

MEXICO
TRANSFORMING AND DIFFERENTIATING FINANCIAL SERVICES
FOR LOW-INCOME POPULATIONS
(ME-M1081)

PROJECT ABSTRACT

Although Mexico's microfinance sector has seen significant growth since the 2000s, access to financial services by the country's microentrepreneurs and low-income populations remains limited, principally in rural and periurban areas. This is due to such factors as the small number of microfinance institutions (MFIs) that have achieved standards of sustainability and growth, especially in rural areas; few diversified financial service offerings to meet the needs of low-income individuals; and MFI efficiency levels in Mexico, which still need to improve if interest rates, currently the highest in the region, are to decline substantially. This makes the country's microentrepreneurs more vulnerable, since without working capital or financial services to facilitate payments or saving, it is even harder for them to grow their businesses, accumulate assets, and build their productive and/or entrepreneurial capacity.

Through this project, the MIF will support Financiera FINCA in expanding its offering of new and differentiated financial services geared toward microentrepreneurs and low-income populations in rural and periurban areas with a high degree of poverty and exclusion. A loan will provide support for growing its microlending portfolio, with special emphasis on its new small group lending product, and technical cooperation resources will assist in its process of transformation into a regulated entity (ideally a niche bank),¹ which in the medium term will enable it to develop other financial products targeting this population segment, such as savings.

The new small group lending product to be added to Financiera FINCA's portfolio is a variation on group lending. It involves smaller groups (3 to 8 people) and includes assessment by the financial institution of the ability to pay of each group member, which currently is not part of the village banking methodology.

Not only will transformation into an entity regulated by the National Banking and Securities Commission (CNBV) enable Financiera FINCA to expand its range of services, principally formal savings, insurance, and other services to its clientele (90% of whom are women), it will also have a demonstration effect for other nonregulated providers operating in the microfinance market in Mexico. The MIF contribution will be technical cooperation funding of US\$680,000 and a loan for up to US\$5 million equivalent.

¹ Under Mexican law, a niche bank is a type of specialized bank that is subject to the same regulations as full-service commercial banks, but decides on a limited number of authorized transactions by agreement with the National Banking and Securities Commission (CNBV), and its minimum capital is therefore aligned with such transactions (capital of US\$20 million).

Financiera FINCA, a Mexican institution affiliated with FINCA International, is a sustainable, specialized MFI with good financial performance that has, since its founding in 1989, demonstrated a clear orientation toward serving low-income populations in rural and periurban areas, principally women. It currently operates in 22 Mexican states, serving nearly 14,000 clients through a network of 76 branches.

The direct beneficiaries of the project will be approximately 14,800 microentrepreneurs and small business owners living in rural or periurban areas of Mexico, the majority below the poverty line (earning less than US\$2/day) or considered vulnerable (earning between US\$4/day and US\$10/day per capita). Approximately 65% of the beneficiaries will be women. The project's impact will be even greater, benefiting indirectly the family members of the direct beneficiaries, some 58,000 individuals.