A case study from

Reducing Poverty, Sustaining Growth—What Works, What Doesn't, and Why
A Global Exchange for Scaling Up Success

Scaling Up Poverty Reduction: A Global Learning Process and Conference
Shanghai, May 25–27, 2004

Integrating the Poor into the Mainstream Financial System: The BANSEFI and SAGARPA Programs in Mexico

LISA TABER

with Carlos Cuevas, Juan Navarrete and Gabriela Zapata

Executive Summary

With the passage of the Popular Savings and Credit Act in 2001 and the subsequent launching of a US $150 million program to strengthen savings and credit institutions and expand their outreach in marginal rural areas, the Mexican government embarked on a pioneering effort to alleviate poverty and increase income-generating potential by massively scaling-up access to safe and efficient financial services for the poor.

The Savings and Credit Sector Strengthening Program of BANSEFI

The Savings and Credit Sector Strengthening Program, implemented by the National Savings and Financial Services Bank (BANSEFI), is building the capacity of more than 400 "popular savings and credit institutions" (or EACPs by their Spanish acronym) to meet new legal and regulatory standards and offer safer, more efficient financial services. The EACPs target almost 3 million users who are generally among the poor and lower-income groups. These clients typically have no access to the commercial banking sector, which currently reaches only about 25 percent of the adult population in Mexico's urban areas and has a much smaller presence in the rural sector.

BANSEFI wants to ensure that the clients of every savings and credit institution gain access to safe and efficient financial services via its outreach expansion programs. Hence, BANSEFI is developing an information system to link EACPs (those that elect to participate) to its network federations and confederations, the banking supervisor, and BANSEFI itself. This shared technological platform will offer retail financial service advanced software and services—such as treasury management, funds compensation, and portfolio risk analysis—at lower costs available to a network of financial institutions than to individual institutions.

With this technological platform (currently in its pilot stage), BANSEFI also spearheaded the development of a voluntary internet-based network of savings and credit institutions called "L@Red de la Gente," or "the People's Network." L@Red links BANSEFI's 551 branches to more than 180 offices of 19 participating institutions, and creates an expansive network of more than 730 branches. As of 2005, clients of any participating branch or institution will be able to make transactions on their accounts, for most of the products offered, from any other network participant.

More importantly, these individual institutions and branches have been incorporated as nodes in the network of the national payments system. As a result, emigrants and public institutions can send cash transfers securely and cost-effectively to recipients in some of Mexico's poorest and most remote locations. Federal programs providing payments to targeted groups for health, education, and agricultural production are already tapping the potential of L@Red, which will expand to include approximately 2,000 branches when the Savings and Credit Sector Strengthening Program is completed in 2008.[1] As of 31 December 2003, L@Red de la Gente had distributed payments from these programs to more than 1.5 beneficiaries, and this number is expected to grow to 3.3 million by the end of 2004.

Among these programs, Oportunidades (a program that provides cash subsidies for health and education expenses to the poorest of Mexican families) is worth noting. This is one of the most successful anti-poverty programs in Mexico. Approximately 750,000 savings accounts have been opened as a new way to transfer government subsidies through L@Red de la Gente. This has not only made Oportunidades more transparent, but has had the effect of coaxing the poorest Mexican families into using financial products. As these poor families earn interest on their new accounts, they learn how savings can open access to other types of financial services. This is the major permanent impact of the program. As of December 2003, for example, 78 percent of the 633,974 people who received transfers through L@Red from Oportunidades had savings accounts with positive balances in branches of L@Red. This suggests that this strategy is introducing savings services into the welfare dynamics of poor families, which can be the basis of future asset accumulation.

In addition to the transfers from government programs, the network also channeled more than US $53.6 million in remittance payments, sent from abroad to friends and family members. It is worth noting that L@Red de la Gente offers accounts that link different savings and investment products (standard savings accounts, housing savings accounts, etc.). This feature is particularly useful for remittances, since emigrants can choose the proportions of the money sent to be cashed or invested in different financial products.

Reaching the Rural Marginal Areas, SAGARPA

As part of the same government strategy, the Secretariat of Agriculture, Livestock, Rural Development, Fisheries, and Nutrition (SAGARPA) is now working in 13 states to set up new savings and credit institutions and build the capacity of existing EACPs. SAGARPA aims to bridge the gaps in knowledge, understanding, and interaction between these financial service providers and the communities of poor and mostly indigenous people living in the areas they serve.

A survey of Mexico's marginal rural areas in 2000 showed that just 2.5 percent of households had access to credit from a financial institution, and less than 6 percent used formal financial savings instruments. Poor households in marginalized rural areas stand to gain the most from increased access to financial institutions and services—where they can safely build up liquid savings—because currently they rely on informal savings mechanisms and physical assets, like small livestock, that have low yields and high loss rates. They generally pay high transaction costs and commissions to receive remittance payments, and are typically charged about 120 percent[2] per year in interest if they borrow money.

To combat these trends, SAGARPA began to implement the Rural Microfinance Technical Assistance Project (or PATMIR in Spanish) in 2001 to expand the network of EACPs into Mexico's poor and isolated rural communities. PATMIR provides EACPs with technical assistance and limited start-up funding to develop the outreach capacity of their existing institutions, including opening new branches or savings and credit institutions. In each case, technical assistance providers also ensure that participating institutions comply with the new law requiring minimum performance standards.

As of January 2004, PATMIR had strengthened and increased the outreach capacity of 41 EACPs in Chiapas, Huasteca, Guerrero, and Veracruz, improving the financial institutions upon which nearly 24,000 people rely. In addition, more than 10,000 clients gained access to financial services at new branches or institutions. Clients have more secure savings and can cash checks at savings-driven institutions that follow sound and prudent financial practices. These institutions also offer other services, such as credit funded by member savings and access to the payments system to receive remittances and government transfers (via L@Red de la Gente).

The program has now expanded to three more regions of the country and is expected to sustainably integrate more than 80,000 people from Mexico's poorest, most marginalized groups into the financial system before its completion in 2007. To achieve this goal, PATMIR works extensively with individuals and groups in these rural communities to educate them about the benefits of formal savings, how to use savings and other financial services to their advantage, and the rights and responsibilities of membership in a cooperative financial institution. Rather than quickly adding names to a membership roster, the program focuses on cultivating *conciencia, confianza y compromiso*—awareness, trust, and commitment—between the new members (who are typically from indigenous groups and include everyone, even (women, youth, and the aged,) and their financial institutions, so that each understands its investment in the other.

In addition, PATMIR helps the EACPs incorporate new ways of attracting and responding to marginalized clients. They can hire multilingual staff to promote their services and introduce personal digital assistants and mobile banking to make savings more convenient and attractive.

In 2003, more than 4.2 million families received transfers through one federal safety net program alone, and US $13.2 billion in remittances flowed into the country from Mexicans living and working abroad. Most of these funds went to the marginal areas where PATMIR is working. By incorporating poor and marginalized households into the financial system and providing them with safe savings facilities, families and develop the capacity to better manage the funds received and capitalize on these funds to generate more on their own.

Implementation Process

Context

In 2000, Mexico was in the midst of a remarkable economic comeback and profound political transformation. After ten years of gains in poverty reduction were undone by the severe macroeconomic and financial crisis of 1994–95, the financial system had stabilized, credit to the private sector was growing, and the economy was expanding at a rate of nearly 7 percent per annum. President Vicente Fox's electoral victory in July ended 71 years of domination by a single political party. It brought energy and hope into the policy-making and legislative processes with the widespread expectation of more open, participatory, and transparent government.

Yet about 58 million Mexican people—50 percent of the total population—still lived in poverty in 2000. While the commercial banking sector had recovered from the collapse of 1994–95, about three-quarters of all adults in metropolitan areas—and 85 percent of individual entrepreneurs—had no access to these financial outlets. Bank density ratios were low, with a country-wide average of one branch per 12,000 people. In the southern states of Oaxaca, Chiapas, and Guerrero, bank branch densities ranged from one for every 25,000 to 30,000 people. In rural areas, where about half the population live in extreme poverty, participation in the formal financial system was predictably low. A survey of rural areas in the Oaxaca and Huasteca regions in 2000 showed that just 2.5 percent of households had access to credit from a financial institution, and less than 6 percent used formal financial savings instruments.

About 3 million people countrywide, or approximately 7 percent of the economically active population, relied on loosely or completely unregulated financial institutions to safeguard their savings or provide loans, including a variety of savings and credit associations, cooperatives, credit unions, and NGOs. While some of these *instituciones de ahorro y crédito popular,* or popular savings and credit institutions,[3] had built a tradition of solid financial intermediation over more than 50 years, the lack of effective regulation and supervision of the sector as a whole put millions of people at risk of losing hard-wrought savings and investments in poorly or unscrupulously managed institutions. These risks became more apparent with the failure of numerous institutions due to fraudulent activities in 1998–2000. The vast majority of these institutions were small, community-based organizations, moreover, with no links to the national payment system, limited product offerings, and low levels of technology and efficiency.

Despite these weaknesses, in the late 1990s policy makers began to perceive that popular savings and credit institutions could potentially play a key role in alleviating poverty and stimulating inclusive economic growth. In 1999, the Secretariat of Finance and Public Credit (SHCP), the National Banking and Securities Commission (CNBV), the Central Bank of Mexico (BANXICO), and the National Savings Bank (PAHNAL) initiated a process of consultation with legislators, sector institutions, and the World Bank on the development of a new legal and regulatory framework for popular savings and credit institutions.

Both the outgoing and incoming administrations employed a two-pronged development strategy to combat poverty: efficient and well-targeted public spending combined with sound macroeconomic management. Clearly the lack of access to safe, efficient financial services was affecting the ability of poorer Mexicans to get out of poverty through their own savings, the help of emigrant family members, or productive investment in their own enterprises. The access problem was particularly acute in rural parts of the country, where the government had recently put forward major initiatives—such as dissolving the state grain purchasing institution—to curtail market distortions and encourage the pursuit of new business opportunities in the NAFTA environment.

Agricultural growth picked up after 1998 and aggregate poverty trends declined, but productivity gains were still low, and one of every two Mexicans living in rural areas was extremely poor. Maintaining a stable macroeconomic environment, funding social safety net programs, and investing in critical infrastructure were key elements of the Fox administration's poverty alleviation strategy. In addition, the new government focused on enhancing competitiveness, particularly of small-scale enterprises, by better integrating markets and targeting capitalization programs, especially at poorer groups in the rural sector.

Overhauling the Legal, Regulatory, and Institutional Framework

The potential to provide millions of people with efficient and competitive financial services through savings and loans, credit unions, and cooperatives and savings associations, which were operating about 1800 offices—including in some of the most remote corners of the country—became a top public policy priority for Fox's administration in 2000. The Consejo Mexicano de Ahorro y Crédito Popular (COMACREP), a council representing at least 80 percent of the sector, was formed to participate in the dialogue with government officials, thus giving about 1.5 million clients or members from communities throughout Mexico a voice in the future of their organizations. After more than 16 months of analysis and negotiations, the Popular Savings and Credit Act was passed in April 2001.

The law, which became effective on 4 June 2001, provides for the gradual incorporation of all non-bank savings and credit institutions into a new legal and regulatory framework over a four-year period, and forms the basis of what is perhaps the most ambitious effort to massively scale-up access to financial services for poor and marginalized people in the world. Under the new law, two types of popular savings and credit institutions (referred to in Spanish as Entidades de Ahorro y Crédito Popular, or EACPs), will be authorized by the CNBV to collect deposits from the public and conduct a range of intermediation activities. The scope of intermediation activities and prudential standards to which institutions are held depends on the size, geographic coverage, and demonstrated operational capacity of each entity, as distinguished by four distinct categories of operations.

The CNBV is also in charge of licensing federations (voluntary groupings of retail EACPs) and confederations (voluntary groups of federations), which play pivotal roles in the new regulatory system. To be licensed by the CNBV, an institution must first receive a favorable rating from the Supervision Committee of its federation, which evaluates candidates and subsequently supervises its licensed members—in an "auxiliary" capacity—according to standards established by the banking authority.[4] The decisions of the supervision committees with respect to the entrance or continued operation of a member EACP can be overruled by the CNBV, however, which maintains ultimate responsibility for the prudential oversight of the individual retail institutions.

A complementary law, enacted on 1 June 2001, transformed PAHNAL into the National Savings and Financial Services Bank (Banco del Ahorro Nacional y Servicios Financieros), or BANSEFI. PAHNAL had a 50-year history and network of 590 branches focused exclusively on capturing deposits, mainly among small-scale clients, investing their funds primarily in government debt securities, and proving nodes in the payment system often used to distribute payments by the federal government. Under the new institutional framework, BANSEFI retained PAHNAL's role of promoting savings habits, and gained an important new set of mandates as a bank for the popular savings and credit institutions and the coordinator of an ambitious one-time program of public support to the sector.

The Scope of the Initiative

The US $150 million program, which BANSEFI initiated in 2002 in coordination with other public sector agencies, including the CNBV and the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA), encompasses the following :

- Consolidating and strengthening approximately 400 popular savings and credit institutions to bring them into line with new regulatory standards and improve their efficiency and outreach capacity
- Strengthening EACP federations and confederations
- Developing an information technology system linking EACPs, federations, confederations, regulators, and BANSEFI, which will help the retail outlets reduce operating costs, improve the efficiency of their administrative processes, and facilitate regulatory compliance through automated reporting
- Developing the capacity of BANSEFI to provide second-tier central banking services to the sector, such as back-office functions, accounting, reporting and financial management, and liquidity brokerage
- Strengthening the CNBV's capacity to adequately supervise hundreds of small, dispersed financial intermediaries, the majority of which are engaged in microfinance activities, through the auxiliary supervision structure
- Evaluating the social and economic impact of the program and the sector on an ongoing basis, to gauge its success and allow for adjustments as needed to meet poverty-

alleviation objectives

Most importantly, the program will incorporate millions of new clients into the formal financial intermediation system. Retaining recipients of government transfer payments as new account holders in a process called "bancarization" is already rapidly integrating previously unserved segments of the population into the economy through their access to financial services.

BANSEFI and SAGARPA are also coordinating efforts through an innovative partner project (implemented by SAGARPA) to expand the outreach of popular savings and credit institutions particularly among women and indigenous groups, in marginal rural areas of Chiapas, Hidalgo, San Luis Potosí, Veracruz, Oaxaca, Guerrero, Morelos, Michoacán, the State of Mexico, Puebla, and Tlaxcala.

The Rural Microfinance Technical Assistance Project, or PATMIR, provides training in basic principles of household finance and participation in financial institutions for groups and individuals in marginal rural communities. It also assists savings and credit institutions in increasing their outreach to these clients by tailoring products, promotional materials, and outreach methods to the needs of community members. In marginal areas where no intermediaries exist, PATMIR provides professional technical assistance and limited start-up funding to develop new savings and credit institutions, or for existing institutions to open new branches. In each case, technical assistance providers also assist participating institutions in complying with the new legal and regulatory standards.

BANSEFI's Progress to Date

The government faced formidable challenges in developing and implementing the program to transform the savings and credit sector, as approximately 90 percent of the existing institutions lacked the experience and capacity needed to meet the standards of sound regulation and supervision. The great majority of institutions, moreover, are very small, with single branches located in dispersed communities throughout the country.

A census of institutions was initiated in September 2001 to determine more precisely the number and size of entities operating in the sector, their locations, and affiliations with other such organizations, if any. A more in-depth evaluation of a subset of those institutions provided more information on the financial health and technological capacity of popular savings and credit institutions, as well as their operational, management, and governance capacity. This information was used to help gauge the extent—and cost—of the program of technical assistance needed to strengthen the intermediaries.

Technical assistance and training are being provided to Supervision Committees and EACPs countrywide, so they can evaluate every savings and credit institution which opts to participate, and strengthen or restructuring those institutions which do not yet meet the operational or solvency standards of the new legal and regulatory framework.

To meet these objectives, BANSEFI has recruited international organizations specialized in providing technical assistance to savings and credit institutions and their sector organizations through a competitive bidding process that began in 2001. Action plans have now been formalized for 381 institutions, of a total of 400 that are expected to participate in the program. Those remaining have either chosen to stop mobilizing deposits or will be merged, acquired, or dissolved.

In addition to their individual action plans, popular savings and credit institutions have the opportunity to attend training sessions organized by BANSEFI. So far, courses on risk management, credit analysis, accounting, and governance have been attended by 2,900 people from about 400 institutions. Training for federations and confederations has emphasized the preparation of supervision committee members. As of 30 November 2003, seven auxiliary supervision committees have received intensive training in the law and applications of the norms and guidelines developed for evaluating and classifying institutions, and have been certified by the CNBV.

The CNBV now has 27 people to provide oversight for the sector through a specialized unit, the General Directorate for the Supervision of Popular Savings and Credit Institutions (or DGSEACP, by its Spanish acronym). Each of these staff have benefited from on-site training with expert consultants and participated in seminars and study tours to improve their capacity to effectively supervise the savings and credit sector through the auxiliary mechanism. The CNBV has also developed a number of tools, including the Supervision Guidelines for the federations' supervision committees, the Integrated Supervision Manual for internal use, and a specialized financial analysis system.

BANSEFI has undertaken initiatives to disseminate the requirements of the new law and accompanying supervision and regulatory framework. Seven workshops have been conducted jointly with the CNBV, each in a different region of the country, to explain the changes and encourage institutions to participate in the sector consolidation and strengthening program.

Key to BANSEFI's role, however, are the actions it has taken with respect to developing a technological platform which sector institutions can use to access back-office or liquidity services, to file mandated reports to their supervision committee and to the CNBV, and also to network with other institutions. The technology platform is expected to reduce the transaction costs and expand the range of services provided by the sector, in addition to facilitating the accreditation of the entities by the CNBV.

The organizational basis of the commercially-oriented network has already been formed with the establishment of "L@Red de la Gente", a voluntary internet-based alliance of popular savings and credit institutions and BANSEFI. L@Red has already linked BANSEFI's 554 branches with more than 180 offices of 19 participating institutions to provide a geographically expansive network of more than 730 branches of coverage.

Impact Analysis

The cost of the popular savings and credit sector strengthening program, including the Rural Microfinance Technical Assistance Project administered by SAGARPA and the comprehensive sector strengthening program underway through BANSEFI, totals about US $150 million. The objective of this program is to develop a vibrant and viable savings and credit sector with dramatically increased financial services outreach, especially to poor and marginalized rural populations. It is premature to assess the program's overall impact, given that it is still being implemented and *ex ante* cost-benefit analyses of this type of institution building initiative are problematic. The degree to which program results translate into poverty reduction will be carefully monitored, however, using panel data from 6,000 households that will be surveyed annually over the five-year period beginning in 2004.

Implementation progress and indicators of impact, to date, show that the program is likely to achieve its objective of increasing the number of people served by participating financial institutions from 2 million to 5.5 million by 2008, and show substantial progress in poverty alleviation. The benefits to members and clients of EACPs are reaped directly through lower costs of credit and payment services, positive yields and increased security on savings deposits, and greater access to an array of government programs, including social insurance.

Benefits for Institutions

When financial institutions become more efficient and financially sound, clients can benefit from the lower costs and risks associated with their products and greater access to services. In addition to the advantages of adequate supervision and regulation, the economic benefits for the institutions participating in the program are clear. Efficiency gains will accrue to the EACPs from staff training, upgrading internal controls, and building credit appraisal and risk management capacity, and through the services provided by BANSEFI and network organizations. One such benefit provided to EACPs by BANSEFI relates to liquidity management. BANSEFI consolidates the liquidity of EACPs and invests it on their behalf in the commercial banking system, thus securing a higher interest rate than what the entities could obtain individually. By late December 2003, a total of 93 EACPs had already invested 626.2 million Mexican pesos—or US $55.8 million—in BANSEFI.

The technological platform for EACPs currently being piloted by BANSEFI will contribute significantly to their operational efficiency and income-generating potential. Rather than each individual institution acquiring the technology components needed to manipulate, transfer, and store the information required to operate and communicate with other sector institutions, EACPs can subscribe to these services selectively and share the cost with other participants. The creation of this common technology platform will allow for shared operating, technological, and marketing processes, and a common trademark.

In addition to compatible or shared hardware and software, the alliance BANSEFI has created with sector institutions through L@Red de la Gente (which currently includes more than 730 participating branch locations) is expected to include more 3,000 points of service by 2008. L@Red aims at breaking a key barrier to developing a viable system of financial services for the poor: gaining sufficient scale and scope to cost-effectively process large numbers of small-volume transactions. Another important result of this technological interlinking is the ability to organize participating institutions as conduits for governmental support programs, which will make it possible for institutions to increase their revenues through fees for the distribution of financial services, and more importantly, by retaining users and increasing their market penetration.

Benefits for Clients

Providing access to sound, efficient financial services clearly contributes to income generation and poverty alleviation at the household level. This is particularly true for the poorer rural households, which are expected to gain from access to adequate deposit instruments and an improved ability to take advantage of productive investment opportunities.

Economic analysis[5] has shown that transforming informal, non-earning financial assets, and monetizing even a fraction of the savings held in physical form by rural households, would have substantial economic benefits in terms of safety and return. Informal means of savings that dominate the households' portfolios are, in principle, inferior to financial instruments in terms of safety and returns. For example, *tandas*, or rotating savings clubs, report a 6 percent rate of non-compliance (group members who cease to contribute once they have taken a turn); and the most common forms of livestock holding, pigs and chickens, have mortality rates above 40 percent. Since holding livestock as savings is more prevalent in poorer areas and among indigenous people than elsewhere, the transformation of these assets into financial savings would benefit the poorest segments of the population by increasing returns and providing greater liquidity.

By providing poor and remotely located households with access to the national payments system through L@Red de la Gente, moreover, they can more securely and cost-effectively receive remittance payments from family members working elsewhere in Mexico or abroad, as well as the benefits of social safety net and development programs. As of 31 December 2003, L@Red de la Gente had distributed payments from federal health, nutrition, education, and agricultural production programs to more than 1.5 million beneficiaries, and the number is expected to grow to 3.3 million by the end of 2004. By receiving transfer payments through L@Red, poor beneficiaries are introduced to financial institutions and encouraged to participate as members or clients.

About 750,000 new savings accounts have been opened at L@Red institutions through Oportunidades, which provides targeted cash subsidies for health and education. This transfer mechanism has helped to introduce some of the poorest families in Mexico to the financial system. As these clients earn interest on their new accounts, they learn how savings can open access to other types of financial services. This is the major permanent impact of the program. As of December 2003, for example, about 80 percent of those beneficiaries of Oportunidades who had savings accounts in branches of L@Red were maintaining a positive account balance. This suggests that this strategy is introducing savings services into the welfare dynamics of poor families, which can be the basis of future asset accumulation.

In addition to the transfer of government programs, L@Red had also channeled more than US $53.6 million in remittance payments to recipients as of December 31, 2003. L@Red de la Gente offers accounts that link different savings and investment products—such as standard savings accounts and housing investment funds, for instance—so that emigrants can chose how to allocate remittances among different types of accounts.

SAGARPA is working to ensure that the most marginalized people living in largely indigenous rural communities benefit from access to L@Red, as well as the other financial services that savings and credit institutions provide. Through the PATMIR project, more than 41 savings and credit institutions and branches have received specialized technical assistance to strengthen and increase their outreach capacity among marginalized clients, so far improving or generating access to financial services for more than 34,000 poor people.

Driving Factors

Commitment and Political Economy for Change

The determination to reform and transform the popular savings and credit sector, as a means of alleviating poverty and integrating millions of poor and lower-middle class Mexicans into the formal financial system, was in part the result of a historical evolution in Mexican politics. The election of President Fox in July 2000 was the culmination of many years of work to create a political system characterized by greater participation, openness, and accountability on the part of Mexicans from diverse social and economic groups and political affiliations. These same forces have arguably helped foster the political will needed to embark on an ambitious and comprehensive program to integrate into the formal financial system those institutions that serve people on the margins of society.

The degree of economic stability Mexico regained over the last decade has also played an important part in providing the resources needed to reform the EACP sector. The results of increased economic integration with the United States through NAFTA, sound domestic macroeconomic management, and high oil prices since 1999 have all contributed fundamentally to the prosperity and stability that have clearly facilitated the EACP reform.

Institutional Innovation

Prior to directing its attention to the popular savings and credit sector, the government had previously attempted to provide access to financial services primarily through first and second-tier development banks and trusts. This approach generally relied on directed credit at subsidized interest rates, subsidized credit guarantees, and debt forgiveness and restructuring. These interventions were unsuccessful in providing sustained access to financial services for their target populations and required large fiscal outlays, estimated to cost approximately US $28.5 billion over the 1983–92 period.

The government began introducing reforms in rural credit policies in the early 1990s, reducing interest rate subsidies, making transfers to development banks more transparent, and experimenting with alternatives to promote sustainable, commercial intermediation. A project was launched in 1995 to provide subsidies for commercial banks to establish services in small cities and rural towns where there was no banking presence. Banks were reluctant to participate and retreated from the program and rural areas altogether with the exchange rate crisis and rapid economic decline of 1995–96.

In addition to these policy failures, the lack of an adequate legal and regulatory framework for savings and credit institutions left low-income depositors exposed to the risk of losing their savings and constrained the growth of the sector. Numerous savings and credit institutions were thus supporting the development of an appropriate legal framework for their activities. At the same time, the need for institutional change was reinforced by the detection of fraudulent activities committed by managers of some popular savings and credit institutions in the late 1990s. Not only did thousands of low-income depositors lose their savings in these cases, but some municipal governments that managed their funds through savings and credit institutions lost millions of dollars in scarce public resources. As a result, both the government and the sector initiated a dialogue that led to the design and approval of the new law which governs the sector's activities.

At the same time, international development agencies were putting increasing focus on the potential of popular savings and credit institutions as a means to sustainably increase broad-based access to financial services. A substantial number of these types of institutions had been offering financial services in Mexico for decades—without any regulation or supervision. Low levels of efficiency and a lack of widespread confidence on the part of depositors, however, severely limited their outreach capacity.

While it became clear that savings and credit institutions represented great promise in achieving the outreach and sustainability goals that so many public sector institutions and interventions had not, there were many difficult questions to answer with regard to regulatory framework and the nature and scope of public investment needed to shore up the sector.

It was clear that the sector, which was and is dominated by small institutions—only three of which have more than 50 branches—would likely take many years to consolidate and organize on its own. BANSEFI was thus created to accelerate and enhance the process, through the benefits of networking, based on successful experiences in other countries. BANSEFI is not an ordinary development bank, as its mission and methods exclude lending. To avoid shifting risk to the public sector, BANSEFI has concentrated on providing fee-based services without exposing itself to the credit risk of the EACPs or their clients. The value that BANSEFI provides to the EACP network institutions is likely to be transferred to them in the future when it puts itself up for sale to these clients. While designed from the experiences of successful savings and credit sector institutions worldwide, an institutional transformation of the nature and scope being undertaken by BANSEFI is undoubtedly a first in the annals of development banking.

At the same time, PATMIR was launched in order to make sure that sound, efficient savings and credit services are delivered to the poor in rural areas, which does not normally happen through a "trickle down effect." Large intermediaries have seldom shown any interest in the marginal rural sector; they tend to focus on an urban and semi-urban market. PATMIR, therefore, provides technical assistance and small in-kind grants of support to institutions interested in developing tentacles to rural communities and also creates intermediaries adept at responding to the needs of the people in these communities. SAGARPA's innovative program is to trying to demonstrate that the provision of financial services—based on a cooperative savings-driven model—can be profitable in marginal rural areas.

Learning and Experimentation

The implementation of this ambitious new regulatory and development framework for the savings and credit sector has been a challenging process for many of the institutions involved. Some institutions have resisted the changes, preferring to remain outside of the new legal and regulatory system. Some of them have tried to influence legislators in order to boycott the transition of cooperatives into either of the two types of savings and credit institutions considered in the Popular Savings and Credit Act.[6] The inclusiveness that characterized the design of the new law[7] and its general acceptance has prevented this resistance from garnering much support from legislators or other sector institutions, however. BANSEFI has also organized an ongoing campaign to inform and facilitate participation in the new system through greater understanding of how and what it will require.

BANSEFI has not only emphasized the relevance and practical aspects of implementing the new law in its communications and outreach, but has had to focus on explaining its own role in the sector as well. Indeed, its traditional mandate of promoting popular savings together with its new role of coordinating public support for the sector seem contradictory to some institutions. A few see BANSEFI more as a competitor rather than as an agent coordinating support. As a result, BANSEFI has had to reiterate its intention to be sold to the sector and shift its focus to providing second-tier central banking services to popular savings and credit institutions.[8]

In some cases, such as with the transfer of government programs through L@ Red de la Gente, branches of the sector have been given priority when a branch of BANSEFI is located in the same community. Communicating its mission has not been easy, nor have the effects of BANSEFI's efforts to demonstrate its role as a partner to popular savings and credit institutions been immediate. The perceptions of the bank as a "competitor" are diminishing, and participation in the services and networks it supports are increasing.

SAGARPA's efforts to expand the outreach of financial institutions in marginal rural areas have met the difficult challenge of educating people about the use and benefits of financial services. New promotional tools and methods have been developed to explain how financial products work and what improvements they offer over traditional savings instruments are. Technical assistance providers work with institutions to develop products tailored to the particular needs of different marginalized communities in order to attract greater participation.

Some of these products include savings plans and accounts tailored to specific groups, including savings plans for children, and accounts set aside for school fees and Christmas expenses. Group savings plans have been created, called *tandahorro,* which are based on traditional rotating savings clubs; and specialized credit products, such as *credimujer* for women and *crediapuros* for emergencies, have been designed to introduce new users to the formal financial system. Many of these services are provided directly at the community level by *promotores* or, in the case of a savings and credit institutions in Chiapas, via mobile banking services which operate on market days on a weekly or fortnightly basis.

External Catalysts

The government's program of support for the EACP sector, and for financial education and the expansion of savings groups in marginal rural areas, was developed and is being implemented with the energetic and proactive participation of numerous development agencies and professional savings and credit institutions networks from many countries.

USAID has sponsored US $2 million in technical assistance to upgrade the capacity of one of Mexico's primary savings and credit networks since 1999. USAID has also been active in helping forge alliances between financial institutions in the United States and the savings and credit sector in Mexico to help lower the costs to Mexican emigrants sending funds back to their families.

Through its Multi-lateral Investment Fund, the Inter-American Development Bank (IDB) has provided US $3 million in technical cooperation for components of BANSEFI's information system that is being upgraded. IDB has also provided support to the CNBV for training in auxiliary supervision. The German government has also supported the sector with US $ 1.2 million for federation restructuring.

The World Bank has been a major sponsor of the government's initiative, having provided a loan of US $64.6 million in 2002 to consolidate and strengthen savings and credit institutions, build supervision capacity, pilot the technology platform for the sector, and expand access to financial services in rural marginal areas. The World Bank is also preparing a new loan, worth approximately US $70 million, to help the government finance the national roll out of the technology platform.

Lessons Learned

Bringing the poor into the financial system, especially those at the margins of society in geographically isolated regions, teaching them to better manage the cash resources they have, and providing access to new sources of finance at lower costs is the root objective of the massive and ambitious programs undertaken since 2001 by BANSEFI and SAGARPA. While it is premature to assess the overall impact of the two programs, results to date indicate that they are likely to have far-reaching effects on the scope and direction of sustainable financial services in the future to alleviate poverty and stimulate equity-enhancing growth. The main lessons the BANSEFI and SAGARPA programs have revealed so far include the following:

Government intervention can effectively increase access to financial services for low income households and businesses by getting the regulatory framework right, building the institutional capacity of financial institutions, and subsidizing the deployment of modern technology to increase the efficiency of service providers.

Packaging the development of adequate regulations and supervision, institution capacity building, and technological infrastructure is more likely to yield sustainable results

and cost less over time than traditional interventions which focus on increasing credit flows.

Outreach expansion efforts among the poor in marginalized rural areas have much better long-term prospects if they focus on building the stake that these clients have in their savings and credit institutions as savers, rather than building financial relationships based on the expectation of getting a loan.

End Notes

1 L@Red de la Gente represents, for many financial intermediaries, an additional incentive to accelerate their formalization process, since complying with established performance standards is a requisite to join this strategic alliance.

2 World Bank, *Mexico Rural Finance: Savings Mobilization Potential and Deposit Instruments in Marginal Areas,* Report No. 21286-ME (Washington D.C., World Bank, 2001).

3 "Popular savings and credit institutions" and "savings and credit institutions" are used throughout this paper to denote a variety of non-bank financial intermediaries that serve middle- and low-income segments of the population, such as Sociedades de Ahorro y Préstamo (SAPs), Cooperativas de Ahorro y Préstamo (CAPs), Uniones de Crédito (UC), Cajas Solidarias (CS), or non-governmental organizations (NGOs). Over 90 percent of these intermediaries are CAPs.

4 It is not obligatory for candidates to join a federation. Nonetheless, they must obtain an opinion from a federation and submit to that federation's auxiliary supervision. Any institution that does not wish to join a federation may submit its application directly to the CNBV. The CNBV will then determine which federation will issue the opinion and, if applicable, exercise auxiliary supervision over the institution, provided that the authorization is granted. Unaffiliated institutions must apply to a confederation to participate in its depositor protection fund, whereupon they would enter into an auxiliary supervision agreement with that body's member federations.

5 World Bank, *Mexico Rural Finance*, Report No. 21286-ME.

6 They have sought immunity from the new law under the umbrella of the so-called *Ley General de Sociedades Cooperativas.*

7 Most notably, through organizations (like COMACREP) created to represent the sector in the dialogue that was initiated to design the new law.

8 The term *Caja de Cajas* is commonly used to denote this role.

Bibliography

This case study was prepared by Lisa Taber, based on internal World Bank, BANSEFI, and SAGARPA reports, and written inputs from Carlos E. Cuevas, Lead Financial Economist for the Financial Sector Operations and Policy Department of the World Bank; Juan Jose Navarrete Luna from BANSEFI; and Gabriela Zapata, Director of the PATMIR program in SAGARPA.

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