

STRENGTHENING INSTITUTIONS IN THE LOW-INCOME SAVINGS AND LOAN SECTOR

(TC-01-09-00-2)

EXECUTIVE SUMMARY

Executing agency:	Banco del Ahorro Nacional y Servicios Financieros (BANSEFI)	
Beneficiaries:	The beneficiaries of this project will be BANSEFI, the Comisión Nacional Bancaria y de Valores [National Banking and Securities Commission] (CNBV), the low-income savings and loan institutions, and the institutions of the low-income savings and loan system represented by the federations and confederations.	
Objectives:	The objective of the project is to support the restructuring called for by the laws governing the low-income savings and loan sector, so as to promote the orderly development of its institutions, while at the same time promoting the protection of national savings and an expansion of the financial services offered to small businesses and microenterprises.	
Description:	The project will have three components: (1) technical assistance for 1,000 branches belonging to BANSEFI and four currently regulated <i>cajas de ahorro</i> [savings banks] to adapt to the provisions of the new laws; (2) technological modernization of BANSEFI; and (3) development of new savings products within BANSEFI. A special aim is to create a network enabling institutions to compete for the remittances sent by Mexicans living abroad.	
Financing:	Modality: Nonreimbursable (Facility I)	
	MIF	US\$ 3,500,000
	Local counterpart:	<u>US\$ 6,625,000</u>
	Total:	US\$10,125,000
Execution timetable:	Execution period:	36 months
	Disbursement period:	42 months
Environmental and social review:	The program was reviewed and approved by the Committee on Environment and Social Impact (CESI) at its meeting of 11 January 2002 (TRG 01-02). The CESI recommended including not only environmental considerations but also an ethical component in the	

environmental considerations, but also an ethnic component, in the information systems of BANSEFI and the savings banks participating in the project.

Special contractual clauses:

1. Prior to the first disbursement of resources earmarked for upgrading the information systems of the branches participating in the project, the executing agency will submit evidence to the Bank that it has identified and selected 400 branches of savings banks that meet the eligibility requirements agreed upon with the Bank (see chapter VII).
2. Prior to the first disbursement of the resources earmarked for subcomponent (b) of the technical assistance component, the executing agency will submit evidence to the Bank of the agreement signed with the CNBV for the consulting services to be provided by Desjardins International Development (DID) that includes, *inter alia*, the CNBV's commitment to provide US\$25,000 for this subcomponent and to allocate the technical staff that will serve as counterpart to DID.
3. The Donors Committee's authorization is requested for purposes of recognizing as part of the local contribution US\$1.5 million in project-related expenses incurred and investments made by BANSEFI beginning on 9 April 2001, date of the request for technical assistance, which are broken down in paragraph 4.3. These investments were made under conditions analogous to those established by the Bank (see chapter IV).

Exceptions to Bank policy:

See Procurement.

Procurement:

An exception to the requirement for international competitive bidding for the contracting of consultants is requested for purposes of allowing the direct contracting of the consulting firm (DID), which is justified on the basis of the technical and institutional comparative advantages described in chapter IX. The remaining goods and services will be contracted in accordance with the Bank's procedures and rules.

I. COUNTRY ELIGIBILITY AND PROJECT

- 1.1 On 21 January 1994, the Donors Committee of the Multilateral Investment Fund declared Mexico eligible for all modalities of financing provided by the MIF. The project described herein is in keeping with the Bank's strategy of supporting the development of Mexico's financial system. It also qualifies for MIF financing within the framework of the Technical Cooperation Facility.
- 1.2 In April 2001, the Department of Finance (SHCP) requested the MIF's support in financing technical assistance with two objectives: (a) to contribute to the process of institutional and technological modernization to be carried out by the Banco del Ahorro Nacional y Servicios Financieros (BANSEFI) and the institutions of the low-income savings and loan system so as to adjust to the new laws governing them; and (b) to support the National Banking and Securities Commission (CNBV) and the federations in training their technical personnel to perform the supervision of the institutions in the low-income savings and loan sector, including BANSEFI. This request derives from the difficulties encountered by low-income savings and loan sector, owing to institutional disorganization, the fragility of the institutions it encompasses, and the lack of adequate supervision of its operations.

II. BACKGROUND

- 2.1 The formal, nonbank financial intermediaries in Mexico include both those institutions regulated by the CNBV, namely savings and loan associations, and credit unions, and those that are not regulated, such as savings and loan cooperatives, solidary savings banks, and low-income savings banks. These institutions make up the low-income savings and loan sector. As of 5 June 2001, when the Low-income Savings and Loan Act was passed, all these institutions have two years to adopt one of the two institutional forms provided for under this law: the *Sociedad Cooperativa de Ahorro y Crédito* [Savings and Loan Cooperative], or the *Sociedad Financiera Popular* [Working Class Financial Corporation]. The law also calls for maintaining the sector's umbrella organizations, i.e., the federations and confederations. Federations are groups of savings and loan institutions, and confederations are groups of federations. The number of registered institutions is 630, which represent 2.3 million members. Although this sector is relatively small in terms of assets when compared to the formal banking system (US\$2.5 billion), it is important to the country for both its ability to provide financial services to the poorest segments of the population, and because the geographical location of the branches enable them to offer services in places where commercial banks have no presence. During the banking crisis of 1995, these institutions continued to provide services. The sector has been unable to grow primarily because of the multiple crises arising from the inadequate supervision of their operations.
- 2.2 The SHCP is seeking to promote the orderly development of the savings and loan sector, so as to foster growth in the financial services offered to the small business

and microenterprise sector and to protect savings, via the Low-income Savings and Loan Act, which entered into force on 5 June 2001. Said law seeks to reorganize the sector by making all intermediaries subject to a single legal system which sets forth the same powers and obligations for all, since the potential of low-income and rural savings has given rise to a large number of informal organizations that have sprung up outside the sphere of those financial institutions considered to be formal or traditional.

- 2.3 To support this restructuring effort, the decision was made to transform the Patronato del Ahorro Nacional (PAHNAL) created by law in 1949 exclusively to cater to the small saver, into the Banco del Ahorro Nacional y Servicios Financieros (BANSEFI). BANSEFI is a second-tier national credit corporation and development bank with its own assets and legal status, with social, economic, and public-interest aims, in keeping with the provisions of its new charter, which went into effect on 2 June 2001. The decree by which PAHNAL was transformed into BANSEFI was passed on 29 November 2001, and went into effect on 1 January 2002. According to its new business plan, BANSEFI will maintain a small and efficient second-tier institutional structure and will gradually transfer its branches to savings and loan sector institutions. As of the enactment of its charter, BANSEFI has the following mandate: 1. To provide technological development, training, technical assistance and financial services as a second-tier bank to the umbrella agencies and to the low-income savings and loan institutions, 2. To act as financial agent of the federal government with regard to negotiation, contracting, and management of foreign loans the aim of which is to foster development in the sector and which are granted by private, governmental, or intergovernmental foreign institutions as well as by any other international financial cooperation agency, and 3. To support the National Banking and Securities Commission (CNBV) in training the federations and the low-income savings and loan institutions so as to bring them in step with the new legal environment, while seeking to enable the federations to gain the necessary capacity to efficiently perform the oversight duties delegated to them.
- 2.4 The CNBV is responsible for defining the standards and specific regulations for oversight and monitoring of the operations of the institutions comprising the Mexican financial sector. The CNBV defines the aforementioned standards and regulations in consultation with the Bank of Mexico and functions as a decentralized agency of the SHCP with technical autonomy. Given the magnitude and complexity of Mexico's financial system, the CNBV has concentrated its efforts on banking and insurance institutions, and has concerned itself only marginally with the low-income savings and loan institutions. These institutions come under the purview of the SHCP, as do BANSEFI and the CNBV. With the enactment of the new laws governing the sector, the CNBV is taking on a more active role and will be responsible for the design and enforcement of all applicable rules, although it will do so by delegating to the oversight committees that will operate within the federations. BANSEFI will be responsible for designing and monitoring the information systems of the entire sector, which will aid the CNBV and the federations in performing their oversight duties.

- 2.5 This project will be the point of departure for the entire process of institutional and financial reorganization of the entities making up the low-income savings and loan sector. Since a number of savings and loan institutions have had financial problems over the last four years, the government had to take measures to clean them up and regulate them. BANSEFI, the CNBV and the federations and confederations, with the support of the World Bank, will clean up and strengthen the sector's institutions during the two years provided for in the law for completing their adjustment to the law's new provisions. The clean up cost has been estimated at US\$20 million, which amount will be financed by the World Bank in the form of a loan to the Government of Mexico. In view of the fact that this clean-up process will require debt refinancing for the participating institutions, which is not permitted by Bank policy, an equally important project was chosen for support instead, one that aims to: (i) provide technical assistance to the 600 BANSEFI branches and 400 branches of four regulated *cajas de ahorro* [savings banks], so as to create a structure that allows for proper oversight of their operations, and (ii) develop new savings services within BANSEFI in its new role as a second-tier bank. Because BANSEFI and the four savings banks included in the project are financially sound and already regulated, they will not be part of the World Bank's Project. The activities proposed in the Bank's project had to be carried out immediately, given the need for a centralized information system in BANSEFI that could be implemented with the institutions that are ready to comply with the new law, which would not have been possible under the World Bank's project, given that its execution is scheduled for 2003. It is important to note that several joint missions were conducted with the World Bank to coordinate both institutions' efforts.
- 2.6 The project meets the objectives of the Bank's strategy in Mexico because it supports the development of a system whose customers are small savers and small businesses and microenterprises from the rural and urban areas of the country. This segment of the market has very limited coverage in terms of financial services, even less than countries such as El Salvador and Guatemala. The low-income savings and loan system was hit hard by the financial crisis of 1995, which led the government to take steps to carry out far-reaching reform of the system, attacking its principal problems at the roots in order to raise it to a level of development in keeping with that of the country as a whole. Further, BANSEFI, just like all the other public institutions in Mexico, is subject to major budgetary restrictions, so the funds allocated to the project under consideration are limited.
- 2.7 MIF funding will help significantly to hasten the process of reform, since a greater number of institutions in the system will be able to adapt to the new regulations and receive adequate supervision. As the project is implemented, experiences gained are intended to serve as a basis for generalizing a model for management of first-tier intermediaries and the institutions comprising them. This will, among other things, make it possible to design and implement innovative models of delegated oversight, which may also prove useful for future MIF operations in the region. Lastly, the installation of a technological platform like the one proposed for the first and second tiers of the system is essential to the efficient channeling of individual savings and other resources, such as remittances from Mexicans residing abroad.

III. OBJECTIVES AND BASIC COMPONENTS OF THE PROJECT

A. Objectives and description

- 3.1 The objective of the project is to support the restructuring called for by the laws governing the low-income savings and loan sector so as to promote the orderly development of its institutions, while at the same time protecting domestic savings and an expansion of the financial services offered to small businesses and microenterprises.

B. Description

- 3.2 The project will have three components: (1) technical assistance for 1,000 branches belonging to BANSEFI and four currently regulated *cajas de ahorro* [savings banks] to adapt to the provisions of the new laws; (2) technological modernization of BANSEFI; and (3) development of new savings products within BANSEFI. A special aim is to create a network to compete for remittances sent by Mexicans living abroad.
- 3.3 **Technical assistance.** The technical assistance component is divided into two subcomponents: (a) adaptation of the information systems of the 600 BANSEFI branches, and 400 branches belonging to regulated banks which comply with the prerequisites established by BANSEFI and the CNBV (**MIF: US\$2,600,000; BANSEFI: US\$3,550,000**); and (b) training for the CNBV and the federations' oversight committees (MIF: US\$500,000; BANSEFI US\$25,000).
- 3.4 The activities included in subcomponent (a) are: (i) a diagnostic study for the design of the platform needed by BANSEFI to centralize the information required by the CNBV and the federations for oversight of the sector; (ii) development of information systems and procedures for supervision, design of applications such as Back Office, regulatory reports, and information management tools; (iii) updating the systems used by the 1,000 branches to increase their capacity through the development of data processing software and a direct connection to BANSEFI's information system; (iv) training of branch personnel; (v) a data center, so that both business and regulatory information is accessible, protected, and reliable; and (vi) development of procedures for new products and design of the portal/window platform, which will translate into a greater capacity to provide services and lower operating costs for BANSEFI and the participating branches.
- 3.5 The activities included in subcomponent (b) are related to the training of the CNBV and the federations' oversight committees. In response to a request from BANSEFI, MIF funding earmarked for this subcomponent, in the amount of US\$500,000, will be allocated in its entirety to the direct contracting of Desjardins International Development (DID) to train the technical staff of the units created in the first phase. The units should be fully operational by the end of the two-year period the law provides for the sector's institutions to comply with the new prudential regulations. In chapter IX of this document, a detailed explanation is provided of the work

performed by DID and the reasons that justify the direct contracting of this consulting firm to be in charge of training the committees that it helped to create in a first stage of its contract. The funds to be contributed by the local counterpart will go to cover the administrative costs incurred by the CNBV in connection with these consulting services.

- 3.6 **Technological modernization of BANSEFI (BANSEFI: US\$2,800,000).** This component will be financed in its entirety by BANSEFI as part of the local counterpart funds and these funds will be used for the purchase and leasing of computer equipment for the technological modernization of BANSEFI and the other banks participating in the project, which will enable them to keep records and generate the necessary reports on the low-income savings and loan institutions and their own branches and thus comply with CNBV regulations while also diversifying the range of savings services they offer. BANSEFI needs to formulate a technology plan in line with the operating needs of a second-tier development bank and its new relationship with the regulated savings banks, the federations and confederations, and the CNBV and the SHCP. Further, it will be necessary to lay the groundwork for the definition of a unified language if there is to be a proper system of oversight. The modernization of its information system will also allow BANSEFI to improve the quality of its own savings services available to the public.
- 3.7 **Development of new products (MIF: US\$140,000,000; BANSEFI: US\$100,000).** The objective of this component is to support BANSEFI's role as a provider of services to the savings and loan sector. One of the products to be developed is an infrastructure for receiving and channeling the remittances sent by Mexicans residing abroad. BANSEFI and the *cajas de ahorro* [savings banks] have national coverage, which gives them comparative advantages in reducing the cost of intermediation between those who send these resources and those who receive them. The aim of developing this and other services that have already been identified by BANSEFI is that it brings funds to this institution as initial savings that can finance activities in the productive sectors and then pass on to the banks or other financial institutions so that they in turn can grant additional loans required for investments made by savers and small businesses and microenterprises. The project's technical files contain more detailed information on the new products being developed by BANSEFI.

IV. COST AND FINANCING

A. Cost of the project

- 4.1 The cost of the project has been estimated at US\$10.1 million, of which US\$3.5 million, or 35%, is requested from the MIF in the form of a grant, to be used as indicated in the table below and in Annex II to this document. The remaining US\$6.6 million, or 65%, are local counterpart funds financed by BANSEFI.

Description	MIF	BANSEFI	Total	%
1. Technical assistance and training				
(a) Upgrading of information systems	2,600,000	3,550,000	6,150,000	62
(b) Training by Desjardins	500,000	25,000	525,000	5
2. Technological modernization		2,800,000	2,800,000	28
3. Development of new products	140,000	100,000	240,000	2
Contingencies	80,000	50,000	130,000	1
Administration	100,000	100,000	200,000	2
Evaluation	50,000		50,000	
Auditing	30,000		30,000	
TOTAL	3,500,000	6,625,000	10,125,000	100
%	35	65	100	

B. Operational sustainability of the project

- 4.2 BANSEFI has sufficient budgetary resources to cover the counterpart of the project being partially financed by the MIF and of the World Bank's Project. Once MIF funding is exhausted, BANSEFI will continue to receive the necessary resources from the SHCP, through budget allocations to continue adapting the information systems of the remainder of the system's branches.

C. Recognition of expenses from the local contribution for expenses and investments

- 4.3 The Donors Committee's authorization is requested for purposes of recognizing as part of the local contribution US\$1.5 million in project-related expenses incurred and investments made by BANSEFI beginning on 9 April 2001, the date of the request for technical assistance. This amount covers the investments made by BANSEFI to commission the diagnostic study on the status of information systems, activities to upgrade the back office systems of the branches, and corporate

equipment in the areas of productivity and networks. These investments were made in accordance with procedures and conditions analogous to those established by the Bank and are set forth in the agreement that will be signed by the Bank and the executing agency. This recognition is justified by BANSEFI's need to move forward with project execution, given the short amount of time provided for in the laws for the sector's institutions to comply with the provisions contained therein.

V. EXECUTING AGENCY AND EXECUTING MECHANISM

A. Executing agency

- 5.1 The executing agency for the project will be BANSEFI, which, through its Office of Strategic Planning, will assume responsibility for complying with all provisions of the Technical Assistance Agreement.
- 5.2 As stated earlier, BANSEFI was created out of the Patronato de Ahorro Nacional (PAHNAL). The institution has 600 branches and its activities up until the time it was converted into a second-tier bank were focused on attracting savings for investment in federal bonds. By November of 2001, BANSEFI had assets equaling US\$304 million, liabilities equaling US\$260 million and US\$70 million in capital. The institution's revenues are derived from the yield on the financial instruments in which it invests the savings it attracts. The relatively high financial margin in times of high interest rates has been affected lately by downward trends in the 28-day CETES (Treasury Certificates) rate, which is the basis for determining the lending rate. However, inasmuch as BANSEFI will be charging the sector's institutions for the new services it will provide, the above notwithstanding, its financial situation is expected to be stronger in the future and will not affect the objectives sought under this project. Lastly, BANSEFI will also have its own resources with allocations from the SHCP, within the budget caps allowed by its fiscal program.
- 5.3 BANSEFI has 1,239 employees, of whom 1,212 are operations personnel, including those located at the branches, and 27 are in mid-level and senior management. Following the passage of its new charter, the institution hired specialists to enable it to perform its new functions. In addition to its traditional function of attracting savings, these new functions will allow BANSEFI to diversify its range of savings services and expand its operations as the institution responsible for promoting the development of those institutions comprising the low-income savings and loan system. Given the powers assigned to it by the new laws and its status as a decentralized federal agency under the authority of the Department of Finance, BANSEFI has full institutional and financial authority to fulfill its role in every aspect pertaining to the execution of the project being considered in this document.

B. Executing mechanism

- 5.4 The Dirección General Adjunta de Finanzas [Directorate of Finance], through its International Financing Coordinating Unit, will be the executing unit for the project. An official from this unit will be appointed to serve as general coordinator and will work full time toward execution of the project. Depending on the type of activity, this coordinator will receive support from the other BANSEFI offices. With the aforementioned support, the coordinator will perform the following activities: (i) develop the terms of reference for the different consulting services included in the project; (ii) coordinate with the CNBV in all matters related to retaining the services of the consulting firm DID; (iii) coordinate budget execution for the different activities included in the project with the corresponding BANSEFI offices; and (iv) prepare all of the reports called for in the project's logical framework. The project budget includes resources for administration. Those funds may be used to procure additional specialized professional services as well as to cover other costs that BANSEFI might incur.
- 5.5 The procurement of goods and services for the project will be done in accordance with the Bank's rules and procedures and the provisions of Mexican law.

C. Execution and disbursement periods

- 5.6 The execution period for the project will be 36 months, and the disbursement period, 42 months. The funds from the MIF contribution will be disbursed through a revolving fund supplied with advances equal to 10% of the contribution. BANSEFI will present a semiannual report on the status of the revolving fund within 60 days of the close of each six-month accounting period.

D. Accounting and auditing

- 5.7 BANSEFI will have the following responsibilities: (a) opening specific and separate bank accounts for the management of program funds related to the funding provided by the MIF and the local counterpart; (b) establishing and maintaining appropriate accounting, financial and internal oversight systems that enable it to keep and report detailed information separate from other programs managed by BANSEFI; (c) maintaining adequate files of supporting documentation on the expenditures covered by program funds; (d) maintaining a centralized system of contracts for all project components; (e) maintaining an accounting system that is part of the BANSEFI system, to allow accounting and financial management of the resources of the Bank's financing and the local counterpart, pursuant to the Bank's requirements; and (f) preparing all disbursement requests, justifications of expenditure, financial statements and other reports and presenting them to the Bank as required.
- 5.8 During project execution, the annual external audit of the financial statements will be performed by a firm of independent auditors acceptable to the Bank, based on

terms of reference previously approved by the Bank. The annual audit reports will be presented within 90 days of the end of the fiscal year. The costs of the audit will be part of the project cost and will be financed with resources from the MIF contribution.

VI. MONITORING AND EVALUATION

A. Reports

- 6.1 The executing unit will provide the Bank with an initial report that includes the work timeline and the budget for the activities indicated in the logical framework that will be carried out in the first six months of project execution. This report will be the model for the progress reports to be submitted every six months to the Bank. Additionally, the Bank will be provided with the rest of the reports provided for in the logical framework in a timely fashion so as to allow for complete monitoring of the project.

B. Midterm and final evaluations

- 6.2 The Bank will hire a consultant to perform a midterm evaluation of the project once 50% of the MIF contribution has been disbursed, and another to perform a final evaluation within three months of completion of the project and prior to the final disbursement of the MIF contribution. These evaluations will include a detailed analysis of the degree to which the project's objectives have been met based on the activities and performance indicators included in the project's logical framework (Annex I).

C. Project performance monitoring report

- 6.3 The main performance indicators to be included in the evaluations are: (i) information regarding the increase in savings recorded during the period in which the project was being executed; (ii) the increase in the number of financial services provided to small businesses and microenterprises; (iii) number of branch offices with upgraded information systems; (iv) the number of trained officials from the federations' oversight committees; (v) level of technological modernization at BANSEFI; and (vi) research and design of new products completed and the outcome of pilot experiences developed for these products, with special emphasis on the experiences gained with the placement of remittances from Mexicans residing outside of Mexico.

VII. PROJECT RATIONALE AND SPECIAL ASPECTS

A. Project benefits and impact on development

- 7.1 The project can be justified by the importance of the targeted sector. By the end of its execution, the technological and institutional modernization of BANSEFI and the 400 branches of the low-income savings banks participating in the project will have been completed, enabling the CNBV and the federations to oversee all of their operations. The Bank's participation in this operation has been conceived as a pilot experience that may be replicated in the remaining saving banks in the system once they have been cleaned up. These savings banks have a total of 4,800 branches. Moreover, as a result of the execution of the technical assistance component, the sector will also have: (a) personnel trained to perform inspection functions using procedures that are in line with the Low-income Savings and Loan Act; (b) oversight committees' operative units reinforced in their monitoring capacity; and (c) preventive measures and early warning systems in place, as provided for by law, with staff trained to operate them. In addition, the low-income savings and loan sector institutions have the greatest potential for contributing to the development of small business and microenterprise in Mexico.
- 7.2 It is important to indicate that BANSEFI and the low-income savings and loan sector are in the best position to implement the new savings products envisaged in the project, particularly the design of mechanisms for the efficient use of remittances from Mexicans residing abroad. This is the case because, through their branches, they offer the most extensive and diversified network of services in the country. The only thing the sector was lacking was adequate oversight of its operations, but the aforementioned new laws provide for that. Lastly, this project includes resources for the development of the technology platform that will make it possible to establish a network for implementation of the products considered in the project, including the aforementioned remittances.
- 7.3 The direct beneficiaries of the project will be BANSEFI, the CNBV, the low-income savings and loan institutions and the umbrella organizations (federations and confederations). The indirect beneficiaries will be savers and small businesses and microenterprises, as they will have access to more varied and higher quality services.
- 7.4 The eligibility criteria for selecting participating savings banks are the following: they must be regulated by the CNBV and must sign an agreement with BANSEFI to carry out the activities indicated in the project's logical framework.

B. Risks

- 7.5 One special aspect of the operation is that its completion could be delayed due to the complexity of linking the system created for BANSEFI to the systems that the sector's institutions already have. No risks are foreseen for the project inasmuch as

the regulatory framework has been passed by the Mexican Congress and the CNBV and the SHCP have the authority to require BANSEFI and the system's institutions to comply with all of the provisions of the two laws passed by the Congress to reorganize this sector.

C. Environmental considerations

- 7.6 Given that the Bank's support for this project is basically technical cooperation, no impact on the environment is expected. Nevertheless, there will be an agreement with BANSEFI to promote the incorporation of environmental considerations and an ethnic component in the information systems of the low-income savings and loan sector in accordance with Mexico's current laws. The program was reviewed and approved by the Committee on Environment and Social Impact (CESI) during its meeting on 11 January 2002 (TRG 01-02). The foregoing reflects its recommendations.

VIII. SPECIAL CONTRACTUAL CONDITIONS

A. Conditions precedent to the first disbursement

- 8.1 Prior to the first disbursement of funds earmarked for upgrading the information systems of the branches participating in the project, the executing agency will present evidence to the Bank that 400 branches belonging to savings banks that meet the eligibility requirements agreed upon with the Bank and indicated in chapter VII above have been identified and selected.
- 8.2 Prior to the first disbursement of the resources earmarked for subcomponent (b) of the technical assistance component, the executing agency will submit evidence to the Bank of the agreement signed with the CNBV for the consulting services to be provided by Desjardins International Development (DID), including, *inter alia*, the CNBV's commitment to provide US\$25,000 for this subcomponent and to assign technical staff to serve as a counterpart to DID.

B. Status of project preparation

- 8.3 The project is at an advanced stage of preparation. A diagnostic study of the status of the information systems of the sector's regulated institutions has already been commissioned. Progress has been made with the activities to upgrade the back office systems of the branches and with the corporate equipment in the areas of productivity and networks. All of the budgets for project activities have already been prepared. BANSEFI has met all of the requirements set forth by law to assume its new functions and has the organizational structure and the budget to execute this project as well as the other operations for which it is responsible. Furthermore, the four savings and loan banks that meet the project's eligibility criteria have been preselected to adapt the information systems of the 400 private-sector branches included in the project.

IX. EXCEPTIONS TO THE BANK'S POLICIES AND PROCEDURES

- 9.1 In March 2001, BANSEFI, in response to a request made by the CNBV, retained the services of the Canadian consulting firm Desjardins International Development (DID) to set up seven operational oversight units within the oversight committees that fall under the responsibility of the federations. The consulting services consisted of activities related to the application of inspection methods and the remote oversight system covering all the low-income savings institutions, as well as the establishment of preventive measures and early warning systems in accordance with the provisions of the legislation governing low-income savings and loans. BANSEFI retained the services of DID by direct contracting for approximately US\$500,000 using national funds, pursuant to the Law on Public Sector Procurement, Leasing and Services, Subsection III of Article 41, regarding the authority of agencies or institutions of the State to retain services by direct contracting when circumstances justify it. The Office of the Comptroller of the Nation (SECODAM) also gave authorization for the contracting of DID.
- 9.2 It is believed that the direct contracting of this firm's services is justified because: (a) the CNBV and the federations have a clear technical need to train the technical staff of the units created during phase one; (b) the *caja* [savings bank] model and the low-income savings and loan bill in Mexico are based on the Canadian experience; (c) DID designed the oversight committees mentioned in paragraph 9.1 above; (d) since 1993, DID has advised SEDESOL on the creation of solidary savings banks [*cajas solidarias*] and is currently working with the State Government of Guanajuato on setting up a control unit that will be in charge of providing oversight for a federation, a savings and loan association, and a civil association that provides financial services; and (e) DID received an excellent performance evaluation from BANSEFI and the CNBV for its aforementioned consulting work. As stated above, this firm offers unique technical advantages, experience, and institutional capacity, inasmuch as it designed the oversight committees that will be trained under this new contract and it has specialized knowledge of the Mexican *caja* [savings bank] model. It also has the advantage of experience in the country, based on its long working relationship with Mexico and the CNBV in particular. Lastly, it has the institutional capacity to provide ongoing support to the CNBV during the period in which it will be training the staff of the aforementioned committees.

LOGICAL FRAMEWORK
STRENGTHENING INSTITUTIONS IN THE LOW-INCOME SAVINGS AND LOAN SECTOR

BRIEF SUMMARY OF OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Protection of national savings in the range of financial services for small businesses and enterprises.	<ul style="list-style-type: none"> • Increase in deposits during the 2002-2005 period owing to savings attracted by the branches participating in the project. • Increase in volume of loans granted by the branches participating in the project. 	<ul style="list-style-type: none"> • Midterm evaluation reports • Final report • Ex post evaluation report 	<ul style="list-style-type: none"> • Low-income savings institutions comply with prudential regulations • A stable economic environment for the provision of financial services to the target population
Restructuring called for in the strengthening of the low-income savings and loan sector as to promote the orderly functioning of its institutions.	<ul style="list-style-type: none"> • 1,000 branches in compliance with the provisions of the new law. 	<ul style="list-style-type: none"> • CNBV reports • Project progress reports • Final project report 	<ul style="list-style-type: none"> • Participating <i>cajas</i> [savings banks] are willing to make the necessary adjustments in their accounting records and to provide the information requested by the federations and the CNVB.
Technical assistance is divided into two components: Strengthening the information systems of the SEFI branches and 400 branches of the low-income savings and loan sector	<ul style="list-style-type: none"> • 1,000 branches with upgraded information systems. 	<ul style="list-style-type: none"> • CNBV reports • Project progress reports 	<ul style="list-style-type: none"> • Supply of specialized consulting services

RATIVE SUMMARY OF OBJECTIVES		MEANS OF VERIFICATION	ASSUMPTIONS
<p>the CNBV and the federations' committees. Technical to help the savings and loan to adjust to the provisions of the</p> <p>logical modernization of I</p> <p>ment of new savings products at I. A special aim is to create a to enable institutions to compete ances from Mexicans residing</p>	<ul style="list-style-type: none"> • 100 oversight committee officers trained. • Information systems at BANSEFI and participating branches functioning. • Product research and designs complete. • Savings services for channeling of remittances, housing loans and smart cards for microenterprise and small business implemented at the 1,000 participating branches. 	<ul style="list-style-type: none"> • CNBV reports • Project progress reports • BANSEFI reports • Project progress reports • BANSEFI reports • Project progress reports 	<ul style="list-style-type: none"> • Implementation of r by CNBV for overs savings banks as est law and the fulfillme and the federations c provisions. • Contract extended w Desjardins • Consulting firm com the terms of its contr • Availability of equip suppliers with requi specifications. • Local availability of consultants.
<p>Component 1:</p> <p>diagnostic study</p> <p>the needs of the low-income and loan system with regard to oversight under the new s:</p> <p>status of hardware and software ture of information systems:</p>			

STRATEGIC SUMMARY OF OBJECTIVES		MEANS OF VERIFICATION	ASSUMPTIONS
<p>the necessary measures and steps to integrate information planning and procedures for financial investment.</p>			
<p>procedures and information for oversight. office mandatory reports information management tools</p>			
<p>the systems of the 1,000 by developing software to information and connect directly SEFI's information system: which personnel: a center so that business and information is accessible, and secure: procedures for new products and the portal/window platform, I translate into a greater capacity services and lower operating BANSEFI and participating environmental considerations an ethnic component in on systems. CNBV and the federations' committees.</p>			

DESCRIPTIVE SUMMARY OF OBJECTIVES		MEANS OF VERIFICATION	ASSUMPTIONS
component 2			
ids, purchase and leasing of equipment.			
component 3			
udies and designs and pilot tests ances, low-income housing, d. rsonnel on new products			

PROPOSED RESOLUTION

MEXICO. NONREIMBURSABLE TECHNICAL COOPERATION FOR THE
STRENGTHENING OF THE NETWORK OF SAVINGS AND LOAN ENTITIES

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Banco del Ahorro Nacional y Servicios Financieros (BANSEFI), and to take such additional measures as may be pertinent for the execution of the project memorandum contained in Document MIF/AT-____ with respect to a technical cooperation for the strengthening of the network of savings and loan entities.
2. That up to the amount of US\$3,500,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.