

PROJECT SUMMARY
PROMOTING THE DEVELOPMENT OF A NEW FINANCING MODEL IN MEXICO
(ME-M1110, ME-L1251)

A significant percentage of Mexican households—especially at the low and medium-low income levels—live in housing of inadequate quality. Twenty-eight percent of urban housing units are substandard, overcrowded, and/or deficient in terms of building materials, basic services, or other aspects. This problem can be mitigated through progressive expansion of housing units or improvements made over time. One cause of this problem is limited access to financing under affordable terms and conditions, which, alongside limited levels of saving, makes it difficult for families in the lower income quintiles to improve the quality of their homes.

The project objective is to help raise the quality of life of medium- and low-income families through the improvement and expansion of their homes and businesses. The project will promote an innovative, next-generation crowdfunding model promoted by Kubo Financiero to facilitate peer-to-peer (P2P) lending. This model, combining digital technology and the use of data, is designed to replace traditional financial intermediation by directly connecting borrowers to investors for more efficient loan transactions. This results in better interest rates for borrowers and more attractive returns for the small-scale investors who use its services. This model has the potential to be replicated and to generate significant efficiencies in certain segments of the financial market, thus improving the terms under which people at the medium and medium-low income levels can obtain credit.

The project will promote lending products for improving homes and businesses, which will be offered at lower interest rates than are available on the market for people at the low and medium-low income levels and at equivalent levels of risk. Using a US\$2 million loan, the project will provide Kubo with working capital to finance loans for the improvement and expansion of homes and businesses. This working capital will enable Kubo to streamline the placement of loans, improving client satisfaction and preventing clients' early withdrawal from the lending process while helping to attract investors in order to fund the loan portfolio generated under this model. The loan will be supplemented with a nonreimbursable technical-cooperation operation in order to strengthen Kubo's P2P crowdfunding platform and expand its line of lending products for home improvement and expansion.

The project is aligned with the IDB Group's Country Strategy with Mexico 2013-2018, which identifies reducing the housing deficit as an action area and aims to "guarantee that the economy has sufficient financing to leverage growth." The project supports an alternative financing model that will help channel resources to low-income urban households for progressive improvements to their homes and in order to strengthen their business activities, which are sometimes conducted at the same location. To achieve this, the project will support financial innovation through an unconventional intermediary.