FINANCIAL SECTOR ASSESSMENT PROGRAM UPDATE

MEXICO

TECHNICAL NOTE ON STRATEGIC ISSUES IN DEVELOPMENT BANK REFORM

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I. Introduction[1]

1. **State ownership in financial intermediation in Mexico[2] has continued to be significant in qualitative as well as quantitative terms, with about 20-25 percent per cent of the total credit of the banking system provided by development banks (DBs) and funds (*fideicomisos)* during the last five years**. The importance of government ownership in financial intermediation is not only quantitative, but qualitative, with influence on key sectors (e.g., rural, cooperative, public works, housing, etc.) in the Mexican economic development.

2. **The 2001 joint World Bank-IMF FSAP that took place in 2001 identified a number of problems related to the operation of DBs in Mexico**. Some DBs had unclear mandates or did not live up to their mandates with their activities overlapping among themselves or with the activities of commercial banks. Some of them were performing quasi-fiscal activities outside the scope of the budget process, and all of them (except one) were loss making even after several rounds of recapitalization. Their operation was often inefficient with high costs, too many employees, and weak internal controls. Fiscal subsidies involved in their operations were not well targeted and were channeled in a non-transparent manner. After the 2001 FSAP assessment the authorities started a reform effort addressing some of the problems mentioned above through legal reforms and tighter monitoring.

3. **This Annex examines advances in the area of development banks and funds in the period 2000-2005**. The annex is divided into three sections. Section A builds a theoretical framework for the analysis of development banks (DBs) and, in light of it, identifies key questions to be answered in the case of Mexico. Section B answers the questions raised in Section A for the whole system comparing advances and challenges for individual DBs and *fideicomisos*. Finally, Section C describes the key advances that should be maintained and consolidated for the future and identifies challenges for the future and key next steps. The Annex to this report considers issues with a particular case of government intervention in the housing finance sector.

II. The Theoretical Framework and Key Questions

4. **How can governments in countries with underdeveloped financial systems broaden access to financial services?** Answers to this question tend to be polarized in two highly contrasting but well-established views: the *interventionist* and the *laissez-faire views*.[3] A third view, however, is emerging in the middle ground, favoring direct government interventions in nontraditional and market-friendly ways. This third view is in a sense closer

[1] Prepared by Mario Guadamillas.

[2] The state ownership in financial intermediation in Mexico is defined for purposes of this document as the *Sistema Financiero de Fomento* including all development banks and trust funds (*fiedeicomisos*) under the *aegis* of *Secretaría de Hacienda y Crédito Público* (SHCP). References to DBs throughout the document are understood as also including trust funds under the aegis of the SHCP except otherwise indicated.

[3] For details see, 2006, Augusto de la Torre, Sergio Schmukler and Juan Carlos Gozzi Valdez, "Innovative Experiences in Access to Finance: Market Friendly Roles for the Visible Hand?" World Bank Report.

to the laissez-faire view, to the extent that it recognizes a limited role for the government in credit markets and acknowledges that institutional efficiency is the economy's first best, but it does not exclude the possibility that in the short run, while institutions are taking time to build and consolidate, some government actions undertaken in collaboration with market participants may be warranted. This is the view of *pro-market activism*. The *pro market-activism* is a short-run solution of market-friendly innovative government interventions that do not conflict with the long-run market solution. It must be applied understanding the idiosyncrasies of institutional arrangements and market conditions in each country, and the specific ways in which access problems arise in that context. The analysis of DBs in Mexico is done under the assumption that the pro-market activism approach is justifiable.

5. **This annex assesses the performance of DBs in Mexico through four key questions.** They are: (i) do DBs aim at mitigating a well-defined problem of access to finance?; (ii) how is the access problem incorporated into the legal mandate and is the mandate defined in a static or dynamic manner?; (iii) are the institutional form, functions, and instruments of the DBs consistent with a market-friendly mandate?; (iv) how is compliance with the mandate being measured and is the mandate achieved through a sound and sustainable way?. Some of these questions are different to the ones that would be asked to assess the performance of commercial banks. The objective of DBs entities should be to correct a temporary market failure towards a long run market solution. While creating market conditions DBs will offer market-friendly financial products and services to clients that are not served by the traditional commercial banking system but could be in the future if the necessary conditions are introduced in the market.

6. **Do DBs aim at mitigating a well-defined problem of access to finance?** The phenomenon that a certain proportion of the population does not use financial services, a *lack of access*, does not necessarily mean that there is a *problem of access*. A lack of access is simply the fact that financial services are not being used. To conclude that this observation entails a problem is not easy, not least because that would require a clear definition of what such problem is. The problem of access is mainly introduced by two well-known constraints that hamper the ability to write and enforce financial contracts, namely, *principal-agent problems* and *transaction costs* —while conceptually distinct, are tightly intertwined in practice. The classic principal-agent problems are *adverse selection* and *moral hazard*. Even assuming that there are no principal-agent problems, a problem of access to finance may still exist where the *transaction costs* involved in the provision of finance exceed the expected risk-adjusted returns. Problems of asymmetric information and transactions costs, furthermore, can generate first-mover dilemmas and coordination problems that make the expansion of access to certain groups of the population increasingly difficult.

7. **How is the access problem incorporated into the legal mandate? Is the mandate defined in a static or dynamic manner?** For pro-market activism, the ultimate goal is to foster the broadening of access in ways that simultaneously create financial markets where they are missing or enhance the functioning of the existing ones. Thus, the mandate needs to be redefined through the transition path to the long run equilibrium and the instrument used will eventually disappear with the solution of the problem. It is important to understand that the problem being faced is of a dynamic rather than static nature for two main reasons. First, Government intervention has been usual in the past and there is already a legacy that cannot

be ignored in designing the solution. Second, as mentioned above, the approach of pro-market activism is basically the transition from an undesirable situation in the present with implementation of some short-term market-friendly incentive-compatible measures to an adequate market functioning in the long term. Thus, there is not a one-time solution but a transition path solution. This does not mean that throughout the transition path one-time solutions cannot be applied. This is especially true for the case of those situations where the short-term intervention is exacerbating rather that mitigating the problem to be solved (normally through the creation of a moral hazard problem).

8. **Are the institutional form, functions, and instruments of the DBs consistent with a market-friendly mandate?** The message of pro-market activism is that there is indeed a market friendly role for the visible hand of the government to promote access in the short run, while the fruits of ongoing institutional reform are still unripe. The important qualifier is, however, that the government needs to be highly selective in its interventions, always trying to ensure that they work with the market, never against it. Whenever subsidies are used they need to be nonmarket disruptive (upfront), transparent (financed through the budget) and organized in a rational way to avoid duplication of efforts and misuse. There must also be mechanisms in place to prevent political capture that may undermine the temporary nature of the interventions or their compatibility with the long-run objective of financial market and institutional reform. The institutional setting should be one that aligns short-term with long-term incentives. There is not a single solution but the development agency (DA) concept defined in the FSAP 2001 is an approach trying to align through an effective way the incentives (see Box 1). The innovation of instruments is a process of discovery and learning-by-doing as the interventions are implemented, and also creates room to give the authorities a first hand understanding of what legislation or enforcement mechanisms are missing for certain innovations to take off.

9. **How is compliance with the mandate being measured? Is the mandate achieved through a sound and sustainable way?** As indicated in the FSAP 2001 there is an inherent contradiction between DBs mandate and their activities, the so called "Sisyphus Syndrome" (see box 2). To break this vicious circle the subsidy component incorporated in the mandate needs to be clearly identified, financed through the budget, and granted in a way that would not distort relative prices. At the same time, the institutional setting (DA or similar one) compatible with this approach would have to be established. The financial sector activity of DBs needs to be done on a level playing field on both grounds, regulatory and supervisory. However, performance evaluation needs to be different to the traditional soundness and sustainability indicators of the commercial banks (also important for DBs). It needs to consider the charter and mission of DBs.

Box 1. The Concept of Development Agency (DA)

The FSAP 2001 introduced the concept of a development agency (DA) as a way to avoid the inherent contradictions of development banks (DBs). The main characteristics of a DA as defined in the FSAP 2001 are summarized below:

- DAs have an explicitly defined mandate (in the case of financial sector oriented DAs, their mandate would be to promote the sustainable broadening of access to financial services for certain underserved sectors) and their effectiveness and efficiency are measured against such criteria as mandate objectives maximization at least cost and in manners consistent with market development. DAs are normally governed by their own laws, which would provide a mandate definition and a framework to define appropriate methods of measuring operational efficiency and cost effectiveness.

- DAs funding comes directly from the government, through the budget process. DAs should be unambiguously and publicly accountable for the efficient use of all public monies and government guarantees.

- DAs do not take deposits from, and do not issue debt to, the public; they are not part of the payment system, either.

- DAs have a range of efficient instruments (e.g., partial guarantees, structured finance, pooling of infrastructure costs, etc.) to increase access to financial services, through mitigation of asymmetric information, moral hazard and transaction costs problems.

- DAs finance technical assistance directly or, better yet, promote technical assistance markets and other professional services to increase the bankability of clients.

Box 2. Contradiction Between Mandate and Activities (The Sisyphus Syndrome)

A. Development Banks (DBs) are established to serve a distinct public policy purpose (PPP) usually defined in their organic law and statutes. They are expected to concentrate on the specific group of clients defined according to their PPP, that is, high risk/low yield activities. The obligation to serve nonbankable clients inevitably leads to low profits or losses. (**Contradiction #1 between PPP and profitability.**)

B. To compensate for losses, DBs either enter into activities of CBs, pushing aside those activities most related with their stated PPP, and/or require constant, sometimes very substantial, recapitalization by their owner—the Government. (Trying to solve Contradiction #1 could lead to **Contradiction #2, which is between mandate and activities**.)

C. To minimize losses, governments tighten administrative control over DBs or put them under the same regulation and supervision applied to CBs. (**Contradiction #3 between the PPP-defined mandate and the evaluation of their activities** according to standards and behavioral rules applicable to profit oriented financial institutions.)

D. This forces DBs to abandon their PPP even more or leads them to disregard operational efficiency. (**Contradiction #4 involves the reaction to confusing incentives** transmitted by the conflict between evaluation standards and PPP-based expectations.)

III. Evolution of DBs in Mexico (2000-2005) According to Key Questions

10. **There have been significant but uneven changes in the institutional setting, instruments, transparency of subsidies and performance behavior of DBs during the period 2000-2005.** Box 3 presents some changes that characterize the situation of DBs today in Mexico. There have been important changes in the institutional setting in the direction of transforming the existing institutions to DAs (e.g., Financiera Rural has been created as an *strictu sensu* DA as defined in the FSAP 2001). Risk-adjusted capital ratios have diminished since 2000, in part due to more stringent regulatory requirements (e.g., stricter risk assessment and provisioning rules), but today are comparable to those of the commercial banks as the same regulatory and supervisory standards are applied. The profitability situation has reversed as indicated in Box 3. However, while some development banks in Mexico are leaders in the region in terms of new, market friendly instruments to promote access to financial services, challenges remain ahead. The rest of this section will examine advances and challenges around the four questions identified in the theoretical framework.

Box 3. Snapshot of Development Banks Evolution in 2000-2005

- There was an important consolidation as the system went from 20 institutions in 2000 (Banco Nacional de Comercio Exterior –Bancomext–, Banco Nacional de Crédito Rural –Banrural together with its 12 affiliated banks–, Banco Nacional de Obras y Servicios Públicos –Banobras–, Nacional Financiera –Nafin–, Banco Nacional del Ejercito, Fuerza Aérea y Armada –Banjercito–, Fondo de Operación y Financiamiento Bancario a la Vivienda –Fovi– and Patronato de Ahorro Nacional –Pahnal–) to nine in 2005 with the liquidation of Banrural and its 12 affiliated banks and the establishment of Financiera Rural, Sociedad Hipotecaria Federal –SHF–, that absorbed Fovi portfolio and Banco del Ahorro Nacional y Servicios Financieros –Bansefi–, that absorbed Pahnal.

- Total assets have been reduced 8.9 percent mainly due to the drop of the financial agent portfolio (now off balance sheet).

- The share of second tier operations in the own portfolio (without financial agent portfolio) has increased to 57 percent in real terms.

- Following changes in the risk-adjusted capital ratio calculation, it has stabilized around 15 percent for whole system (*sistema financiero de fomento*) compare to 14.5 percent for the commercial banks in 2005. There is still a big dispersion in the ration from levels around 30 percent for Banobras y Banjercito to levels around 11.5 percent for Nafin.

- The whole system has reversed the profitability situation with positive net results in all institutions except Bancomext (promotional activity and SANEAMIENTO) in 2005 compared to negative net results for all institutions except Banjercito, Fira and Fovi in 2000.

Do DBs aim at mitigating a well-defined problem of access to finance?

11. **Financiera Rural, Fira, Bansefi, SHF and Nafin (in this case for a part of its activity) have made greatest progress towards identifying the access problems they aim to address.** Financiera Rural and Fira are addressing well defined problems in the rural areas. SHF is focused on market development and access issues in the housing finance area. A modern management of Nafin has also included a better identification of access problems in the SME sector. Bancomext and Banobras have made least progress in defining the access problems and market failures they aim at solving, with the general perception that, in order to meet the requirement of preserving the real value of their capital, they have sought to expand lending activities in direct competition with private credit institutions. Banjercito does not deal with a particular access problem, given that it mainly acts as a cooperative bank for the military personnel and their families.

12. **The access problems created by asymmetric information and transaction costs problems in specific sectors (e.g., rural finance, housing finance, cooperative sector, SMEs financing) seems to justify a short term pro-market activism intervention**. Financial markets rely heavily on the production and processing of information, which is typically a public-good, in the sense that it is non-rival in consumption and costly to exclude. Investors may not find it optimal to screen and finance certain borrowers because once these borrowers obtain a good credit history they can chase credit from other investors, who will not share the initial screening costs. This is the case in Mexico for the rural finance, housing finance or SMEs sectors. Similar spillovers occur when lenders invest in new credit technologies. While they will bare all the costs in case of failure, it is often difficult to prevent other investors from adopting the new technology once it has proven successful. The cost pooling approach of Bansefi for the cooperative sector is a way to address this issue. Other sources of externality in credit allocation include the spillovers that certain activities, like investment in education and provision of technical assistance, may have on bankarization. These activities are being undertaken extensively by Financiera Rural, Fira, Bansefi, SHF and Nafin.

13. **In the case of rural finance, the presence of Banrural created a moral hazard problem that called for immediate intervention.** Banrural ratio of nonperforming to total loans rose from 12.8 in December 1999 to 57.7 in December 2003[4] compared to an average of 3.6 percent for development banks in December 2003. It is clear from these numbers that Banrural had introduced a huge distortion in the rural finance market creating a problem of unwillingness to pay (in addition to the potential problem of capacity to pay). On the other side, Fira was trying to attract private institutions to participate in the market through some innovative instruments (described in Box 2 of the Annex IX of the FSAP 2001) with an important subsidy in the pricing that still remains today. The liquidation of Banrural in a transparent way (now under liquidation by the *Servicio de Administracción y Enajenación de*

[4] These increase in NPLs does not necessarily reflect an actual deterioration of the loan portfolio; it mainly reflects efforts by the CNBV to make Banrural financial statements more transparent and accurate.

Bienes –SAE–) and the creation of Financiera Rural as a DA have eliminated the unwillingness to pay distortion. This is clearly shown by the ratio of nonperforming to total loans that has been under 3 percent since Financiera Rural establishment in 2003. Fira will need to adjust the pricing of its instruments becoming closer to the market under this new context.

14. **Some problems of long-term financing have been mitigated by the structure of the banking system and the development of the capital markets.** The current structure of the banking system in Mexico with a strong presence of foreign commercial banks has internationalized the Mexican financial system and facilitated access to long-term finance in the international markets. Similarly the development of the capital markets in Mexico and investment ratings for some of the Mexican states has also mitigated the long-term financing problem. Still many SMEs companies and some States and municipalities do not have access to long-term financing but it is clear that these new trends have changed the market context in which Nafin and Banobras operate.

15. **Other efforts are directed promote exports (e.g., Bancomext) or do not present a particular access problem (e.g., Banjercito).** Export promotion and financing is a typical activity of many countries through Eximbanks and export promoting agencies but it is not justified (at least for the entire sector) as a problem of access. With the internationalization and development of the Mexican financial system, Bancomext has lost its competitive edge in cost of funds for trade finance. It has maintained the export promotion function, however, which it performs of behalf of the government but funds through it own earnings. Some countries use alternative vehicles to promote exports (e.g., consulates and embassies). Whatever vehicle is used this activity should be funded directly through the budget and be well coordinated with other efforts (e.g., Ministry of Trade and the Diplomatic core). Banjercito tries to attend a need of a professional group that does not present a particular problem different to the one that other professional groups may have.[5]

How is the access problem incorporated into the legal mandate? Is the mandate defined in a static or dynamic manner?

16. **The answer is highly mixed.** Financiera Rural, Fira, Bansefi and SHF have a narrow and better defined mandate addressing specific access problems in a dynamic way, which obliges them to redefine themselves with the achievement of their objectives. However, Nafin, Banobras and Bancomext have a broader, less well-defined, and static mandate (see Table 1).

[5] For this reason the rest of this technical note will not make references to the situation of Banjercito as its particularities are less relevant to the points raised in this technical note. The institution today is financially sound and sustainable, counts with an adequate governance structure and is subject to the same standards of regulation and supervision than private banks. The FSAP 2001 recommended its transformation into a credit union as there is no theoretical motive for the government ownership and the explicit guarantee of the Federal Government. However, the government may balance theoretical motives and legacy issues in order to determine the adequate solution. In any case, it is recommentde that Banjercito activity be limited to a typical credit union activity that it is regulated and supervised as any other private institution.

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17. **There is a explicit mandate to improve access preserving capital and sustainability for the whole system incorporated to the legal framework through the 2002 modification of the Credit Institutions Law (*Ley de Instituciones de Crédito*, LIC)**. Article 31 of the LIC (changed in DOF 24-06-2002[6]) states that development banks have as main objective access to finance of legal persons and individuals in addition to providing the adequate technical assistance and training as indicated in their respective organic laws. In developing such objectives they need to preserve and maintain their capital in a sustainable way by means of efficiently, safely and transparently channeling resources.

18. **The Organic Laws of the different institutions define the mandate sometimes with a narrow scope focused on the specific access problem that is being addressed (e.g., Financiera Rural, Bansefi, SHF), others with a broader and more dispersed scope (e.g., Nafin, Banobras, Bancomext)**. All DBs organic laws define the mandate for their respective institution but there is a difference in the way it is done. On the one side, recently created institutions tend to have a narrow mandate focused on the specific access problem to be mitigated. On the other side, institutions with a legacy from the past tend to have broader mandates. Table 1 summarizes the mandates incorporated through the organic laws.

Table 1. Mandate Definition in the Organic Laws

Institution	**Organic Law**	**Mandate**
Financiera Rural	Law DOF December 26th, 2002 (last modification DOF 01-08-2005)	Art. 2 Development financial sector related to agricultural, forestry, fishing and other activities related to the rural sector. Principle of Capital Preservation included
Nacional Financiera (Nafin)	Law DOF December 26th, 1986 (last modification DOF 01-08-2005)	Art. 2 Promote savings and investments and channel financial and technical resources to industrial development and, in general, to national and regional economic development
Sociedad Hipotecaria Federal (SHF)	Law DOF October 11th, 2001 (last modification DOF 01-08-2005)	Art. 2 Promote primary and secondary housing finance markets through guarantees to housing construction, acquisition and improvement, preferably in the social interest housing.[7] Also, to increase the production capacity and technological development of the housing sector.
Banco del Ahorro Nacional y Servicios Financieros	Law DOF June 1st, 2001 (last modification DOF 01-08-2005)	Art. 3 Promote savings, financing and investment in the cooperative sector offering instruments and financial services to channel the technical and financial support to develop a saving behavior and a

[6] Diario Oficial de la Federación, June 24, 2002.

[7] Social interest housing in Mexico covers households earning three to eight times the monthly minimum wage (MMW).

Institution	Organic Law	Mandate
(Bansefi)		healthy sector.
Banco Nacional de Comercio Exterior (Bancomext)	Law DOF January 20th, 1986 (last modification DOF 01-08-2005)	Art. 2 Provide the service of a public bank under the objectives and priorities of the Nacional Development Plan (*Plan Nacional de Desarrollo*), especially the Foreign Trade, Industrial Development and Development Financing Programs (*Programas Nacionales de Financiamiento del Desarrollo y de Fomento Industrial y de Comercio Exterior*) to promote and finance activities and sectors indicated under this Law. Art. 3 Finance and promote foreign trade.
Banco Nacional de Obras y Servicios Públicos (Banobras)	Law DOF January 20th, 1986 (last modification DOF 01-08-2005)	Art. 2 Provide the service of a public bank under the objectives and priorities of the Nacional Development Plan (*Plan Nacional de Desarrollo*), especially the Development Financing Program (*Programa Nacional de Financiamiento del Desarrollo*) in line with the sectoral, regional programs and state and municipal plans to promote activities and sectors indicated under this Law. Art. 3 Finance and refinance public or private infrastructure investment projects and support the institutional strengthening of the Federal, State and Municipal governments aiming at a sustainable development of the country.
Banco Nacional del Ejercito, Fuerza Aerea y Armada (Banjercito)	Law DOF January 13th, 1986 (last modification DOF 24-06-2002)	Art. 2 Provide the service of a public bank under the objectives and priorities of the Nacional Development Plan (*Plan Nacional de Desarrollo*), especially the Development Financing Program (*Programa Nacional de Financiamiento del Desarrollo*) in line with the activities and sectors indicated under this Law Art. 3 Financial support to the army members.

19. **Some institutions were born with a dynamic mandate that obliges them to redefine themselves with the achievement of their objectives (e.g., Financiera Rural, Bansefi, Fira, SHF).** Financiera Rural (created after the liquidation of Banrural) and FIRA have well-defined mandates and are prohibited from issuing deposits or any other form of liabilities. They fund their lending activities (which are exclusively second-tier in the case of FIRA) out of their endowments and loan collections. BANSEFI, created in 2001, has the mandate of promoting popular savings (a function inherited from its predecessor, PAHNAL) and of spearheading the cooperative development of the Popular Savings and Credit sector (composed of over 400 *Cajas Populares*). SHF, FIRA, Financieral Rural, and BANSEFI define their mandates dynamically—they move on to new activities once the market they

were promoting becomes self sustaining. To witness, efforts are underway to sell BANSEFI to the *Cajas*; SHF will cease second-tier lending as of 2009; and market-based lending by Financiera Rural is attracting banks back to the rural sector.

20. **Others, with a static mandate defined in their Organic Law, make efforts to redefine themselves.** NAFIN, BANCOMEXT, and BANOBRAS are constrained by a static mandate in their Organic Laws. Their initial niches (financing of SMEs, exports, and subsovereigns, respectively) are being eroded—they can hardly sustain their traditional cost-of-funds advantage vis-à-vis the large, international commercial banks or the capital markets.

21. **Absent legal reform, the degree of change in these DBs has largely been a function of management quality.** NAFIN has made greater progress in repositioning itself and developing new instruments—for instance, it created an internet-based market for SME receivables that has become an example of innovative practices in the region. The loss of cost-of-funds advantage in export finance has led BANCOMEXT to gradually return to first-tier lending since 1998, away from its second tier lending objective. BANOBRAS is also loosing its traditional competitive edge in cost of lending to subsovereigns. Moreover, as the most creditworthy state and local governments increasingly access private financial markets, BANOBRAS is being left with the weakest subsovereigns, which makes new challenges in order to increase difficult for this DB to meet the mandate of preserving its capital.

Are the institutional form, functions, and instruments of the DBs consistent with a market-friendly mandate?

22. **Financiera Rural, Fira, Bansefi and SHF have adopted an institutional form similar to a DA (see Box 1) while Nafin, Bancomext and Banobras have maintained their institutional setting.** Financiera Rural, Fira, Bansefi, SHF and Nafin are innovating through the introduction of incentive-compatible instruments (see Table 4) though the pricing is in some cases far from market conditions (e.g., see Graph 1).

23. **Significant changes in the institutional setting have taken place.** There have been important changes in the institutional setting in the direction of transforming existing institutions into DAs (e.g., Financiera Rural was created as an *strictu sensu* Development Agency (DA)[8], others like SHF, Bansefi and Fira are close to the DA concept. Nafin, Bancomext and Banobras have maintained their institutional setting obtaining financial resources in the market. Movement from first tier to second tier lending has brought a higher number and broader range of financial intermediaries to the system (e.g., banks, sofoles and nonbank entities operating with Fira, SHF and Financiera Rural).

[8] The main characteristics of a DA include: specific mandate, market incentive-compatible instruments, no deposit taking or debt issue activity but budget financing.

Table 2. Subsidies Financed Through the Budget

SUBSIDIOS (MP de 2005)

INSTITUCIÓN	2000 MONTO	2000 FUENTE	2000 DESTINO	2005 MONTO	2005 FUENTE	2005 DESTINO
NAFIN				341	Secretaría de Economía	Fondo de Garantías
				30	Conacyt	Fondo de Garantías
				88	Gobiernos estatales	Fondo de Garantías
				459		
FOVI - SHF 1/	381	Presupuesto de Egresos de la Federación*	Subsidios al frente	265	Secretaría de Desarrollo Social	Subsidios al frente
F. RURAL				223	Presupuesto de Egresos de la Federación*	Subsidios al frente para constitución de fondos de garantía y para cubrir algunos costos de contratación del crédito
PAHNAL	66	Presupuesto de Egresos de la Federación*	Inversión financiera			
TOTAL	**447**			**947**		

1/ las cifras del año 2000 corresponden a FOVI y las de 2005 a Sociedad Hipotecaria Federal.
* Recibidos directamente por la Institución.

24. **Transparency has increased.** Subsidies are increasingly financed through initial endowments of "DA type" of institutions such as the establishment of Financiera Rural (US$1,720 million) and Bansefi (US$145 million). Subsidies are increasingly budget financed (see Table 2)**.** Liquidation of failed institutions is now taking place through SAE versus portfolio transfer to Fideliq in the past such as the Banrural liquidation (US$3,000 million).

25. **Important governance changes were introduced for all institutions in 2002 (Table 3).** The main areas in which improvements took place are: greater independence of the Board through the introduction of two independent Board members and "B" share *comisarios*; higher accountability of Board and General Manager (*Director General*); improvements in disclosure through annual submission of operational and financial plans; and creation of the Risk Management Committee and the Human Resources Committee.

26. **Innovation is taking place through the introduction of incentive-compatible instruments though the pricing of some instruments is far from market conditions.** In terms of innovative instruments, more guarantees with lower coverage, structured finance products, cooperation in financial infrastructure and direct provision and creation of technical assistance markets have been developed (Table 4). Financiera Rural and Fira promote capacity building via matching grants used by recipients to hire technical assistance. Financiera Rural lends at market prices and so does Fira in its loans to large farmers; however, Fira lending to the poorest farmers is still at subsidized interest rates. Fira also offers partial guarantees at subsidized prices, although it is implementing a program to phase out the subsidy element therein (see Graph 1). More recently, Fira has engaged in innovative investment bank-like activities—coordinating large structured finance operations by aligning incentives and distributing risks among participants, and offering interest rate and currency swaps, all at market prices. Bansefi administers a one-off government investment subsidy to finance TA to raise the sector's governance, transparency, and management capacity to standards required for licensing by the CNBV. This subsidy is also used finance the initial

setup of a common network and infrastructure that could capture economies of scale, lowering costs for the *Caja* sector. Together with ongoing internal reforms, Bansefi is thus becoming a *Caja de Cajas*, capable of offering centralized, second-tier, efficient services to licensed *Cajas*. Nafin has made greater progress in repositioning itself and developing new instruments—for instance, it created an internet-based market for SME receivables that has become an example of innovative practices in the region.

Table 3. Improvements in Corporate Governance

Issue	**Recognition in the LIC** New Law DOF December 26, 2002 (last modification DOF 01-08-2005)	**Recognition in the Organic Laws** Changes introduced in the organic laws through DOF 24-06-2002 except Financiera Rural that was created in December 2002
Greater independence of the Board through the introduction of two independent Board members and "B" shares *comisarios*[9] Higher accountability of Board and General Manager (*Director General*)	Arts. 35, 44 (DOF 24-06-2002) Art. 41, 42, 43, 43bis (DOF 24-06-2002)	F. Rural (arts 26 to 36 and 43 to 46) Nafin (arts. 17, 19, 21, 23, 23bis) SHF (arts. 14, 16, 18, 20) Bansefi (arts. 17, 19, 20, 22, 24, 25, 26, 27) Bancomext (arts. 16, 17, 18, 18 bis, 20, 25) Banobras (arts. 17, 18, 19, 21, 23, 24bis) Banjercito (arts. 39 to 46, 46 bis, 47, 48)
Improvements in disclosure: annual submission of operational and financial plans	Art. 31. (DOF 24-06-2002)	F. Rural (arts. 47 to 4) Nafin (art. 29) SHF (art. 28) Bansefi (art. 32) Bancomext (art. 31) Banobras (art. 29)
Creation of the Risk Management Committee and the Human Resources Committee[10]	Not in the LIC	F. Rural (arts. 37 to 42)[11] Nafin (art. 35) SHF (art. 31) Bansefi (arts. 23)[12] Bancomext (art. 34) Banobras (arts, 32, 33, 34)[13] Banjercito (art. 57)

[9] All the Mexican DBs are defined as a so-called "National Credit Institution" (*Sociedad Nacional de Crédito*) which is a special type of legal entity, different from other corporate forms. DBs are government owned, with the ownership title attributed to the SHCP. Government shareholding is divided into two classes of shares ("A" and "B"). "A" shares represent 66 percent and could be subscribed only by the Federal Government (FG). "B" shares, in theory, could be held by any legal and physical person; in practice, they are in government hands. DBs have directors in their boards (*Consejo Directivo*), two thirds of them representing "A" shares and the rest "B" shares. The chairman of the board is always the Treasury Secretary (*Secretario de Hacienda*). "A" shares are always represented by various departments of the FG, which thus dominates decision making. "B" shares, however, might be represented by non-government officials, but appointed by the Federal Government (FG).

[10] The audit committee has not been established at the law level due to conflict with the Federal Government auditing (*contraloría*) rules but has been established through the regulations of the *Comisión Nacional Bancaria y de Valores* (CNVB).

[11] In addition, the Law established the Operational, Credit and Integral Risk Management Committees.

[12] Article 7 of the transition section includes the establishment of the Integral Risk Management Committee.

[13] Article 33 creates the States Consultative Committee and article 34 the National Consultative Committee.

Figure 1. Implicit Subsidy in Fira´s Guarantee

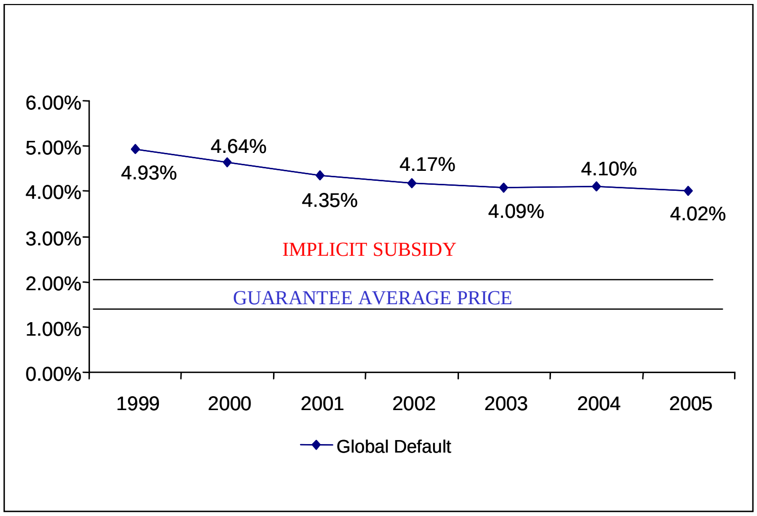

Table 4. Selected Market Incentive-Compatible Instruments

Instruments (Institution)	**Brief Description**
Structured Finance for Working Capital Financing (Fira)	FIRA created a structured finance program, involving Ocean Garden (large shrimp distributor), shrimp producers, shrimp feed suppliers, and private banks. Ocean Garden signs supply agreements with individual producers and advances working capital finance. Credit rights are then transferred to a trust fund and sold to banks. The transaction helps to deal with information problems. • Ocean Garden provides know-how in screening and monitoring producers. The pooling of debt obligations allows banks to diversify their risks and avoid exposure to a specific producer. Banks do not face Ocean Garden's credit risk (SPV is bankruptcy remote). Pooling also reduces transaction costs. To align incentives all industry participants provide liquid guarantees to cover initial credit losses. • Producer and feed suppliers provide guarantees for specific loans covering initial credit losses up to a certain level. • Ocean Garden provides a general guarantee covering initial credit losses up to a certain level. • Once these guarantees are exhausted investors start facing losses. • FIRA provides a guarantee that covers second losses.
Structured Finance for Inventory Financing (Fira)	FIRA created a structured finance program, involving FIRA, Cargill, private banks, and sugar mills. Cargill grants credit to sugar mills backed by sugar inventories and then transfers

Instruments (Institution)	**Brief Description**
	credit rights to banks. The scheme has several built-in mechanisms to address problems of using sugar inventories as collateral: • Cargill selects and monitors warehouses. • A system of margin calls maintains a constant loan to value ratio, addressing concerns about price volatility. • Loans are extended through repos, allowing easy repossession. Pooling of debt obligations allows banks to avoid exposure to a specific mill and reduces transaction costs. FIRA provides credit guarantees covering a large share of the total value of loans. • FIRA charges a fee for its credit guarantee. • Cargill guarantees the purchase of most repossessed inventories. • FIRA's risk exposure is limited by this guarantee
Development of common financial infrastructure (Bansefi)	Institutional building through in the Cajas sector through: • Technical Assistance. • Training. • Technological Platform. • Common services network: L@ Red de la Gente. Broadens the clients base (economies of scale). Allows for differentiated products (economies of scope). Allows for access to the national payments system through Bansefi (network economies)
Creation of a factoring market through infrastructure development (Nafin)	Internet-based system to provide reverse factoring services to SMEs created in 2001. The system works by creating chains between buyers and their suppliers. • Buyers are large creditworthy firms. • Buyers must invite their suppliers to participate. • Banks take credit risk of large reputable buyers (factoring without recourse). NAFIN's system helps to ameliorate information problems. • Screening is outsourced to buyers that have an informational advantage relative to banks.' • Banks only need to assess creditworthiness of large buyers. • Buyers post receivables into the systems preventing fraud. • System creates a credit history for suppliers. The use of an electronic platform reduces transaction costs capturing economies of scale and increasing speed of transactions.

Instruments (Institution)	Brief Description
	The system fosters competition among financial institutions.
Cooperation for the creation of a venture capital fund (Nafin, Bancomext, Banobras, Focir, others)	Cooperation by several DBs for the creation of a common venture capital fund to increase access to finance to SMEs. Changes have been introduced in the tax system to allow for a transparent tax regime of trust funds. Changes have been introduced to the Securities Market Law to create the *Sociedad Anónima Promotora de Inversión* (SAPI) that broadens the rights that may be given to investors/shareholders of SAPIs and induce joint-ventures and investments in the capital stock of SAPIs. The fund is managed by the *Corporación Mexicana de Inversiones* with a Board constituted by four shareholders and four independent members. It allows for an integral approach to venture capital and a multiplying effect and also allows for cost savings and risk pooling.

How is compliance with the mandate being measured? Is the mandate achieved through a sound and sustainable way?

27. **No DB in Mexico has yet succeeded in developing a performance evaluation system compatible with DA functions.** Performance is still measured in terms of volumes of credit. A switch to a better evaluation system would be a major undertaking for the near future. It will be key to incorporate these mechanisms also in the corporate culture and in the decision making process of the DB's Boards. DBs have traditionally been evaluated by credit growth, absence of losses and outreach of the targeted population. The main problems for their evaluation include: defining opportunity cost of capital, measuring and managing risks, measuring impact on beneficiaries and real sector performance. New financial instruments and roles require a change in how institutions are being evaluated considering indicators such as private financial activity promoted by the intervention and real sector impact evaluation. Finally, the performance indicators suitable to the mandate need to be incorporated in the decision-making process of the institution.

28. **Lack of consistent information about subsidies and guarantees is making difficult mandate measurement, though it is being achieved in a sound and sustainable way.** Broad mandates and dispersed information of multiple subsidy programs are complicating mandate measurement. In addition, mandate indicators are not incorporated in the decision making process of the institutions (except some efforts by Fira). On the other hand, today there is a level playing field between DBs and commercial banks in terms of regulation and supervision making comparable risk-adjusted capital ratios (15 percent for DBs versus 14.3 percent for commercial banks in 2005). Today, all DBs except Bancomext

have positive net results reverting the situation of 2001 were all institutions except Banjercito, Fira and Fovi were making losses.

IV. ADVANCES TO BE CONSOLIDATED AND CHALLENGES FOR THE FUTURE

29. **Important advances need to be maintained and consolidated**. They are:

- Dynamic mandate definition with a focus to the specific access problem to be solved.
- Transparency through changes in the institutional setting (DA) and subsidies financed through budget.
- Corporate governance improvements with better accountability and disclosure.
- Level playing field with commercial banks in terms of regulation and supervision.
- Principle of capital preservation.
- Process of market incentive-compatible instruments innovation.

30. **Also in the shorter term, the reform of DBs should further rationalize their operations**. There is a particular need to rationalize the numerous financial subsidy and guarantee programs (Box 4 and Appendix 1), as this multiplicity is leading to ill-targeting, duplications, and even "double-dipping" by beneficiaries. In this connection, the government is encouraged to continue with its current plan of establishing a "subsidies bureau" that would significantly contribute to mitigating the mentioned problems. A continuous effort of assessing the impact of lending, guarantee, and subsidy programs (which requires the construction of panel and cohort data) should be part and parcel of program design and evaluation. Efficiency losses due to duplication of functions and infrastructures across DBs should also be identified and corrected. Finally, efforts should continue in each DB to fully separate subsidies from finance, by moving to market-based pricing of their products while ensuring that remaining subsidies are well-designed, well-targeted, and funded directly from the budget.

Box 4. The Federal Programs Restructuring Committee

The Federal Programs Restructuring Committee (*Comité de Reestructuración de Programas Federales*) was established in November 2004 by means of an Agreement of the Republic Presidency (*Acuerdo de la Presidencia de la República*). The objective of the Committee is to analyze and study the Federal Government programs in order to rationalize and make them work more efficiently. The strategy is to increase the degree of institutionalization of the programs. The Decree PEF 2006 includes specific measures for the improvement of operational rules and subsidies such as strengthening of the beneficiaries register, establishment an intermediaries register and minimum prudential and accountancy rules of the financial intermediaries channeling the subsidies. In terms of implementation strategy, an agreement was signed on December 2005 between SHCP (*Secretaría de Hacienda y Crédito Público*) and SFP (*Secretaría de la Función Pública*) to elaborate the operational rules for 2006. The changes will be gradual and will be accompanied by technical assistance, software development for the accounting rules and supervision of the financial intermediaries (by the subsidies provider agency) and of the subsidies provider agency (by an external auditor).

The initial universe selected includes 22 programs chosen at the time of the Committee establishment. It includes 11 programs that are using financial intermediaries to channel resources and programs under the LACP (*Ley de Ahorro y Crédito Popular*) for the bankarization of low income population. The programs selected in the Decree PEF 2006 include:

Program	**Responsible Agency**
Programa Integral de Formación, Capacitación y Consultoría para Productores e Intermediarios Rurales	Financiera Rural
Programa de Apoyo para Facilitar el Acceso al Financiamiento Rural	Financiera Rural
Fondo Nacional para las Empresas de Solidaridad (FONAES)	Economía-FONAES
Programa Nacional de Financiamiento al Microempresario (Pronafim)	Economía
Programa de Financiamiento FONDO PYME	Economía
Fondo de Microfinanciamiento a Mujeres Rurales (FOMMUR)	Economía
FIRA-FEGA (esquemas SIESUC and PROCREA)	FIRA
Opciones Productivas	Sedesol

31. **Over the longer term, the DB system should be further consolidated, mandates should be reformed and made dynamic in some cases, and major improvements should be introduced in the way in which DB performance is measured and rewarded**. All of this would require substantial legal reform. Subject to a clear definition of objectives and mandate, a DA oriented towards SMEs should replace Nafin and Bancomext, while the latter's export promotion functions should be transparently financed by the government's budget. Similarly, as Fira moves to full market pricing of all of its financial products, the case in favor of consolidating Fira and Financiera Rural in a single, rural-oriented DA will grow stronger. The authorities should also consider transforming Banobras into a DA oriented towards capacity building in state and local governments.

32. **Basefi should ensure broad qualification of the *Cajas* sector for them to take advantages of the efforts already undertaken.** Together with ongoing internal reforms, Bansefi is thus becoming a *Caja de Cajas*, capable of offering centralized, second-tier, efficient services to licensed *Cajas*. As part of a dynamic mandate and to further institutionalize the sector, authorities are planning to transfer Bansefi to the Popular Credit

and Savings Sector (PCSS) through the "socialization" process (Box 5). It is important that the sector is well qualified before this step takes place. One of the Bansefi roles is to strengthen the sector entities, including the formation and overseeing of the *Cajas* federations.[14] The initial deadline was June 2005 for the *Cajas* to meet CNBV standards for authorization, which include acceptable accounting and financial management systems, demonstrated financial viability, and effective governance structures. Only *Cajas* that qualify will be authorized to remain in operation. At the time of the FSAP Update mission only a few *Cajas* qualified.

[14] A description of this delegated supervisory framework was included in Box 3 of the FSAP 2001 assessment. In addition, the World Bank Project Appraisal Document of the Bansefi Loan (Report No. 28929-ME) includes a description of the targets for its implementation.

Box 5. Bansefi Socialization Process

The Socialization of Bansefi is a proposal currently being discussed with Congressional leaders for building a sounder institution that would consolidate the system of Savings and Credit Institutions (SCIs) and Bansefi by transferring ownership of Bansefi to its member SCIs..

Ownership and maximum participation limits
The purpose of the transfer process is to accomplish the sale of at least 51 percent and up to 100 percent of the shares to the SCIs. The acquisition of shares will be voluntary. Only the following would have the right to acquire shares of Bansefi, up to a maximum:

- Federations and Popular Credit and Savings Entities which have been authorized as such or that are in the process of obtaining their authorization (up to100 percent). The participation of each Federation and each shareholding trust is limited to a maximum of 10 percent.
- Foreign popular credit and savings entities contributing capital and success experiences in their countries and multilateral organizations contributing capital for the development of the SCIs. Foreign entities and multilateral organizations may have a temporary investment up to 49 percent. In addition, foreign entities may participate directly or indirectly through wholly-owned subsidiaries or special purpose vehicles.
- Employees of Bansefi (up to10 percent).
- Finally, the Mexican Federal Government may have a temporary investment up to 49percent.

Sale Process
The sale of Bansefi’s shares would be made through an allocation process. Each interested party will submits an irrevocable offer to acquire the total amount of Bansefi’s shares it wishes to acquire along with a cash deposit for 50 percent of the price of their offer as surety bond. The Federal Government allocates the shares of the Bank, in accordance with: (1) the submitted acquisition offers and (2) the maximum participation limits set forth in the decree. Initial Allocation limits are:

- 60 percent to the Mexican SCIs.
- 30 percent to Foreign Investors.
- 10 percent to Bansefi’s employees (only if the Mexican PCSS and Foreign Investors offer to acquire at least 51 percent of the shares).

The purchase price will be determined in accordance with Bansefi’s book value. In addition to the purchase price, all initial participants shall pay to the Federal Government if applicable, 50 percent of the excess of the difference of a fixed percentage to be defined and the real IRR of the initial investment. The purchase price is to be paid in cash concurrently with the acquisition of the shares. The additional payment shall be paid in cash at the time in which the foreign investors complete the total sale of their participation in Bansefi.

Transformation into a Multiple Banking Institution
The Federal Executive Branch will order Bansefi’s transformation into a stock corporation, and a multiple banking institution, which shall become effective upon the receipt of purchase offers for at least 51 percent of the shares of Bansefi. Bansefi will continue being denominated “*Banco del Ahorro Nacional y Servicios Financieros*”, will maintain its legal capacity and property, will have as corporate purpose the provision of banking and credit services and will continue being responsible of any prior obligations, including tax and labor.

The Organizational Law of Bansefi will be repealed upon its transformation into a stock corporation and a multiple banking institution. Bansefi will adjust its operations to the applicable framework governing multiple banking institutions within six months following its transformation, under the supervision of the SHCP, the CNBV and the Bank of Mexico.

Corporate Governance Structure and Minority Shareholder Protection
Bansefi’s proposed corporate charter will be organized based on the objectives and structure of the organization after its “socialization” process. The Company’s by-laws will take as a starting point the regulation applicable to Mexico’s commercial banks, and will incorporate additional corporate governance measures and mechanisms based on the international experience with the objective to facilitate the solution of conflicts and the better operation of the bank. The philosophy of improved corporate governance will be embedded in the corporate charter and sustained by three basic pillars: a simple capital structure, a set of corporate control bodies and their regulation to foster supervision, and direct minority shareholder protections.

33. **Finally, as the DB system evolves towards a DA model, there will be a growing need to reform the way in which DB performance is measured and evaluated using the worldwide best practices**. The current criteria—of measuring performance in terms of the volume of loan disbursements—are bound to become increasingly less relevant. The new criteria should focus on the impact of DA market-friendly interventions. As such interventions will increasingly involve nonlending instruments, their impact should be assessed in terms of their catalytic role in fostering a sustainable broadening of access to financial markets for underserved sectors.

Table 5. Subsidy and Financing Programs to Enterpreneurs, Productive Projects, Small Business, and Intermediaries of "Popular"Banking

Agency or Entity	**Program**	**Objectives**
Ministry of Economy	Fund to Support the Micro, Small and Medium Enterprise (PYME Fund)	To give temporary support to programs and projects of micro, small and medium enterprise. Promote the access to finance on micro, small and medium enterprise.
Ministry of Economy	National Financing Program of the Micro-entrepreneurs.	To give subsidy and financing for the establishment and consolidation for the sector of national micro financing.
The Secretariat of Economy (Seconomía)	National Fund to Support Enterprise in Solidarity (FONAES)	Offering subsidies to prompt the productive work and business of the rural population, peasants and indigenous and entrepreneurs of low income of the rural areas, by means of support to the formation of productive capital, business skills and the build up of financial intermediaries.
The Secretariat of Economy (Seconomía)	Fund for Micro Financing of Rural Women (FOMMUR)	Channeling micro credits to rural women, with business vocation, willing to prompt productive and profitable projects with associative capacity.
SRA	Women Program in the Agrarian Sector. (PROMUSAG)	Offering subsidies to productive projects to women of the agrarian sector.
SRA	Fund for the Support to Productive Projects (FAPPA).	Offering subsidies and support to productive projects of the agrarian subjects and group of peasants that inhabit in agrarian areas.
Sagarpa	Support Program to Access the Rural Financial System (PAASFJR)	Support the producers of the rural sector to access the credit resources to help them develop his activities and contribute to the development of an efficient rural system.
Sagarpa	Support Program to the Rural Investment Projects (PAPIR)	Grant subsidies to promote the investment in capital good of the rural population to execute productive projects of proper technology application, productive re-conversion, collection, conditioning and transformation.
Sagarpa	Regional Projects for Technical Aid to the Rural Micro-financing (PATMIR)	Offering subsidies to financial intermediaries not bankers to facilitate access to financial services to the inhabitants of marginalized rural regions.
Sagarpa	Rural Development Programs Sub-program of Development	Developing the capacities of the rural population eligible to identify areas of opportunities, formulate,

Agency or Entity	**Program**	**Objectives**
	(PRODESCA)	execute and consolidate projects that can improve their productive, commercial, organizational and business processes.
Sagarpa	Strengthening Sub-programs of Rural Businesses and Organizations (PROFEMOR)	Incorporating to the Unit of Rural Production (UPR) and priority groups in an organized way to the appropriation of the added value in both senses of the productive academy, promoting synergies among the organizations, economic networks and the rural financial services, such as fortifying the processes of participation and self-management, that enable them to have a greater power of communication and positioning of their enterprises and organization.
Sagarpa	Support Programs to the Social Organizations of Agribusiness and Fishing grounds (PROSAP)	Offering subsidies to the social and economic organizations of the rural sector to formulate and execute productive projects.
STPS	Productive Investment Projects (PIP)	Offering subsidies by means of delivery of machinery, equipment and tools to unemployed people and sub-employed interested in developing a productive project.
FlRA	Credit Program by Administration. (PROCREA)	Facilitating the formal financing of businessmen with a credit requirement of small amount, through a private intermediary called Agent PROCREA.
FlRA	Comprehensive Technical Service (SATI)	Support credit operations to producers with an annual net income of 3,000 times lower than the minimum daily salary in the area, by means of professional advice in productive, administrative, financial and organizational aspects.
FlRA	System of Stimuli to the Bank (SIEBAN)	Compensating the commercial banking by giving access to formal credit to low income producers in need of small credits.
FlRA	System of Stimulus to the Credit Unions (SIESUC)	Consolidate and increase the operations between the Credit Unions, the Bank and the FIRA.
FlRA	Service of Guarantees	Facilitating the access of producers and businessmen to the credit of the Private Bank complementing the own guarantee of the business.
FINRURAL	*Entidades Dispersoras* Program Phase I	To give credits to *entidades dispersoras* of credit and/or financial intermediaries directed to the rural sector that were not contemplated in the LOFR, nor regulated by the CNBV
FINRURAL	Program to reduce transaction costs.	Offering subsidies to the intermediaries to reduce the transaction cost of their clients.
FINRURAL	Comprehensive Program of Formation, Qualification and Consulting for Producers and Rural Intermediaries.	Offering subsidies to the development of qualifications and consulting for producers and rural intermediaries.
NAFIN	Comprehensive Program for the Micro-Enterprise.	Providing financing, qualification and technical assistance to the smallest economic units of the country.

Agency or Entity	Program	Objectives
BANSEFI	Consolidation of the Institutions of the Saving and Popular Credit Sector.	Offering subsidy to the technical assistance to the society of saving and popular credit (SACPS) and to the personnel of the federations that group SACPS interested in receiving the supports to complying with the legal framework.
BANSEFI	Qualification for the Personnel of Federations and SACP's.	Subsides to form human resources required by the SACP's and federations to comply with the Law and the regulations.
BANSEFI	Strengthening Program to the Saving and Popular Credit and Rural Microfinance. Technological Component.	To design, establish and operate an information system to support the saving and popular credit intermediaries in the generation and information dissemination, for own use and to comply with the regulation.
BANSEFI	FOMIN. Component of Remittances of the Red of the People (La Red de la Gente)	To develop the connectivity between the systems in SACP's and BANSEFI, with the purpose to operate The Network of the People (*La Red de la Gente*), conformed by financial intermediaries that offer a variety of services with high quality and reduce costs to the societies and the end users, with national cover.
Sedesol	Program of Productive Options: (a) Support to the Word, (b) Productive Credit for Women, (c) Granting support and enterprise formation, (d) Saving with you, (e) Productive Integration, (f) Local Development Agents	Offering support to the poor population from a strategy that could generate productive options, contribute to the consolidation of producers, favoring the formation of agencies of local development, and contribute to the formation of a system of social financing.
Sedesol	Civic Initiative 3x1	Supporting the civil initiatives to make specific projects that involve improving de quality of life of 10 inhabitants through assembly of resource of the federation, states, municipalities of the same group of citizens organized, mainly the ones living abroad.
Nacional Comisión on the Arid Zones (CONAZA)	Program of Scientific Entailment and Transference of Technology	Offering subsidies for investigation projects to promote sustainable development and the improvement of the quality of the rural inhabitants living in extreme poverty in the arid and semi- arid zones of the country.
National Fund for the Promotion of the Local Crafts (FONART)	Granting of credit	Offering credits for the support of the cycle of production of the popular traditional local crafts

Fuente: *Oficina de Políticas Publicas, Encuesta a dependencias y entidades del Gobierno Federal sobre Transferencias, Financiamientos y Apoyos a Emprendedores, Proyectos Productivos, Micronegocios e intermediarios Financieros, Presidencia de la Republica, México, Marzo de 2004.*