

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

MEXICO

**DEVELOPMENT AND IMPLEMENTATION OF A SELF-REGULATION
MODEL FOR SPECIALIZED FINANCIAL INSTITUTIONS**

(ME-M1029)

DONORS MEMORANDUM

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ABBREVIATIONS

| | |
|---------|--|
| AMSFOL | <i>Asociación Mexicana de Sociedades Financieras de Objeto Limitado, A.C.</i> [Mexican Association of Limited Scope Financial Institutions] |
| BANSEFI | <i>Banco del Ahorro Nacional y Servicios Financieros, S.N.C.</i> |
| MIF | Multilateral Investment Fund |
| SFI | Specialized financial institution |
| SOFOLES | <i>Sociedades financieras de objeto limitado</i> [limited scope financial institutions] |
| SOFOMES | <i>Sociedades financieras de objeto multiple</i> [multiple purpose financial institutions] |

DEVELOPMENT AND IMPLEMENTATION OF A SELF-REGULATION MODEL FOR SPECIALIZED FINANCIAL INSTITUTIONS

(ME-M1029)

I. EXECUTIVE SUMMARY

| | | | | | | | | | |
|-----------------------------|--|-----------|--------------------------------|-------------------|-------------------|-------------------|-------------------|---------------|----------------------|
| Beneficiary country: | Mexico | | | | | | | | |
| Executing agency: | <i>Asociación Mexicana de Sociedades Financieras de Objeto Limitado, A.C.</i> [Mexican Association of Limited Scope Financial Institutions] (AMSFOL) ¹ | | | | | | | | |
| Beneficiaries: | The project's direct beneficiaries will be AMSFOL member specialized financial institutions (SFIs), incorporated either as <i>sociedades financieras de objeto limitado</i> [limited scope financial institutions] (SOFOLES) or <i>sociedades financieras de objeto multiple</i> [multiple purpose financial institutions] (SOFOMES) (currently, 58 institutions), which will obtain standard parameters to govern their daily operations, market information systems, portfolio quality control, and formation of their corporate governance bodies. Its indirect beneficiaries include their customers, who will obtain criteria to select their preferred institution, and AMSFOL members, investors, and development banks, which will obtain comparable information for use in decision-making. | | | | | | | | |
| Financing plan: | <table><tr><td>Modality:</td><td>Nonreimbursable—MIF Facility I</td></tr><tr><td>MIF:²</td><td>US\$701,905 (50%)</td></tr><tr><td>Executing agency:</td><td>US\$688,040 (50%)</td></tr><tr><td>Total:</td><td>US\$1,389,945</td></tr></table> | Modality: | Nonreimbursable—MIF Facility I | MIF: ² | US\$701,905 (50%) | Executing agency: | US\$688,040 (50%) | Total: | US\$1,389,945 |
| Modality: | Nonreimbursable—MIF Facility I | | | | | | | | |
| MIF: ² | US\$701,905 (50%) | | | | | | | | |
| Executing agency: | US\$688,040 (50%) | | | | | | | | |
| Total: | US\$1,389,945 | | | | | | | | |
| Objectives: | The goal of the project is to contribute to the stability and development of the SFI sector within the national financial system. Its purpose is to develop a self-regulation model for SOFOLES and SOFOMES so that, through its proper application, confidence and credibility are transmitted to customers, development banks, rating agencies, stockholders, and national and international investors. | | | | | | | | |

¹ On 4 October 2006, AMSFOL members approved a change to the name of the executing agency, to *Asociación Mexicana de Entidades Financieras Especializadas A.C.* [Mexican Association of Specialized Financial Institutions]. As this change has not yet been legally authorized, in this document, the existing legally valid name has been used.

² The MIF contribution includes US\$15,000 for coordination activities.

| | |
|---|---|
| Execution period: | Execution period: 42 months Disbursement period: 48 months |
| Special contractual conditions: | Conditions precedent to the first disbursement of MIF resources: (i) coordination unit coordinator selected; (ii) self-regulation committee formed; and (iii) entry into force of Operating Regulations, as agreed by AMSFOL with the project team. |
| Exceptions to Bank policy: | None. |
| Similar projects: | No similar projects are being financed by other development finance institutions. |
| Environmental and social review: | The Committee on Environment and Social Impact reviewed the project abstract at its 15 September 2006 meeting and made no comments. |

II. BACKGROUND AND PROBLEM TO BE ADDRESSED

- 2.1 **Origin and evolution of *sociedades financieras de objeto limitado* [limited scope financial institutions] (SOFOLES).** Until 1993, Mexico's financial sector essentially comprised commercial banks, which controlled 75% of the finance market. The remaining 25% was shared by other financial intermediaries, such as credit unions, bonded warehouses, financial leasing companies, and factoring companies. Few institutions specialized in lending, and the banks did not serve all sectors.
- 2.2 In this context, and to expand the supply of alternatives for credit customers, in December 1993, the Department of the Treasury authorized the creation of a new type of financial institution, the SOFOLES, setting strict criteria for authorization of individual operations. These new companies were placed under the supervision of the *Comisión Nacional Bancaria y de Valores* [National Banking and Securities Commission].
- 2.3 In 1993, the Department of the Treasury reasoned that a regulatory framework governing the operations of such companies was needed to: (i) promote transparency; (ii) promote lending activity; (iii) strengthen institutional solvency; and (iv) promote the deepening of financial services.
- 2.4 As a result of joint efforts by the authorities and the sector, the number of SOFOLES increased from two authorized institutions in 1993 to 58 by the close of 2005. In addition, as a result of their specialization in lending, the SOFOLES portfolio grew from US\$217.8 million in 1994 to US\$18,031.3 million in 2005.

Whereas for commercial banks, loan portfolios represented 50.1% of total assets in 2005, for SOFOLES, they represented 93.8% of total assets.

- 2.5 **Current situation.** The Mexican financial sector has changed radically in the last 12 years. Between December 1994 and December 2005, commercial banks' share of the finance market dropped from 75% to 42%. Meanwhile, the development banks' share rose from 6.5% to 14% in the same period, and, from 1994 to late 2005, the SOFOLES' share climbed from 0.1% to 10%.³
- 2.6 In recognition of the high degree of maturity and solidity achieved by the SOFOLES, in 2005, Mexico's treasury authorities **decided to stop regulating these institutions**. The Department of the Treasury took this decision for six fundamental reasons: (i) SOFOLES do not take public deposits; (ii) they are not part of the payment system; (iii) they notify the public that SOFOLES operations **have no government backing**; (iv) barriers to entry by new participants would be eliminated, thereby expanding competition; (v) the administrative burden would be reduced through the elimination of government regulation, which would bring down operating costs and likely lead to lower interest rates; and (vi) elimination of government regulation promotes financial innovation.
- 2.7 **Problem to be addressed.** Now that the financial authority no longer regulates the sector, the SOFOLES need a self-regulation mechanism. This need stems from their interest in continuing to build the Mexican Association of Limited Scope Financial Institutions (AMSFOL), to protect the prestige and success the SOFOLES have earned during 13 years of operation. Under the expanded AMSFOL, existing and new member institutions will preserve or incorporate best practices in the area of corporate governance, transparency, information disclosure, and portfolio quality, in order to prevent money laundering and avoid the financing of illicit operations, while maintaining the highest standards of ethics and excellence. AMSFOL membership will thus be an indicator of an institution's quality and integrity.
- 2.8 Thus far, **there is no** sector in Mexico that has developed a self-regulation model that does not involve some type of government intervention. The most illustrative case is the *Ley de Ahorro y Crédito Popular* [People's Savings and Loan Act], for the regulation of savings and loans, under which sector institutions must conduct supervision as delegated by the authorities. This process is being led by *Banco del Ahorro Nacional y Servicios Financieros, S.N.C.* (BANSEFI), which received partial support from the Multilateral Investment Fund (MIF) under operation ATN/MT-7792-ME.
- 2.9 The main difference between this self-regulation project and the BANSEFI project is that, in the case of the latter, the process was the converse of that proposed herein. The savings and loan sector was not regulated and had severe problems due

³ The remaining 34% of financing is provided by other market participants: Infonavit (housing fund), 21%; commercial companies, 11%; and financial leasing companies, factoring companies, credit unions, and bonded warehouses, 2%.

to the lack of institutional strength in the vast majority of its institutions, such that the project entailed the enactment of a law and the savings and loans' acceptance of it and adjustment to it. In the case of the proposed project, a sector made up of sound institutions has been deregulated, and the financial authority will no longer intervene. Accordingly, self-regulation is not dependent upon the enactment of laws.

- 2.10 **Rationale.** This project presents an opportunity for the MIF to participate from the outset in the comprehensive development of a nongovernmental regulatory framework for a financial sector made up entirely of private institutions. In Mexico's case at least, where there have been no similar projects, this process is **innovative**. Hence, the model can incorporate any innovative feature that will enable it to satisfy the criteria of efficiency, low operating cost, transparency, and applicability.
- 2.11 The **additionality** brought by MIF participation in the AMSFOL project stems from the MIF's role as a neutral player interested in ensuring that international best practices are incorporated into the self-regulation model. In addition, the lessons learned and best practices drawn from project execution may be **replicated** and disseminated in similar projects in other countries of the region, inasmuch as, in the medium term, it is reasonable to expect that the financial deregulation trend will gain momentum, and all the more so if the advantages of this process are demonstrated through successful models.

III. OBJECTIVES AND COMPONENTS

- 3.1 **Goal and purpose.** The *goal* of the project is to contribute to the stability and development of the specialized financial institution (SFI) sector within the national financial system. Its *purpose* is to develop a self-regulation model for limited scope financial institutions (SOFOLES) and *sociedades financieras de objeto multiple* [multiple purpose financial institutions] (SOFOMES) so that, through its proper application, confidence and credibility are transmitted to customers, development banks, rating agencies, stockholders, and national and international investors. To that end, the project has the following components:
- 3.2 **Component 1: Institutional assessment and restructuring of AMSFOL (MIF: US\$50,000; local contribution: US\$31,360).** This component will define the scope of the restructuring of the Mexican Association of Limited Scope Financial Institutions (AMSFOL) that is needed to provide it with the tools to effectively develop, administer, and supervise the self-regulation model. To ensure proper implementation of the model by AMSFOL, an institutional analysis and assessment will be conducted, and any changes and improvements identified will be made. This includes a review and update of AMSFOL's articles of incorporation so that implementation of the self-regulation model becomes mandatory for all member institutions; and modification of its social purpose and name in order to expand its membership base to include not only SOFOLES, but also SOFOMES and SFIs.

- The assessment must also propose to create an institutional supervision unit within the organizational structure to ensure proper compliance with the self-regulation model.
- 3.3 An essential amendment to the articles of incorporation is to include a chapter defining violations thereof, and the corresponding penalties for those institutions, including their members, that do not fulfill their voluntarily assumed commitments. AMSFOL's articles of incorporation must provide for the ability to impose penalties, including expulsion from AMSFOL for those committing repeat or severe infractions. Such authority must be convincing and easily applied so as to discourage potential violations.
 - 3.4 Complementarily, the incorporation of an institutional supervision unit in the organizational structure must be proposed to ensure proper compliance with the articles of incorporation and the self-regulation model. In addition, to prevent conflicts of interest, individuals with formal supervisory functions should not be members of AMSFOL institutions, and independent, eminent members from outside the sector should sit on the supervisory committees, to lend greater transparency to decisions related to compliance with the self-regulation model.
 - 3.5 The activities to be financed are: (a) a project awareness seminar for sector members; (b) technical assistance for the institutional analysis and restructuring of AMSFOL; (c) technical assistance to review and update its articles of incorporation; (d) technical assistance to review and modify its organizational structure, including the creation of an institutional supervision and monitoring unit; and (e) development of a supervision and evaluation system.
 - 3.6 **Component 2: Development of a self-regulation model (MIF: US\$94,100; local contribution: US\$47,900).** Under this component, activities will be carried out to develop the provisions, rules, and documents that will govern sector institutions. The specific needs and content of the documents currently in force will be assessed, so that the following documents can be adjusted accordingly or prepared: **(i) code of ethics**, to establish the rules of conduct that the SOFOLES/SOFOMES are to follow; **(ii) corporate governance provisions**, to, *inter alia*, establish council membership and provide for the protection of minority stockholders; **(iii) rules for preparing and classifying financial information**, to make data consistent across institutions and lend transparency to the information used by third parties in their decision-making; **(iv) conflict resolution policies**, to provide certainty to customers in their transactions with the institutions; **(v) accreditation rules**, to establish the requirements that must be met by institutions seeking to renew membership or to become members of AMSFOL; and **(vi) operating fund rules**, to establish the rules governing membership dues to support AMSFOL and the monitoring structure of the self-regulation supervision unit.
 - 3.7 The activities to be financed are: (a) technical assistance to update the code of ethics; (b) technical assistance to develop corporate governance provisions; (c) technical assistance to develop rules for preparing and classifying financial

- information; (d) technical assistance to develop conflict resolution policies; (e) technical assistance to develop the accreditation rules for AMSFOL members; (f) technical assistance to develop rules for operation of a fund; and (g) design, printing, and distribution of the final documents. Particular attention will be given to coordinating the documents so that they do not contravene other regulations or provisions issued by financial authorities, including capital market authorities, to lower the risk of regulatory arbitration.
- 3.8 **Component 3. Implementation of the model (MIF: US\$240,000; local contribution: US\$424,040).** This component calls for activities to enable sector institutions to make the adjustments required for comprehensive implementation of the self-regulation model. To that end, there are plans to evaluate each member institution so that, based on the results, the institutions are able to make the changes suggested and meet the accreditation requirements set by AMSFOL. Activities planned for this component include training of sector institution personnel, both at the management and operational levels, so that they are familiar enough with the model to understand the wisdom of, and reason for, its use, thus reducing implementation time. Other activities include institutional support to ensure proper adoption of the model, and seminars and workshops to allow institutions to share experiences, as a form of cross-sectoral advisory support.
- 3.9 Component activities include: (a) an awareness seminar for managerial and management staff of AMSFOL member institutions; (b) technical assistance for member institutions to assess and modify the self-regulation model; (c) implementation of the changes suggested in accordance with the proposed plans; and (d) workshops for member institutions to share experiences.
- 3.10 **Component 4: Dissemination of outcomes (local contribution: US\$50,340).** This component will make the public aware of the model and lessons learned. It will finance a national forum to present the model and AMSFOL's new corporate identity. Financing will also be provided to update AMSFOL's website and publish documents resulting from development of the model, such as the code of ethics, the rules for preparing and classifying financial information, etc. Additionally, a monitoring and evaluation system run by AMSFOL will be established, to detect noncompliance with the model by institutions, monitor the corresponding recommendations, identify new needs, and make proposals within AMSFOL to update the documents comprising the model on an ongoing basis.
- 3.11 The project will finance: (a) a national forum to disseminate the model; (b) workshops to transfer lessons learned; (c) technical assistance to update the website; and (d) advisory support for the design and printing of promotional material.

IV. COST AND FINANCING

- 4.1 The total estimated cost of the project is US\$1,389,945. The Multilateral Investment Fund (MIF) will contribute US\$686,905 (50%) in nonreimbursable

resources from Facility I. The Mexican Association of Limited Scope Financial Institutions (AMSFOL) will contribute local counterpart resources of US\$688,040 (50%), of which at least 50% will be in cash. Additionally, the MIF will provide US\$15,000, to be utilized by the Bank to carry out project coordination activities. The MIF will finance the costs of technical assistance and design of promotional tools and will partially finance administrative costs. The project's estimated budget is presented in the table below:

| (in US\$) | | | |
|---|------------------|--------------------|------------------|
| Components | MIF contribution | Local contribution | Total |
| Administration | 192,000 | 29,400 | 221,400 |
| Logistics | 0 | 105,000 | 105,000 |
| Component 1 | 50,000 | 31,360 | 81,360 |
| Component 2 | 94,100 | 47,900 | 142,000 |
| Component 3 | 240,000 | 424,040 | 664,040 |
| Component 4 | 0 | 50,340 | 50,340 |
| Subtotal | 576,100 | 688,040 | 1,264,140 |
| Contingencies (5%) | 28,805 | | 28,805 |
| Baseline, midterm and final evaluations | 70,000 | | 70,000 |
| Audit (1) | 12,000 | | 12,000 |
| TOTAL | 686,905 | 688,040 | 1,374,945 |
| Coordination activities | 15,000 | | 15,000 |
| GRAND TOTAL | 701,905 | 688,040 | 1,389,945 |
| Percentages (excluding coordination) | 50% | 50% | 100% |

- 4.2 The sustainability of the model, defined as its continuation over time, will depend on the development of a model that meets the expectations of participating sector institutions, their customers, and the financial sector in general, in terms of maintaining a sound system of institutions that reflect the characteristics of the newly defined multiple purpose financial institutions (SOFOMES). When AMSFOL member institutions are recognized as part of a reliable financial institutional system, it is expected that their funding alternatives will increase and their customer portfolios will grow, and both of these events will contribute directly to their sustainability.
- 4.3 AMSFOL has been operationally sustainable for 12 years. This project is expected to help it refine and include in its articles of incorporation a remuneration and operational sustainability model that strengthens and consolidates its position as the apex organization for specialized financial institutions (SFIs).

V. EXECUTING AGENCY AND EXECUTION MECHANISM

- 5.1 The Mexican Association of Limited Scope Financial Institutions (AMSFOL) was created on 23 February 1994, for the purpose of bringing together limited scope financial institutions that had obtained authorization from the Department of the Treasury and Public Credit. Its social purposes include: (i) representation of the shared interests of its members vis-à-vis authorities and third parties; and (ii) issuing of self-regulation provisions designed to make their operations more secure, and supervision of compliance therewith. In an amendment to its articles of incorporation, approved by its general assembly of members at a meeting on 7 June 2006, AMSFOL's social purpose was expanded to include SOFOMES.
- 5.2 **Execution mechanism.** The coordination unit will be housed at the headquarters of AMSFOL, which will provide the space and equipment needed for regular operations. It will have a full-time coordinator, who will have the support of a full-time administrative assistant. Both positions will be financed with MIF and AMSFOL resources. A part-time accountant will also be employed, with counterpart resources. The coordination unit will be supervised directly by AMSFOL's general manager. It will coordinate with the consultants the activities necessary for successful implementation of the project components that are required in connection with this technical-cooperation operation.
- 5.3 A **self-regulation committee** will be established with the following eight individuals: AMSFOL's president, general manager, and coordinator, and representatives of the five AMSFOL member sectors (rural, mortgage, business, automotive, and consumer). To take decisions, quorum will be at least three sectors, plus the president or general manager.
- 5.4 The committee will select the project coordinator, place into force and enforce the Operating Regulations, supervise the budget and project execution through approval of the semiannual reports and semiannual and annual work plans, helped to identify and potentially provide additional resources to support the project, and establish conditions to ensure its sustainability after MIF support ends. In addition to at least one meeting each month, as many additional meetings as may be required for proper project execution will be held.
- 5.5 **Execution period.** The expected execution period will be 42 months. The disbursement period will be 48 months, to account for the time needed to complete all contracts and deliver products. A revolving fund of up to 10% of the MIF contribution will be created.
- 5.6 **Project readiness.** All project objectives, components, and activities have been agreed on. The executing agency has delivered a letter in which it commits to contribute the counterpart resources, at least 50% of which will be in cash. The main eligibility criteria for the different components and activities have also been agreed on, the profiles of the coordination unit members and terms of reference for

the main consulting assignments have been defined, and the Operating Regulations have been drafted and agreed on.

- 5.7 **Procurement.** The executing agency will procure goods, related services, and consulting services in accordance with the applicable policies and procedures set forth in the “Policies for the procurement of works and goods financed by the Inter-American Development Bank” (document GN-2349-7) and the “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-7). For contracts for goods and related services whose estimated cost is up to US\$30,000, the executing agency will use the shopping method, as provided in document GN-2349-7, paragraph 3.5. For consulting services, the executing agency may use any of the procurement methods set forth in document GN-2350-7. For the purposes of paragraph 2.7 of document GN-2350-7, the shortlist of consultants for engagements with an estimated cost of up to the equivalent of US\$100,000 may comprise entirely national consultants. Prior to procurement of goods or any type of consulting services, the executing agency will submit to the Bank the procurement plan for the first 18 months of project execution. All project procurement and contracting will be subject to ex ante review. The technical files contain the proposed procurement plan, which will be revised each year.
- 5.8 **Special conditions.** As conditions precedent to the first disbursement, AMSFOL will: (i) select the program coordinator, (ii) set up the self-regulation committee; and (iii) place into force the Operating Regulations.

VI. MONITORING AND EVALUATION

- 6.1 The Bank’s Country Office in Mexico will have responsibility for supervision and control, fulfillment of contractual conditions, processing of disbursement requests, and receipt of the audited financial statements. The Mexican Association of Limited Scope Financial Institutions (AMSFOL), through the coordination unit, will submit semiannual progress reports to the Country Office in accordance with the Bank’s standard reporting requirements.⁴ A closing workshop will be scheduled for the end of the execution period to evaluate outcomes and identify actions needed to increase project impact.
- 6.2 An audit will be conducted at the end of project execution. At project startup, the Bank, in conjunction with the executing agency, will contract consultants to conduct the evaluations and develop the baseline of indicators and system for monitoring project outcomes. These consultants will participate in the closing workshop. Two evaluations are planned: the first will be conducted when 50% of resources have been disbursed or halfway into the execution period, whichever occurs first; and the final evaluation will be conducted three months prior to the end of project execution. Based on the logical framework and progress reports, the

⁴ Progress reports as of 31 December and 30 June.

evaluations will determine whether activities as executed departed significantly from indicators, recommend corrective measures, and underscore lessons learned.

- 6.3 The Bank reserves the right to withdraw financing for this project if, based on the midterm evaluation, it is found that the self-regulation model will not fulfill the objective of maintaining high standards of quality and ethics in operations performed by AMSFOL members, or a majority of the member institutions have not adopted the attitude necessary for voluntary fulfillment of the obligations established in the self-regulation model.

VII. BENEFITS AND RISKS

- 7.1 **Benefits.** This project will provide the specialized financial institution (SFI) sector, and, in particular, the Mexican Association of Limited Scope Financial Institutions (AMFSOL), with a self-regulation model that integrates and systematizes all the elements needed for effective self-regulation. This will help consolidate the credibility of AMSFOL and its members among sector participants, and the resulting increase in their competitiveness will contribute to the stability of the sector.
- 7.2 **Beneficiaries.** The project will directly benefit at least: (a) 400 individuals and 58 SFIs that will have learned about the self-regulation model; (b) 58 SFIs that will have implemented the self-regulation model; and (c) AMSFOL, which will be strengthened and in a position to supervise effectively the activities of SFIs, so as to ensure that their operations are conducted transparently, ethically, and in accordance with international best practices. The indirect beneficiaries include the SFI customers, who will have criteria to select their preferred institution, and the SFI members, investors, and development banks, which will have access to reliable information to be used in decision-making in connection with institutions that are self regulated using standardized parameters.
- 7.3 **Risks.** One of the main risks is potential resistance on the part of existing and future SFIs to adopting the self-regulation model. This risk is lowered by the SFIs' interest in maintaining their credibility in a market where customers wish to conduct business with serious, reliable, ethical, and responsible institutions, and the fact that AMSFOL membership constitutes a "mark of quality" indicating that members have complied with and accepted self-imposed regulations.
- 7.4 Another risk is that treasury authorities may decide to return to direct regulation of the sector, reversing the nonintervention process now under way. This possibility is considered remote and will depend heavily on the outcomes of the self-regulation process, whether it works, and whether the sector demonstrates appropriate discipline and conduct at the operational level. If customers are satisfied, it is unlikely that the authorities will decide to reinstate direct regulation.

VIII. ENVIRONMENTAL AND SOCIAL IMPACT

- 8.1 The project will have no negative environmental impact because its activities focus on regulatory issues in the financial sector. The Committee on Environment and Social Impact reviewed the project abstract at meeting 36/06 of 15 September 2006 and made no specific recommendations in the corresponding minutes.

DEVELOPMENT AND IMPLEMENTATION OF A SELF-REGULATION MODEL FOR SPECIALIZED FINANCIAL INSTITUTIONS (ME-M1029)

LOGICAL FRAMEWORK

| Objectives | Indicators | Means of Verification | Assumptions |
|--|--|--|---|
| Goal To contribute to the stability and development of the specialized financial institution (SFI) sector (lending, leasing, and factoring) in the national financial system | <ul style="list-style-type: none"> At <u>5</u> years from project completion, member SFIs maintain arrears portfolio at under <u>5%</u> and there is at least average real growth of <u>5%</u> per year in assets. | <ul style="list-style-type: none"> Sector companies' audited financial statements Program ex post evaluations conducted by an external auditor | <ul style="list-style-type: none"> The country's macroeconomic and political situations remain stable. Competitive conditions in the finance market allow for growth of SFIs. |
| Purpose To develop and implement a self-regulation model for SFIs, in order to lend certainty, credibility, and transparency to their operations | At project completion: <ul style="list-style-type: none"> 100% of AMSFOL members implement the self-regulation model developed under the project. The SFI sector's share of the finance market in Mexico increases to 15%. | <ul style="list-style-type: none"> Baseline Midterm and final evaluations Closing and sustainability workshops Project Completion Report (PCR) Mexican national financial sector statistics | <ul style="list-style-type: none"> Interest in self-regulation exists among sector institutions. The government stays true to its decision not to intervene in sector regulation. Self-regulation generates consumer confidence and is sufficient to increase AMSFOL members' market share |
| Components 1. Institutional assessment and restructuring of AMSFOL | 1. By month <u>15</u> , AMSFOL operating in accordance with new institutional structure | 1. Minutes of meeting of assembly or council approving the entry into force of the new structure. Verification of lists | <ul style="list-style-type: none"> Members support implementation of the proposed changes. |

| Objectives | Indicators | Means of Verification | Assumptions |
|---|--|---|--|
| 2. Development of self-regulation model | <p>2.1 By month <u>18</u>, a preliminary draft self-regulation model developed</p> <p>2.2 By month <u>21</u> the model validated and accepted by <u>100%</u> of AMSFOL members</p> | <p>2.1 Progress report</p> <p>2.2 Minutes of meeting of AMSFOL assembly or council of members at which adoption of the self-regulation model is approved</p> | <ul style="list-style-type: none"> The self-regulation model preserves the credibility of, and confidence in, AMSFOL member institutions. |
| 3. Implementation of model | <p>3.1 By month <u>28</u>, progress made in implementing the self-regulation model in at least <u>50%</u> of AMSFOL member institutions</p> <p>3.2 By month <u>36</u>, the self-regulation model implemented in <u>100%</u> of AMSFOL member institutions</p> | <p>3.1 Consultant reports and progress reports</p> <p>3.2 AMSFOL letter to the institutions certifying completion</p> <p>3.3 Project final evaluation</p> | <ul style="list-style-type: none"> The self-regulation model preserves the credibility of, and confidence in, AMSFOL member institutions. |
| 4. Dissemination of outcomes | <p>4.1 By month <u>36</u>, a detailed dissemination plan developed for organization of the national forum, workshops, and printed material distribution</p> <p>4.2 By month <u>42</u>, program outcomes disseminated via a national forum, web page adjusted, <u>1,000</u> sets of materials printed, and <u>4</u> workshops held</p> <p>4.2 By month <u>46</u>, at least 100 financial institutions have participated in the forum and workshops and at least 50 have received printed information on the model</p> | <p>4.1 Progress report and midterm evaluation</p> <p>4.2 List of participants, agenda, website visits, and originals of printed materials</p> <p>4.2 Progress report and final report of executing agency</p> | <ul style="list-style-type: none"> Other financial institutions remain interested in learning about and adopting the model. |

| Objectives | Indicators | Means of Verification | Assumptions |
|--|--|---|--|
| ACTIVITIES Component 1 1.1 Project awareness seminar for sector members 1.2 Technical assistance for AMSFOL institutional analysis and assessment 1.3 Technical assistance to review and update AMSFOL's articles of incorporation 1.4 Technical assistance to review and update the organizational structure, including creation of an institutional supervision and monitoring division 1.5 Development of a supervision and evaluation system | | | |
| | 1.1 By month <u>3</u> , an awareness seminar held with participation by at least <u>70%</u> of AMSFOL member institutions | 1.1 Seminar attendance list and agenda | <ul style="list-style-type: none"> Consensus exists among members to make structural modifications to AMSFOL. |
| | 1.2 By month <u>8</u> , a proposal for AMSFOL's restructuring prepared | 1.2 Consultant reports | |
| | 1.3 By month <u>12</u> , AMSFOL's articles of incorporation amended as proposed | 1.3 Amended articles of incorporation notarized | |
| | 1.4 By month <u>12</u> , AMSFOL's organizational structure modified in accordance with the recommendations | 1.4 Organizational chart adopted by assembly or governing council; operations manuals and descriptions of posts | |
| | 1.5 By month <u>30</u> , a comprehensive supervision and monitoring system developed for compliance with the self-regulation model | 1.5 Manuals and systems developed | |

| Objectives | Indicators | Means of Verification | Assumptions |
|---|--|--|--|
| ACTIVITIES | | | |
| Component 2 | | | |
| 2.1 Technical assistance to update code of ethics | 2.1 By month <u>15</u> , final version of code of ethics prepared | 2.1 Minutes of meeting of assembly or governing council documenting adoption | <ul style="list-style-type: none"> • There is a supply of consultants with sufficient experience to carry out the planned activities. • Members are willing to train their staff and management. |
| 2.2 Technical assistance to develop corporate governance provisions | 2.2 By month <u>18</u> , final version of corporate governance provisions prepared | 2.2 Minutes of meeting of assembly or governing council documenting adoption | |
| 2.3 Technical assistance to develop rules for preparing and classifying financial information | 2.3 By month <u>15</u> , final version of rules for preparing and classifying financial information prepared | 2.3 Minutes of meeting of assembly or governing council documenting adoption | |
| 2.4 Technical assistance to develop conflict resolution policies | 2.4 By month <u>15</u> , final version of conflict resolution policies prepared | 2.4 Minutes of meeting of assembly or governing council documenting adoption | |
| 2.5 Technical assistance to develop accreditation rules for AMSFOL members | 2.5 By month <u>15</u> , final version of accreditation rules for AMSFOL members prepared | 2.5 Minutes of meeting of assembly or governing council documenting adoption | |
| 2.6 Technical assistance to develop operating fund rules | 2.6 By month <u>15</u> , final version of operating fund rules prepared | 2.6 Minutes of meeting of assembly or governing council documenting adoption | |
| 2.7 Design, printing, and dissemination of final documents | 2.7 By month <u>20</u> , all documents printed and disseminated to AMSFOL members | 2.7 Signed receipt for documents. Documents printed | |

| Objectives | Indicators | Means of Verification | Assumptions |
|--|--|--|---|
| ACTIVITIES | | | |
| Component 3 | | | |
| 3.1 Awareness seminar for managerial and executive staff of AMSFOL member institutions | 3.1 By month <u>15</u> , a plan developed to organize the awareness seminar, and by month <u>21</u> , at least <u>120</u> individuals from <u>58</u> institutions participated in the seminar | 3.1 Seminar attendance list and minutes | <ul style="list-style-type: none">• AMSFOL members remain interested in, and committed to adopting the model. |
| 3.2 Technical assistance for member institutions to tailor the self-regulation model | 3.2 By month <u>25</u> , assessments completed and plans containing proposed changes developed in at least <u>58</u> member institutions | 3.2 Plans for changes by members | |
| 3.3 Implementation of changes suggested in accordance with proposed plans | 3.3.1 By month <u>26</u> , management trained to implement the changes | 3.3 Participant course evaluation and consultant reports | |
| | 3.3.2 By month <u>36</u> , the proposed changes have been made in all member institutions | | |
| 3.4 Workshops for member institutions to share experiences on implementation process | 3.4 In month 29 and month 35, workshops for sharing experiences held (2 workshops for each of the 4 sectors, i.e., a total of 8 workshops) with participation by at least 120 managerial and executive personnel involved in the plans for changes | 3.4 Participant list and instructor reports | |

| Objectives | Indicators | Means of Verification | Assumptions |
|--|--|--|---|
| ACTIVITIES Component 4 4.1 National forum to disseminate model 4.2 Workshops to transfer lessons learned 4.3 Technical assistance to update website 4.4 Advisory support to design and print promotional material | 4.1.1 By month <u>36</u> , a detailed plan developed for organization of the national forum 4.1.2 By month <u>42</u> , a national forum held for at least <u>400</u> persons, including financial authorities, other financial associations, sector members, and the general public | 4.1 Event participant list and final report 4.2 Event participant list and minutes | <ul style="list-style-type: none"> Financial institutions, investors, and pertinent public authorities are interested in learning about the self-regulation model developed under the program. |
| | 4.2.1 By month <u>36</u> , a detailed plan prepared to organize the four workshops 4.2.2 At least <u>4</u> workshops (one per sector) held in month 40 | 4.3 Revision of website and lists; consultant contract 4.4 Receipt for printed material | |
| | 4.3 By month <u>24</u> , website updated, incorporating all model documents | | |
| | 4.4 By month <u>40</u> , materials prepared for distribution at the forums and workshops | | |
| | | | |

Development and Implementation of a Self-Regulation Model for Specialized Financial Institutions (ME-M1029)
Summary Budget (US\$)

| ITEM | MIF | Local contribution | TOTAL |
|--|------------------|--------------------|--------------------|
| Personnel and logistics | \$192,000 | \$134,400 | \$326,400 |
| Personnel | \$192,000 | \$29,400 | \$221,400 |
| Project coordinator | \$192,000 | | \$192,000 |
| Accountant (part-time) | | \$29,400 | \$29,400 |
| Logistics | \$0 | \$105,000 | \$105,000 |
| Office space (US\$ 250 x month) | | \$12,000 | \$12,000 |
| Office supplies (US\$100 x month x 4 years) | | \$4,800 | \$4,800 |
| Meeting rooms (5 hours x 42 months) | | \$21,000 | \$21,000 |
| Communications (US\$500/month) | | \$24,000 | \$24,000 |
| Local travel (Federal District) (20 x 12 x 4) | | \$14,400 | \$14,400 |
| Local travel (outside the Federal District) (1 x 12 x 4) | | \$28,800 | \$28,800 |
| Component 1 | \$50,000 | \$31,360 | \$81,360 |
| 1.1. Project startup seminar | | \$2,560 | \$2,560 |
| 1.2 Technical assistance: AMSFOL analysis and assessment | \$15,000 | | \$15,000 |
| 1.3 Technical assistance: analysis/review articles of incorporation | \$10,000 | | \$10,000 |
| 1.4 Technical assistance: review/modification organizational structure | \$10,000 | | \$10,000 |
| 1.5 Development of a supervisory/evaluation system | \$15,000 | | \$15,000 |
| 1.6 Participation by AMSFOL management | | \$5,000 | \$5,000 |
| 1.7 Project assistant | | \$23,800 | \$23,800 |
| Component 2 | \$94,100 | \$47,900 | \$142,000 |
| 2.1 Technical assistance: adjustment of code of ethics | \$15,000 | | \$15,000 |
| 2.2 Technical assistance: corporate governance provisions | \$29,100 | \$5,100 | \$34,200 |
| 2.3 Technical assistance: financial information rules | \$15,000 | | \$15,000 |
| 2.4 Technical assistance: conflict resolution policies | \$10,000 | | \$10,000 |
| 2.5 Technical assistance: accreditation rules | \$15,000 | | \$15,000 |
| 2.6 Technical assistance: operating fund rules | \$10,000 | | \$10,000 |
| 2.7 Design, printing, and distribution of final documents | | \$9,000 | \$9,000 |
| 2.8 Participation by AMSFOL management | | \$10,000 | \$10,000 |
| 2.9. Project assistant | | \$23,800 | \$23,800 |
| Component 3 | \$240,000 | \$424,040 | \$664,040 |
| 3.1 Awareness seminar for SFI personnel | | \$4,960 | \$4,960 |
| 3.2 Technical assistance for members to tailor model | \$60,000 | \$70,000 | \$130,000 |
| 3.3 Changes made based on plans proposed | \$180,000 | \$200,000 | \$380,000 |
| 3.4 Workshops for sharing experiences | | \$5,280 | \$5,280 |
| 3.5 Participation by AMSFOL management | | \$120,000 | \$120,000 |
| 3.6 Project assistant | | \$23,800 | \$23,800 |
| Component 4 | \$0 | \$50,340 | \$50,340 |
| 4.1 National forum to disseminate model | | \$6,700 | \$6,700 |
| 4.2 Workshops to transfer lessons learned | | \$2,640 | \$2,640 |
| 4.3 Website maintenance and updating | | \$12,000 | \$12,000 |
| 4.4 Advisory support for design/printing of promotional material | | \$4,000 | \$4,000 |
| 4.5 Participation by AMSFOL management | | \$25,000 | \$25,000 |
| SUBTOTAL | \$576,100 | \$688,040 | \$1,264,140 |
| Contingencies (5%) | \$28,805 | | \$28,805 |
| Baseline, monitoring and evaluation system, and 2 evaluations | \$70,000 | | \$70,000 |
| Audit (1) | \$12,000 | | \$12,000 |
| TOTAL | \$686,905 | \$688,040 | \$1,374,945 |
| Coordination activities | \$15,000 | | \$15,000 |
| GRAND TOTAL | \$701,905 | \$688,040 | \$1,389,945 |
| Percentages (excluding cluster activities) | 50% | 50% | 100% |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

MEXICO

**DEVELOPMENT AND IMPLEMENTATION OF A SELF-REGULATION
MODEL FOR SPECIALIZED FINANCIAL INSTITUTIONS**

(ME-M1029)

ANNEX III

OPERATING REGULATIONS

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I. PURPOSE AND DEFINITIONS

A. Purpose

- 1.1 The purpose of these Operating Regulations is to establish rules and procedures to guide execution of the project “**Comprehensive Self-Regulation Model for the SOFOLES and SOFOMES Sector**” (ME-M1029), according to the terms established in the technical-cooperation agreement between the Inter-American Development Bank (IDB) and the *Asociación Mexicana de Sociedades Financieras de Objeto Limitado, A.C.* [Mexican Association of Limited Scope Financial Institutions] (AMSFOL). These Regulations define and assign responsibilities to all entities involved in execution of this project and provide the necessary guidance regarding its objectives, structure, and execution mechanism.

B. Users

- 1.2 The users of these Regulations will be all entities and persons participating directly or indirectly in project execution, financing, and/or management, including Bank staff, coordination unit staff, entities formed under the project, project consultants, external auditors, and individuals in charge of evaluation.

C. Amendments

- 1.3 The executing agency may suggest amendments to these Regulations to facilitate fulfillment of project objectives, provided such amendments do not contravene provisions of the technical-cooperation agreement. Prior to their entry into force, amendments will be subject to the Bank’s nonobjection. The version of the amendment and the month and year will be indicated on the cover page of all amendments. In case of discrepancies between the provisions of these Regulations and those of the technical-cooperation agreement, the provisions of the agreement shall take precedence.

D. Financing

- 1.4 Financing for the project will be provided with MIF/IDB resources and local counterpart contributions from AMSFOL.

E. Execution and disbursement periods

- 1.5 The execution period will be 42 months, beginning on the date of signing of the agreement. The disbursement period will be 48 months.

F. Definitions and abbreviations

- 1.6 The terms used in these Regulations are defined below:

| | |
|--|--|
| Project: | Development and Implementation of a Self-Regulation Model for Specialized Financial Institutions |
| Executing agency: | <i>Asociación Mexicana de Sociedades Financieras de Objeto Limitado, A.C.</i> [Mexican Association of Limited Scope Financial Institutions] (AMSFOL). |
| Bank or IDB: | Inter-American Development Bank. |
| MIF: | Multilateral Investment Fund. |
| Agreement: | Contract for project execution between AMSFOL and the IDB, in its capacity as administrator of MIF resources. |
| Country Office: | The Bank's Country Office in Mexico. |
| Beneficiaries: | The project's direct beneficiaries will be AMSFOL member specialized financial institutions, incorporated as either <i>sociedades financieras de objeto limitado</i> [limited scope financial institutions] (SOFOLES) or <i>sociedades financieras de objeto multiple</i> [multiple purpose financial institutions] (SOFOMES) (currently, 58 institutions). Its indirect beneficiaries are their customers and AMSFOL members, investors, and development banks. |
| Contribution: | Resources provided by the Bank to the executing agency for project execution. |
| Local counterpart/contribution: | Local currency and cash resources provided by the executing agency for project execution. |
| Coordination unit: | A unit created for purposes of the project to execute and coordinate operational activities, as well as coordinate administrative and financial activities. It will operate under the supervision of the project's self-regulation committee. |
| Self-regulation committee: | An institutional authority formed for purposes of the project with representatives of AMSFOL, whose main responsibilities will be to select the project coordinator; place into force, and ensure compliance with, the Operating Regulations; and supervise project execution through the approval of semiannual progress reports and semiannual/annual work plans. |
| Components: | The parts into which the project is organized for execution. They contain all activities called for under the project to achieve the proposed objectives. |
| AWP | Annual work plan. |
| SFI | Specialized financial institution. |

II. OBJECTIVES

A. Goal

- 2.1 The goal of the project is to contribute to the stability and development of the specialized financial institution (SFI) sector (lending, leasing, and factoring) within the national financial system.

B. Purpose

- 2.2 The purpose of the project is to develop and implement a self-regulation model governing the action of SFIs, in order to lend certainty, credibility, and transparency to their operations with third parties.

III. COMPONENTS

- 3.1 To achieve said goal and purpose, the project has the following four components: (1) institutional assessment and restructuring of the Mexican Association of Limited Scope Financial Institutions (AMSFOL); (2) development of a self-regulation model; (3) implementation of the model; and (4) dissemination of outcomes. In all cases, project activities will be contracted taking into account the itemized budget prepared by the project team and agreed on with the executing agency. Planning, content, and the budget for the following activities will be described in detail in the annual work plan (AWP) delivered by the coordination unit to the Bank's Country Office in Mexico each year.

IV. ACTIVITIES

- 4.1 The activities for which financing will be provided under the different project components, together with instructions for the execution of each, are described below. Also described is the technical team of principal consultants who will have responsibility for execution.
- 4.2 **Component 1: Institutional assessment and restructuring of AMSFOL (MIF: US\$174,500; local contribution: US\$32,000).** This component will define the scope of the restructuring of the Mexican Association of Limited Scope Financial Institutions (AMSFOL) that is needed to provide it with the tools to effectively develop, administer, and supervise the self-regulation model.
- 4.3 The activities for which financing will be provided are: (a) a project awareness seminar for sector members; (b) technical assistance for the institutional analysis and assessment of AMSFOL; (c) technical assistance to review and update its articles of incorporation; (d) technical assistance to review and modify its organizational structure, including the creation of an institutional supervision and monitoring division; and (e) development of a supervision and evaluation system.
- 4.4 Expected outcomes are: (i) awareness raised in at least 42 institutions; (ii) the restructuring defined, with participation by all members; (iii) articles of incorporation amended to reflect AMSFOL's new function; and (iv) a supervisory unit duly installed trained in the system for supervision and evaluation of the self-regulation model.
- 4.5 **Component 2: Development of a self-regulation model (MIF: US\$64,400; local contribution: US\$185,100).** The purpose of this component is to develop a specialized financial institution (SFI) self-regulation model.
- 4.6 The activities for which financing will be provided are: (a) technical assistance to update the code of ethics; (b) technical assistance to develop corporate governance provisions; (c) technical assistance to develop rules for preparing and classifying financial information; (d) technical assistance to develop conflict resolution policies; (e) technical assistance to develop the accreditation rules for AMSFOL

- members; (f) technical assistance to develop rules for operation of a fund; and (g) design, printing, and distribution of the final documents.
- 4.7 The expected outcome is: (i) a series of ad hoc documents enabling efficient supervision of the activities of SFIs, in order to guarantee that their operations are conducted transparently, ethically, and in accordance with international best practices.
- 4.8 **Component 3. Implementation of the model (MIF: US\$556,000).** The purpose of this component is to implement the self-regulation model in all AMSFOL member institutions. Its activities include: (a) an awareness seminar for managerial and management staff of AMSFOL member institutions; (b) technical assistance for member institutions to tailor the self-regulation model; (c) implementation of the changes suggested in accordance with the proposed plans; and (d) workshops for member institutions to share experiences.
- 4.9 Expected outcomes are: (i) at least 120 staff members of 58 SFIs have learned about the self-regulation model; (ii) at least 58 SFIs have designed plans for change based on the assessment; (iii) the model has been implemented in at least 58 SFIs; and (iv) at least 120 individuals have participated in workshops for sharing experiences.
- 4.10 **Component 4: Dissemination of outcomes (MIF: US\$150,000; local contribution: US\$1,008,500).** Under this component, based on the lessons learned and experience of developing and implementing the model, the project outcomes will be disseminated to the authorities, SFI sector, and general public, to ensure AMSFOL's place as the sector's standard-bearer and its members' standing as institutions of excellence through compliance with the self-regulation model.
- 4.11 The project will provide financing for: (a) a national forum to disseminate the model; (b) workshops to transfer lessons learned; (c) technical assistance to update the website; and (d) advisory support for the design and printing of promotional material.
- 4.12 Expected outcomes are: (i) dissemination of the program's outcomes via a national forum attended by at least 400 individuals; and (ii) a website, which will become the sector's portal for online consultation, information, and interaction.

V. BENEFITS AND BENEFICIARIES

- 5.1 **Benefits.** This project will provide the specialized financial institution (SFI) sector, and, in particular, the Mexican Association of Limited Scope Financial Institutions (AMFSOL), with a self-regulation model that integrates and systematizes all the elements needed for effective self-regulation. This will help consolidate the credibility of AMSFOL and its members among sector participants, and the resulting increase in their competitiveness will contribute to the stability of the sector.

- 5.2 **Beneficiaries.** The project will directly benefit at least: (a) 400 individuals and 58 SFIs that will have learned about the self-regulation model; (b) 58 SFIs that will have implemented the self-regulation model; and (c) AMSFOL, which will be strengthened and in a position to supervise effectively the activities of SFIs, so as to ensure that their operations are conducted transparently, ethically, and in accordance with international best practices.

VI. BENEFICIARY ELIGIBILITY CRITERIA

- 6.1 The following is a list of eligibility criteria for inclusion of members of the Mexican Association of Limited Scope Financial Institutions (AMSFOL) in the project:
1. They must be active members of AMSFOL.
 2. They must demonstrate that they have the financial capacity to meet the costs associated with migrating to self-regulation.
 3. Specialized financial institutions (SFIs) must present written commitments to provide the human, technical, and financial resources necessary for successful implementation of the model.
 4. The beneficiaries must present proposals for their inclusion in the program. SFI requests to begin work will be processed according to the order in which their proposals are received.

VII. EXECUTING AGENCY AND EXECUTION MECHANISM

- 7.1 The *Asociación Mexicana de Sociedades Financieras de Objeto Limitado, A.C.*¹ [Mexican Association of Limited Scope Financial Institutions] (AMSFOL) was created on 23 February 1994, for the purpose of bringing together limited scope financial institutions that had obtained authorization from the Department of the Treasury and Public Credit. Its social purposes include: (i) representation of the shared interests of its members vis-à-vis authorities and third parties; and (ii) issuing of self-regulation provisions designed to make their operations more secure, and supervision of compliance therewith. In an amendment to its articles of incorporation, approved by its general assembly of members at a meeting on 7 June 2006, AMSFOL's social purpose was expanded to include multiple purpose financial institutions (SOFOMES).
- 7.2 **Execution mechanism.** The coordination unit will be housed at the headquarters of AMSFOL, which will provide the space and equipment needed for regular operations. It will have a full-time coordinator, who will have the support of a full-time administrative assistant. Both positions will be financed with project resources. A part-time accountant will also be employed, with counterpart

¹ Steps are being taken to change the executing agency's legal name to *Asociación Mexicana de Entidades Financieras Especializadas, A.C.* [Mexican Association of Specialized Financial Institutions].

resources. The coordination unit will be supervised directly by AMSFOL's general manager. It will coordinate with the consultants the activities necessary for successful implementation of the project components that are required in connection with this technical-cooperation operation.

- 7.3 A **self-regulation committee** will be established with the following eight individuals: AMSFOL's president, general manager, and coordinator, and representatives of the five AMSFOL member sectors (agribusiness, mortgage, small and medium-sized enterprises, automotive, and consumer loans). To take decisions, quorum will be at least three sectors, plus the president or general manager.
- 7.4 The committee will select the project coordinator, place into force and enforce the Operating Regulations, supervise the budget and project execution through approval of the semiannual reports and semiannual and annual work plans, help identify and potentially provide additional resources to support the project, and establish conditions to ensure its sustainability after MIF support ends. In addition to at least one meeting each month, as many additional meetings as may be required for proper project execution will be held.
- 7.5 **Functions and responsibilities:**
- a. AMSFOL will have the following responsibilities:
 - (i) **Administrative:** (i) to make available its organizational infrastructure for purposes of the project; (ii) to assist with project execution in accordance with the provisions of these Operating Regulations; (iii) to report on administrative, economic, and financial aspects of the project administered by the coordination unit; (iv) to manage the counterpart resources corresponding to it to ensure that they are available on time and in form; (v) to ensure systematically that the source and use of funds are those set forth in the technical-cooperation agreement and that they are used in a context of full transparency; (vi) to open the bank account for the MIF revolving fund; (vii) to ensure systematically that the source and use of funds are those set forth in the technical-cooperation agreement and that they are used in a context of full transparency; and (viii) to arrange for the use of funds on the signature of the members included in the matrix of companies approved by the Bank;
 - (ii) **Organizational/operational:** (i) to propose to the IDB/MIF the list and background of professionals selected to fill the post of project coordinator; (ii) to install the coordination unit; (iii) to approve the annual work plan (AWP); and (iv) to approve or object to semiannual progress reports prepared by the coordination unit prior to their delivery to the Bank;

- (iii) **Institutional:** (i) in connection with institutional matters, to represent the project vis-à-vis the Bank; (ii) to perform its functions according to the provisions of this document and the executive committee's Operating Regulations; and (iii) to propose the list of principal representatives of the institutions to comprise the self-regulation committee.
 - b. **Coordination unit:** This unit will have two basic functions: (i) project management; and (ii) implementation and coordination of planned activities in accordance with these Operating Regulations.
 - c. Responsibilities of the coordination unit:
 - (i) **Administrative:** (i) to establish and update project accounting and financial records; (ii) to conduct the procurement process for the goods and services needed for project execution, including processing the corresponding requests for the Bank's nonobjection to the corresponding contracts; (iii) to negotiate contracts with consultants, coordinators, technical experts, assistants, and other professionals for which project financing is to be provided in accordance with the Bank's rules and procedures; (iv) to verify that resources of the revolving fund created with Bank and local counterpart contributions are available for execution of the project plan of activities;² (v) to prepare the accounts and process the replenishments of said fund; (vi) to prepare project financial statements for subsequent audit; and (vii) to ensure that the project is executed in accordance with the contractual terms and conditions contained in the agreement;
 - (ii) **Management and organizational:** (viii) to organize, direct, and coordinate project activities; (ix) to promote and verify proper implementation of the model; (x) to coordinate execution of project components; (xi) to prepare the project monitoring reports and the AWP for each period; (xii) to monitor the performance indicators contained in the logical framework and baseline; (xiii) to propose improvements to project design and execution; and (xiv) to hold coordination meetings with the members of the self-regulation committee.
- 7.6 **Annual work plans.** The executing unit will prepare 12-month AWP, beginning on the date of project startup, to plan project activities, costs, and the disbursement schedule.
- 7.7 Each AWP will follow the formats established by the Bank and will contain:

² At project startup, the execution plan annexed hereto and the AWP prepared by the executing agency will have to be adjusted.

- Semiannual targets for outputs and outcomes: (i) quantitative and qualitative targets in accordance with the project logical framework (by component and activity); (ii) component outputs; (iii) expected outcomes.
 - The list of activities and execution schedule; (i) list of activities to be executed; (ii) execution schedule, specifying start and end dates, including a bar diagram.
 - Schedule for the use of MIF resource: (i) resource schedule; (ii) contributions by component and activity; (iii) planned disbursements; and (iv) expected balances of total contribution and of the revolving fund.
 - Contractual conditions: (i) contractual commitments to be fulfilled during the period covered by the report; and (ii) anticipated status (degree of fulfillment, extension, reasons).
- 7.8 **Procurement.** The executing agency will procure goods, related services, and consulting services in accordance with the applicable policies and procedures set forth in the “Policies for the procurement of works and goods financed by the Inter-American Development Bank” (document GN-2349-6) and the “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-6). For contracts for goods and related services whose estimated cost is up to US\$30,000, the executing agency will use the shopping method, as provided in document GN-2349-6, paragraph 3.5. For consulting services, the executing agency may use any of the procurement methods set forth in document GN-2350-6. For the purposes of paragraph 2.7 of document GN-2350-6, the shortlist of consultants for engagements with an estimated cost of up to the equivalent of US\$100,000 may comprise entirely national consultants. Prior to procurement of goods or any type of consulting services, the executing agency will submit to the Bank the procurement plan for the first 18 months of project execution. All project procurement and contracting will be subject to ex ante review.
- 7.9 When goods and services procured for the project are financed fully or in part with Bank resources, the procedures and specific terms and conditions of bidding or other forms of contracting will provide for open competition among MIF and Bank member country suppliers of goods and services. Therefore, the specific procedures and terms and conditions of bidding will not establish conditions impeding or restricting the supply of goods or the participation of contractors of said countries, and will be conducted in accordance with the technical-cooperation agreement and its annexes.

VIII. FINANCIAL ASPECTS

A. Budget

- 8.1 The total estimated cost of the project is US\$1,389,945. The Multilateral Investment Fund (MIF) will contribute US\$686,905 (50%) in nonreimbursable

resources from Facility I. The Mexican Association of Limited Scope Financial Institutions (AMSFOL) will contribute local counterpart resources of US\$688,040 (50%), of which at least 50% will be in cash. Additionally, the MIF will provide US\$15,000, to be utilized by the Bank for cluster coordination activities. This amount will be deducted from the MIF contribution on the effective date of the technical-cooperation agreement, with no disbursement request needed from the executing agency. The MIF will finance the costs of technical assistance and design of promotional tools and will partially finance administrative costs. The project's estimated budget is presented in the table below:

(in US\$)

| Components | MIF contribution | Local contribution | Total |
|--|------------------|--------------------|------------------|
| Personnel | 192,000 | 29,400 | 221,400 |
| Logistics | 0 | 105,000 | 105,000 |
| Component 1 | 50,000 | 31,360 | 81,360 |
| Component 2 | 94,100 | 47,900 | 142,000 |
| Component 3 | 240,000 | 424,040 | 664,040 |
| Component 4 | 0 | 50,340 | 50,340 |
| <i>Subtotal</i> | <i>576,100</i> | <i>688,040</i> | <i>1,264,140</i> |
| Contingencies (5%) | 28,805 | | 28,805 |
| Baseline, midterm and final evaluations | 70,000 | | 70,000 |
| Audit (1) | 12,000 | | 12,000 |
| TOTAL | 686,905 | 688,040 | 1,374,945 |
| Cluster coordination activities | 15,000 | | 15,000 |
| GRAND TOTAL | 701,905 | 688,040 | 1,389,945 |
| Percentages (excluding cluster activities) | 50% | 50% | 100% |

B. Disbursements

- 8.2 The execution period is 42 months and the disbursement period is 48 months, running from the date of signing of the technical-cooperation agreement. MIF resources will be disbursed to the executing agency through the revolving fund for up to 10% of the MIF contribution. For disbursement of MIF resources, the coordination unit will prepare requests in accordance with the procedures set forth in the guidelines for the preparation of Bank disbursement requests and deliver them to the Bank's Country Office in Mexico.
- 8.3 Local counterpart resources will be used to finance costs of up to \$10,000 Mexican pesos. Where there is justification for costs under said amount to be covered by MIF resources, copies of the respective vouchers will not be forwarded to the Bank for reimbursement; rather, said costs will be recorded on the corresponding forms,

and at least 15% of said costs will be subject to ex post review during the annual inspection visit of the executing agency.

- 8.4 Where financing is to be provided from MIF resources for costs above \$10,000 Mexican pesos, a copy of the voucher and receipt of payment (signed check receipt) will be submitted. Disbursement requests will record costs financed with counterpart resources for the sole purpose of providing evidence of compliance with the *pari passu* requirement. The original evidence will be kept in the executing agency's files for review.
- 8.5 For purposes of providing evidence of expenditure, inasmuch as resources are granted in United States dollars, but withdrawals for execution are made in Mexican pesos, the exchange rate published in the *Diario Oficial de la Federación* will be used. This rate may be consulted via the IDB's Extranet site, to which the executing agency will have access.

C. Supervision and evaluation

- 8.6 **Reports.** The coordination unit will deliver the following reports to the Bank for its approval:

Semiannual progress reports. These will be sent to the Bank's Country Office in Mexico in February and August each year, in the format established by the Bank. Semiannual progress reports will have the following sections with their corresponding annexes and provide the following information:

- Project management: The most important actions carried out in the period covered by the report and those planned for the following period.
- Status of execution and fulfillment of objectives: A detailed description of the status of project activities, identification of problems and proposed solutions, and the outlook for project objectives based on an evaluation of the logical framework indicators.
- Project financial status: Reports will include information on disbursements processed during the semiannual period (number and total amounts), the table of the consolidated budget in force, and investments made by investment category.

Final report: The final report will be prepared by the coordination unit and delivered to the Bank's Country Office in Mexico prior to the end of the project execution period. It will give a detailed account of the activities carried out, outcomes in relation to the proposed objectives, and the work plan for the year after MIF support has ended.

D. Monitoring and evaluation

- 8.7 The Bank's Country Office in Mexico will have responsibility for supervision and control of project execution, verification of fulfillment of the contractual clauses, processing of disbursement requests, and receipt and analysis of the progress reports, final report, and audited financial statements.

- 8.8 The coordination unit will establish a project monitoring system based on the schedule of activities, the logical framework indicators, and the AWP. This system will be the primary instrument for monitoring project execution, the fulfillment of objectives, and the impact obtained.
- 8.9 At project startup, an external consultant will be contracted with MIF resources to develop the baseline indicators and develop the system for monitoring project outputs and outcomes.³ This consultant will also perform the midterm and final evaluations to determine the degree of fulfillment of objectives and will participate in the closing workshop.
- 8.10 The **midterm evaluation** will be conducted in the first half of the second year to ensure that project execution is proceeding satisfactorily and that enough progress has been made on the model to meet the execution and dissemination deadlines.
- 8.11 The **final evaluation** will be conducted in the three months prior to the last disbursement and will focus on identifying best practices and lessons learned, so that they can be shared with other related projects on similar topics.
- 8.12 **Closing workshop.** Three months prior to project completion, a closing workshop will be held for the coordination unit and the Office of the MIF in Mexico.

E. Audited financial reports

- 8.13 All activities financed under the project will be subject to the audit provisions established by the Bank. To that end, the coordination unit will keep specific project accounts, separate from other accounts, in accordance with a chart of accounts agreed on in advance with the Bank, in which will be recorded all transactions financed with MIF contribution and local counterpart resources.
- 8.14 **Final audit.** The coordination unit will prepare the final financial statements, which will include the MIF and local counterpart contributions, within 90 days after the date of the last disbursement. Audits will be performed by a firm of independent auditors acceptable to the Bank, and this cost will be financed with MIF resources in accordance with the established procedures.

F. Communications and files

- 8.15 For all purposes, all communications between the executing agency and the Bank regarding the project will be channeled through the Bank's Country Office in Mexico.
- 8.16 The coordination unit will retain in its files the originals and copies of all documents supporting project contracting and technical and financial execution. It will also retain all documentation necessary to provide evidence of the information contained in the supporting documents accompanying requests for disbursement of MIF resources.

³ See the terms of reference in the technical files.

- 8.17 The coordination unit will maintain a sequential file of all checks issued, together with the documentation supporting the expenditure and representing the source documents for the accounting record. Said file will be kept throughout project execution and will be available for inspection and audit by the Bank. The file will clearly separate documentation pertaining to Bank contributions from that pertaining to local counterpart contributions.
- 8.18 A file will also be created for each consultant contract and technical-assistance contract (individual or company) and will contain the terms of reference, proposals evaluated (curriculum vitae or service proposals), the selection evaluation table, copy of contract, evaluations, and reports.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/06

Mexico. ATN/MT-____-ME. Nonreimbursable Technical Cooperation for the
Development and Implementation of the Self-regulation Model
for Specialized Financial Institutions

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 Asociación Mexicana de Sociedades Financieras de Objeto Limitado, A.C. (AMSFOL), and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-____ with respect to a technical cooperation for the development and implementation of the self-regulation model for specialized financial institutions.

2. That up to the amount of US\$701,905, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the 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.

(Adopted on _____ 200_)

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