

# INTEGRATED SAFEGUARDS DATA SHEET

## CONCEPT STAGE

**Report No.:** ISDSC1166

**Date ISDS Prepared/Updated:** 12-Mar-2015

**Date ISDS Approved/Disclosed:** 18-Mar-2015

### I. BASIC INFORMATION

#### A. Basic Project Data

<b>Country:</b>	Mexico	<b>Project ID:</b>	P153338
<b>Project Name:</b>	MX: Expanding Finance for Productive Purposes (P153338)		
<b>Task Team Leader(s):</b>	Steen Byskov, Rekha Reddy		
<b>Estimated Appraisal Date:</b>	15-Apr-2015	<b>Estimated Board Date:</b>	30-Jul-2015
<b>Managing Unit:</b>	GFMDR	<b>Lending Instrument:</b>	Investment Project Financing
<b>Sector(s):</b>	General agriculture, fishing and forestry sector (20%), SME Finance (40%), Other non-bank financial intermediaries (40%)		
<b>Theme(s):</b>	Other Financial Sector Development (80%), Other rural development (20%)		
<b>Financing (In USD Million)</b>			
Total Project Cost:	400.00	Total Bank Financing:	400.00
Financing Gap:	0.00		
<b>Financing Source</b>		<b>Amount</b>	
Borrower		0.00	
International Bank for Reconstruction and Development		400.00	
Total		400.00	
<b>Environmental Category:</b>	F - Financial Intermediary Assessment		
<b>Is this a Repeater project?</b>	No		

#### B. Project Objectives

The project's development objective is to expand the availability of finance to the rural economy and to strengthen the institutional capacity of FND and participating financial intermediaries (PFIs).

#### C. 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 mostly through second tier finance, 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 productive finance for the rural economy in Mexico:

-Component 1: A line of credit through participating intermediaries (PFI) to MSMEs (approximately US\$370 million). FND will offer lines of credit to PFIs, which will be either financial intermediaries or producer organizations. The PFIs on-lend to MSMEs enabling them to expand their activities. The loan products will not be restricted by the project and are likely to be mostly working capital, but may also include investment finance and financing for warehouse receipts. In addition to supporting the general objective of improving access to credit, the component will help FND increase its proportion of credit disbursed through intermediaries, which was at 45 percent in 2014. Up to US\$10 million of this component can be applied to piloting of new MSME financing solutions by FND. Up to US\$10 million of this component can be applied to piloting of new MSME financing solutions by FND.

-Component 2: Strengthening institutional capacity to provide sustainable finance (approximately US\$30 million). This component will provide assistance to FND to support enhanced internal processes and IT systems will be important to support improved efficiency and risk management capabilities of FND. This component will also support capacity building activities for PFIs with the goal of a vibrant evolution of the financial sector with new institutions entering the market and existing institutions upgrading their activities. This activity will expand the number of PFIs receiving technical assistance services, including training on business planning, IT systems, credit underwriting, and administration and risk management processes for borrowers in the rural economy. These funds could also be used to assist potential PFIs meet FND eligibility criteria with the goal of helping strong formal financial intermediaries in evolving from the unsupervised segment, and helping existing institutions expand the services they offer by upgrading their licenses.

#### **D. 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.

#### **E. Borrowers Institutional Capacity for Safeguard Policies**

FND has a prior and a current loan with the Inter-American Development Bank (IDB) and has experience applying their existing safeguards policies. For example, they are currently working with the IDB indigenous people's policy and screening for involuntary resettlement impacts. FND already has in place an indigenous people's strategy, which it is in the process of implementing. They are also applying IDB environmental safeguards.

#### **F. Environmental and Social Safeguards Specialists on the Team**

Dora Patricia Andrade (GENDR)

Martin Henry Lenihan (GSURR)

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## II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>This project is proposed as a Category B as it is unlikely to result in significant negative environmental impacts and any adverse impacts are identifiable, mostly temporary and easily mitigated with known management techniques.</p> <p>Since the exact projects will not be known prior to appraisal, although will be relatively small credits for medium, small and micro enterprises to enhance productivity, an ESMF will be prepared. The Project and the ESMF will exclude financing of any Category A subprojects. 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 ESMF will include a procedure for sub-project screening by FND or the partner financial intermediary (PFI) (i.e., via line of credit from FND to the PFI). The ESMF 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. Before appraisal, an assessment will be made on the current SAGAS framework (Sistema de Analisis y Gestión Ambiental y Social) in use by FND for similar activities with IDB financing and if it satisfies Bank requirements, it will be accepted or adapted/modified when necessary.</p> <p>The draft will be disclosed and consulted with key stakeholders.</p>
Natural Habitats OP/BP 4.04	Yes	<p>While the exact project types are not known, the policy will be triggered on a precautionary basis and the appropriate measures included in the ESMF.</p>
Forests OP/BP 4.36	Yes	<p>While the exact project types are not known, the policy will be triggered on a precautionary basis and the appropriate measures included in the ESMF.</p>

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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 ESMF will include applicable measures.
Physical Cultural Resources OP/BP 4.11	TBD	It is not anticipated that subprojects will involve significant impact on physical cultural resources. However this will be assessed during project preparation.
Indigenous Peoples OP/BP 4.10	Yes	Indigenous people constitute up to 15% of the population of Mexico, and indigenous communities, located in the marginalized parts of Mexico, represent a potentially important group of project beneficiaries. The client recognizes the importance of this client group and has a strategy in place to target their inclusion.
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 would not affect international waterways as defined under this policy.
Projects in Disputed Areas OP/ BP 7.60	No	The project would not affect disputed areas as defined under this policy.

### III. SAFEGUARD PREPARATION PLAN

**A. Tentative target date for preparing the PAD Stage ISDS:** 31-Mar-2015

**B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing<sup>1</sup> should be specified in the PAD-stage ISDS:**

An Environmental and Social Management Framework (ESMF) will be prepared. In practice, the ESMF would be a screening tool to help key personnel to identify which projects to exclude from Bank financing. The ESMF will also help manage perceived environmental and/or social risks in approved projects.

Given the presence of indigenous people in the project area, an indigenous peoples planning framework will need to be prepared. This framework will be based on the client's indigenous people's strategy currently in place. The strategy will be updated during preparation, and

<sup>1</sup> Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

discussed with the relevant indigenous people's organizations prior to project appraisal. It is expected that the IPPF and the ESMF will be prepared by the end of March or April of 2015.

#### IV. APPROVALS

Task Team Leader(s):	Name: Steen Byskov, Rekha Reddy	
<b><i>Approved By:</i></b>		
Safeguards Advisor:	Name:	Date:
Practice Manager/ Manager:	Name:	Date: