bank Financing:	400.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			5.00
International Bank for Reconstruction and Development			400.00
Total			405.00
Environmental Category:	F - Financial Intermediary Assessment		
Is this a Repeater project?	No		

2. Project Development Objective(s)

The project's development objective is to expand the availability of finance to the rural economy.

3. Project Description

The Government prioritized addressing the lack of productive credit in the Mexican financial system through its system of development finance institutions (DFIs) in Mexico as part of the 2014 financial

reform. DFIs in Mexico address access to finance gaps through financing, partial credit guarantees (PCGs), and technical assistance. In 2014, a key pillar of the new Government's economic reforms was a financial reform law with greater incentives for financial intermediaries to lend for productive purposes, including efforts to refocus state development bank operations to address finance gaps and other restrictions related to credit. Mexico has an extensive system of development finance that includes six development banks, six government trusts and four development finance agencies to support key sectors, such as the rural economy. One of these development finance agencies is Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero (FND), the proposed borrower for this operation.

The project will have two components supporting the development of finance for productive purposes:

- Component 1: Expanding Credit for Rural MSMEs: a line of credit of US\$375 million to support MSMEs. US\$365 million are to be disbursed through PFIs (Component 1A). US\$10 million can be applied to pilot new MSME financial solutions with the potential to impact rural financial services either through PFIs or through direct lending by FND (Component 1B).
- Component 2: Strengthening Institutional Capacity for Sustainable Rural Finance: US\$30 million, including US\$5 million counterpart financing. This component will support the strengthening of institutional capacity to provide sustainable finance for both FND (Component 2A) and the PFIs it funds (Component 2B).

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The exact project location of sub-project activities will not be known prior to appraisal. However, the final borrowers of the credit line will be agricultural producers and other members of the rural economy of Mexico.

5. Environmental and Social Safeguards Specialists

Dora Patricia Andrade (GEN04)

Martin Henry Lenihan (GSURR)

6. Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The project is classified as Environmental Category FI (Financial Intermediary Assessment) and because the nature of the activities involved it is unlikely to result in significant negative environmental impacts. Since the exact projects will not be known prior to appraisal, although they will be relatively small credits for medium, small and micro enterprises, an Environmental Management Framework (EMF) was prepared by FND. The Project and the EMF exclude financing of any Category A subprojects and works. Cumulative impacts are not foreseen given the wide range of sub-project locations, their relatively small size, and the very low probability of a large number of small project in a limited geographic area and the nature of the relatively small investments (mostly working capital) in medium, small and micro enterprises to enhance productivity). The EMF

		will include a procedure for sub-project screening by FND or the participating financial intermediary (PFI) (i.e., via line of credit from FND to the PFI). The EMF will also include: (a) requirements for sub-projects and for PFIs, which would receive credit lines; (b) potential applicable legal environmental, social and cultural resources protection requirements that may apply to the subprojects; (c) training and capacity building activities; and (d) supervision and reporting requirements. The draft will be disclosed and consulted with key stakeholders.
Natural Habitats OP/BP 4.04	Yes	While the exact project types are not known, the policy will be triggered on a precautionary basis and the appropriate measures included in the EMF.
Forests OP/BP 4.36	Yes	While the exact project types are not known, the policy will be triggered on a precautionary basis and the appropriate measures included in the EMF.
Pest Management OP 4.09	Yes	The Project will not finance the acquisition of significant quantities of pesticides in a subproject. However subprojects may involve the purchase and use of pesticides and the EMF will include applicable measures.
Physical Cultural Resources OP/BP 4.11	No	It is not anticipated that subprojects will involve significant impact on physical cultural resources. In the unlikely event of an incidental finding, the EMF will consider developing a handbook of good practice for the treatment thereof.
Indigenous Peoples OP/ BP 4.10	Yes	Given that the project area covers the entirety of Mexico, and that indigenous people constitute close to 15% of the country's population, the World Bank's Operational Policy for Indigenous People applies. The current strategy of FND for engaging with indigenous communities is to build the capacity of the regional indigenous funds, which had been established by the National Commission for the Development of Indigenous People as institutional mechanisms for bringing indigenous producer groups together, and for the delivery of federal subsidies for the productive activities of these groups. Overall, 300 such entities were established in different regions of the country where indigenous people were concentrated, and FND works with a growing subset in order to build their capacity to function as PFIs. Given that this project is working through financial intermediaries, and indigenous peoples planning framework has been prepared, based on FNDs strategy of working with regional indigenous funds.
Involuntary Resettlement OP/BP 4.12	No	All of the sub-projects to be financed under this operation will be carried out on private land owned or leased by the

		ultimate beneficiaries. In order to avoid potential impacts on third parties, the environmental management system includes a question on involuntary resettlement that will allow the intermediary financial institutions to exclude activities that may result in resettlement impacts.
Safety of Dams OP/BP 4.37	No	The project would not support the construction or rehabilitation of dams, nor would support other investments, which rely on the services of existing dams.
Projects on International Waterways OP/BP 7.50	No	The project excludes any project that affect international waterways as defined under this policy and this exclusion is noted in the EMF.
Projects in Disputed Areas OP/BP 7.60	No	The project would not affect disputed areas as defined under this policy.

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

<p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p> <p>In terms of environmental issues, significant negative impacts are not expected. The EMF focuses on prevention and contains a detailed mechanism for screening and instruments, while recommended good practices serve to create awareness among producers.</p> <p>While indigenous people are present in the project area of influence, the nature of project activities will not result in adverse, large scale, significant or irreversible impacts on the land livelihoods or culture of indigenous communities. Instead the project will focus on ensuring that the activities supported are culturally appropriate through building the capacity of the regional indigenous funds (consortiums of indigenous producer organizations) to function as PFIs. Also, because of the small scale of the activities to be supported by the credit line, and the fact that they will take place on privately owned land, the project will not result in any resettlement or land acquisition impacts.</p>
<p>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</p> <p>The project will not result in any indirect or long term environmental impacts in communities (or in indigenous communities), or in terms of resettlement and land acquisition. This is due to the small scale nature of the activities to be financed under the line of credit, which if used for investment purposes will only finance activities on private land.</p>
<p>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</p> <p>Because this is a financial intermediary project that will support multiple sub-project activities that will be screened for their environmental and social impact, it is not necessary to consider project alternatives.</p>
<p>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</p> <p>FND has worked with the World Bank to develop an EMF categorizing potential risks related to lending and an Indigenous People's Framework (IPPF) to support their inclusion into the project.</p>

FND as development agency and public institution seeks to address social and environmental responsibility and achieve its mission of achieving sustainable development. The institution recognizes the importance of environmental protection and the need to improve the quality of life of the rural Mexican population. It also recognizes the potential of an indirect actor (PFI) to generate adverse social and environmental impacts via lending and sees the importance of having a management system to prevent and mitigate these impacts.

The FND plans to strengthen its capacity to manage the safeguards requirements of this projects. Technical specialists with a skill level acceptable to the Bank will be incorporated as needed to support environmental management for this project. FND will also receive assistance and training from the World Bank, so that it can be better equipped to replicate the information imparted to the EIF. The EMF has Implementation Guidelines for the PFIs, and envisions training workshops for FND staff, and technical assistance for PFIs on how to use and apply the EMF.

The IPPF is based on FND's strategy of working with regional indigenous funds (consortiums of indigenous producer groups) to support their transition into PFIs. This involves accompanying the delegates of these organizations in putting in place the necessary institutional arrangements, technical expertise, as well as business and operational plans in order to receive a credit line from FND that can then be disbursed to member organizations and producer groups for productive activities. So far FND has successfully built the capacity of 17 such funds to serve as PFIs, and has plans to grow this number during the life of the project. The business and operational plans necessary for receiving a line of credit is subject to the approval of the general assembly of each fund, and participation in FND's program is based on demand from those general assemblies. As such, the implementation of the FND program adheres to the World Bank policy requirement for free, prior and informed consultations. It is also important to note that regional funds supporting indigenous populations have priority access to technical assistance activities planned under component 2B (support on risk management, corporate governance, and IT systems practices for financial institutions).

Because the project will support PFIs to provide relatively modest loans to rural enterprises, implemented on private land, the operational policy on involuntary resettlement does not apply. For loans requested for the purpose of construction or crop planting, the borrower needs to demonstrate that they have legal rights to use the land on which the activity will take place. Furthermore, the exclusion list included as part of the updated Environmental and Social Management System, will include any activities that would require the involuntary displacement of other users of the land where the activity would take place.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key stakeholders with responsibility for implementing environmental and social safeguards include the participating financial institutions (PFI) of the project. Consultations related to the EMF and IPPF are underway in July 2015.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	30-May-2015
Date of submission to InfoShop	10-Aug-2015
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	////

"In country" Disclosure	
Mexico	21-Jul-2015
<i>Comments:</i>	
Indigenous Peoples Development Plan/Framework	
Date of receipt by the Bank	30-May-2015
Date of submission to InfoShop	10-Aug-2015
"In country" Disclosure	
Mexico	21-Jul-2015
<i>Comments:</i>	
Pest Management Plan	
Was the document disclosed prior to appraisal?	NA
Date of receipt by the Bank	00000000
Date of submission to InfoShop	00000000
"In country" Disclosure	
<i>Comments:</i>	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why:	
It is included in the EMF.	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment	
Does the project require a stand-alone EA (including EMP) report?	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>] NA [<input type="checkbox"/>]
OP/BP 4.04 - Natural Habitats	
Would the project result in any significant conversion or degradation of critical natural habitats?	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>] NA [<input type="checkbox"/>]
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>] NA [<input type="checkbox"/>]
OP 4.09 - Pest Management	
Does the EA adequately address the pest management issues?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
Is a separate PMP required?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
OP/BP 4.10 - Indigenous Peoples	

Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
OP/BP 4.36 - Forests			
Has the sector-wide analysis of policy and institutional issues and constraints been carried out?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
Does the project design include satisfactory measures to overcome these constraints?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
Does the project finance commercial harvesting, and if so, does it include provisions for certification system?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
The World Bank Policy on Disclosure of Information			
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input checked="" type="checkbox"/>]
All Safeguard Policies			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input checked="" type="checkbox"/>]	No [<input type="checkbox"/>]	NA [<input type="checkbox"/>]

III. APPROVALS

Task Team Leader(s):	Name: Steen Byskov, Rekha Reddy	
<i>Approved By</i>		
Practice Manager/ Manager:	Name: Alfonso Garcia Mora (PMGR)	Date: 02-Nov-2015