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The World Bank

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Report No: 44426-MX

PROJECT PAPER

ON A

PROPOSED ADDITIONAL FINANCING LOAN

IN THE AMOUNT OF US$50.0 MILLION

TO THE

UNITED MEXICAN STATES

FOR A

SAVINGS & RURAL FINANCE SECOND PHASE PROJECT (SECOND ADDITIONAL FINANCING)

August 4, 2008

Latin America and Caribbean Region
Colombia and Mexico Country Management Unit
Sustainable Development Sector Management Unit

CURRENCY EQUIVALENTS

(Exchange Rate Effective: July 11, 2008)

Currency Unit	=	Peso
Peso 1	=	US$0.097
US$ 1	=	Pesos 10.307

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
BANSEFI	Banco del Ahorro Nacional y Servicios Financieros, Institución de Banca de Desarrollo, S.N.C. (National Bank for Savings and Financial Services)
CNBV	Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission)
FM	Financial Management
SCI	Savings and Credit Institutions
TA	Technical Assistance

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Task Team Leader:	Harideep Singh

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MEXICO

SAVINGS AND RURAL FINANCE SECOND PHASE PROJECT
(SECOND ADDITIONAL FINANCING)

PROJECT PAPER

LATIN AMERICA AND CARIBBEAN

LCSSD

Date: August 4, 2008	Team Leader: Harideep Singh
Country Director: Axel van Trotsenburg Sector Manager/Director: Ethel Sennhauser/ Laura Tuck	Sectors: Micro- and SME finance (100%); Themes: Small and medium enterprise support (P); Rural markets (P); Regulation and competition policy (P); Rural non-farm income generation (S); Indigenous peoples (S)
Project ID: P111839	Environmental screening category: Not Required
Lending Instrument: Specific Investment Loan	

Project Financing Data
[X] Loan [ ] Credit [ ] Grant [ ] Guarantee [ ] Other:
For Loans/Credits/Others:
Total Bank financing (US$m.): 50.00
Proposed terms: IBRD Flexible Loan with Fixed Spread Grace Period (years): 15; Years to maturity: 15 Front-end fee (FEF) on Bank Loan: 0.25%; Payment for FEF: Financed out of Loan Proceeds Type of Repayment Schedule: [X] Fixed at Commitment, with the following repayment method: Bullet [ ] Linked to Disbursement Conversion Options: [X] Currency [X] Interest Rate [X] Caps/Collars: Financed out of Loan Proceeds

Financing Plan (US$m)			
Source	**Local**	**Foreign**	**Total**
Borrower	15.63	38.00	53.63
International Bank for Reconstruction and Development	15.00	35.00	50.00
Participating entities	2.00	0.00	2.00
Total:	32.63	73.00	105.63

Borrower:
United Mexican States, Mexico

Responsible Agency:
BANSEFI, Mexico; Tel: 52 (55) 5481 3490

FY	2008	2009	2010	2011
Annual	15.00	19.00	14.00	2.00
Cumulative	15.00	34.00	48.00	50.00
Current Closing Date: July 31, 2009 Revised Closing Date: July 31, 2012				

Does the project depart from the CAS in content or other significant respects?	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? Have these been approved by Bank management? Is approval for any policy exception sought from the Board?	[ ]Yes [X] No [ ]Yes [ ] No [ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"?	[ ]Yes [X] No
Does the project meet the Regional criteria for readiness for implementation?	[X]Yes [ ] No

Project development objective:

Since the Additional Loan will meet the financing gap, the original project development objective, as indicated in the Loan Agreement, remains unchanged as follows: "to assist the Borrower in strengthening the SCI sector with Savings and Credit Institutions which are compliant with the Popular Savings and Credit Law, financially viable, operationally effective, managerially sound, technologically upgraded, and providing an enhanced level of outreach and access to financial services by the underserved Mexican populations".

The parent project has four components to achieve the PDO, namely: (a) Strengthening the Savings and Credit Institutions, and their Regulation and Supervision; (b) Developing and Implementing a Technology Platform; (c) Monitoring and Evaluation, Studies and Information Dissemination; and (d) Project Management.

This is an Additional Financing Project which focuses predominantly on meeting the financing gap relating to all of the above components.

Project description *[one-sentence summary of each component]*

The AF project activities are grouped into the following broad components:
(a) Technical Assistance for Sector Consolidation;
(b) Commercial Roll-out of the Technology Platform;
(c) Information Dissemination and Communication; and
(d) Project Management.

Which safeguard policies are triggered, if any?

The AF project is categorized "C" from the environmental viewpoint, requiring no assessment of environmental impacts or preparation of an environmental management plan.

The only safeguard policy that was triggered by the parent operation, and continues to remain applicable to the combined project relates to Indigenous Peoples (OP4.10).

Significant, non-standard conditions, if any, for:
(a) Board presentation: None.
(b) Loan effectiveness: None.
Covenants applicable to project implementation: None.

MEXICO

Savings & Rural Finance Second Phase Project
(Second Additional Financing)

TABLE OF CONTENTS

Page

I. Introductory Statement

1. This project paper seeks the approval of the Executive Directors to provide an additional loan in an amount of US$50.0 million to United Mexican States, Savings and Rural Finance (BANSEFI) Phase II Project (Project ID: P087152; Loan 7240-ME). The proposed additional loan would meet the financing gap relating to existing project activities.

2. Partnership Arrangements: None.

II. Background and Rationale for Additional Financing in the amount of US$50.0 million

3. <u>**Overview of Access to Financial Services.**</u> Access to financial services in Mexico is limited and costly. The penetration rate is low, with 74% of its municipalities, supporting 22% of its population, having no bank branch. Regional variations are intense with south/south-east and central regions having 87% and 77% of their municipalities without any bank branch. About 75% of Mexico is urban; yet 85% of the adult population in the urban areas (metro-cities) has had no dealings with the formal financial sector institutions. Participation rates in formal financial markets are below those in other Latin American countries of lower per capita income (e.g., Colombia, Peru). These are particularly low for both rural agriculture and non-agriculture enterprises, and very low for individual entrepreneurs and farmers, with household participation rates in the single digits for both savings and credit services.

4. The low level of formal financial services entails high transaction costs for the unbanked, particularly in areas relating to payments for utility services, remittances from abroad, cashing of checks by non-bank accounts holders (including transfer payments under government social programs, such as Procampo and Oportunidades), high interest rates on alternative credit, and low earnings on savings.

5. Almost 75% of Mexico City homeowners have borrowed funds for housing investment. Also, savings are maintained in informal avenues by a large proportion of both banked and unbanked segments. There is a demand for financial services with client-oriented features. Offer of such financial services from alternative sources such as Banco Azteca, providing unsecured loans at relatively high rates, and savings options with small deposit amounts at relatively low interest rates have been very successful.

6. Clearly, there is an underserved but bankable population, and poverty is not the only factor resulting in low levels of access to financial services. Supply side factors such as inadequate points-of-service network, inappropriate financial products, cumbersome procedural issues relating to opening of accounts, minimum balance required in the accounts, among others, are equally important constraints.

7. <u>Rural Financial Sector Structure.</u> The supply side of the sector is composed of three main distinct segments: commercial banks, development banks, and savings and credit institutions. The <u>*commercial banks*</u> offer banking products mostly for high-income clients, and savings products offered by almost all banks would result in loss in value to a middle/low-income client. The bank branch location has clustered around business and high- and medium-income residential areas. Deposit and lending activity have not been commensurate with the increase in assets. The reasons for such a scenario are understandable: target rural clientele is perceived to present special risks and challenges - informality, low capacity to generate bankable projects, lack of collateral, volatile income, low savings, high transaction costs - and servicing such clientele is perceived as risky and costly. Expansion and extension of financial services by this segment to the underserved urban and rural population is virtually non-existent.

8. A number of legal and regulatory reforms were initiated to improve the efficiency and transparency of <u>*development banks*</u>' operations, notably, to orient them toward developing rural financial markets, limiting their capacity to provide subsidies, taking them out of

deposit taking, and moving them toward a second-tier lending role. BANRURAL, the main rural and agriculture bank with first-tier lending is now liquidated, and FIRA, the second major player in rural and agriculture sector lending, is mainly a second-tier lender. Clearly, in terms of outreach and access to financial services, the impact of the development banking segment is limited, since it operates mainly through the branch network of the commercial banks, microcredit institutions, and the savings and credit institutions.

9. The *savings and credit institutions* (SCI) segment, mostly operating in the rural areas, has a comparative advantage in expanding outreach since it is widely dispersed: only a small number of entities have a national presence; the great majority of institutions have a local presence. The segment, however, consists of about 600 institutions; however, not all are authorized to mobilize savings; not all are regulated and supervised; and they have various legal forms (cooperatives and associations, credit unions, among others). The segment is also characterized by deficiencies in accounting, governance and self-regulation aspects.

10. Government Strategy to deepen access to financial services. The government launched a comprehensive strategy in 2001 that combined legal and regulatory reforms with a substantial public investment in creating and strengthening capacity of the SCI institutions and the regulatory agencies for supervision.

11. Two key reforms were initiated: (a) Popular Savings and Credit Law in April 2001 (which became effective on June 4, 2001); and (b) the creation in the same year of the Banco del Ahorro Nacional y Servicios Financieros (BANSEFI), as legal successor of the Patronato del Ahorro Nacional, and with an enhanced development role vis à vis the SCI sector, acting as the nodal bank to channel and coordinate government assistance for sector strengthening. The Comisión Nacional Bancaria y de Valores (CNBV), already the regulator for banks and capital markets, became the sole regulatory and supervisory authority for the SCI entities, having the responsibility for issuing all regulations associated with the new law.

12. Initially, the new law required that after a period of two years from the date of its effectiveness, only those institutions which are able to demonstrate their financial viability, which subject themselves to regulation and supervision and which purchase private deposit insurance will be authorized to remain in operation. This deadline was revised thrice, and now allows the institutions to get certified by December 31, 2008, and incorporates a scheme of progressive disincentives for institutions getting certified from January 1, 2009 onwards. Financially viable entities below the certification threshold of US$2.5 million in assets can continue to operate legally, but in a highly restricted manner.

13. Left to themselves, under the new Law, a very large number of SCIs would probably not have met the requirements for certification, and would have had to be liquidated or continue to operate in a highly restricted manner. Offering technical assistance to the sector entities to prepare them for certification was critical to maintain a reasonably robust sector size, which is crucial to achieve the objective of deeper penetration and a wider access to financial services. It was also believed that a technology platform could support the institutions to reduce transaction costs, offer new financial products, adapt to management, accounting, and regulatory reporting requirements easily, and develop a strong networked of rural financial sector.

14. The Secretariat of Agriculture, Livestock, Rural Development, Fishing and Food (SAGARPA), in order to increase the presence of reliable financial intermediaries in rural areas as an essential base for a healthy development of savings and other microfinance activities, wanted to complement the new law by assisting sustainable SCIs to deepen their penetration and outreach in the rural financial markets.

15. **Bank Assistance to Strengthen the SCI Sector.** Assistance to the savings and credit sector through BANSEFI in Mexico commenced in 2002, and consists of four Bank-financed projects introduced sequentially, and which are now being implemented in parallel. These four loans, representing government investment to strengthen the sector,

are focused on technical assistance for certification, developing and implementing a technology platform, technical assistance to deepen penetration and outreach, and M&E.

16. The inter-relationship between the loans is presented below and discussed in more detail in Attachment 1.

(A) Phase I Project: US$85.4 million With Bank assistance of US$64.6 million	(D) Savings and Rural Finance SAGARPA Additional Financing Loan: US$21.0 million to scale up SAGARPA component under Phase I project
(B) Phase II Project: US$159.7 million With Bank assistance of US$75.5 million	(C) Savings and Rural Finance BANSEFI Additional Financing Loan: US$29.0 million to finance cost escalation of Phase II project activities
	Proposed Additional Financing Loan: US$50 million to meet the financing gap relating to Phase II project activities

(A) <u>Phase I - Savings and Credit Sector Strengthening & Rural Microfinance Capacity Building Project - Loan 7132 (project cost: US$85.4 million; Bank financing: US$64.6 million) – Phase I</u>: This first project was in line with the proposed government strategy to reform the rural financial sector through a new Law introduced in June 2001, and consists of technical assistance and training to facilitate the achievement of the main objectives of the new Law focused on consolidating the sector, building regulatory capacity, and developing a pilot technology platform, all through BANSEFI. Another technical assistance component, managed by SAGARPA, aims to strengthen rural financial institutions in selected rural marginal areas to deepen outreach and penetration. The current closing date is February 28, 2011. At this stage, US$61.8 million has been disbursed, and only US$2.8 million remains in the loan account.

(B) <u>Phase II - Savings and Rural Finance (BANSEFI) Project – Loan 7240 (project cost: US$159.7 million; Bank financing: US$75.5 million)</u>: This second project was conceived based on the following twin objectives: (a) "refining and scaling-up" the pilot technology platform tested under the first project; and (b) addressing the challenges that the sector encountered during the implementation of both the new Law governing the sector and the prudential regulation that CNBV (regulatory agency) issued for this Law, as well as the Phase I project. This project became effective on December 9, 2004, and closes on July 31, 2009. At this stage, US$74.5 million has been disbursed, and only US$0.6 million remains in the loan account.

(C) <u>Savings and Rural Finance (BANSEFI) Additional Financing Loan – Loan 7438 (project cost: US$34.8 million; Bank financing: US$29.0 million)</u>: The Phase II project experienced a cost overrun, predominantly in the technology platform refining and scaling-up component. Since this is Mexico's own home-grown solution to the information technology needs of the rural financial sector, it has had to address many undefined "firsts". This Additional loan finances this cost escalation. The project became effective on March 27, 2007, and runs concurrently with the Phase II project, closing on July 31, 2009. At this stage, US$22.6 million has been disbursed, and only US$6.3 million remains in the loan account.

(D) <u>Savings and Rural Finance SAGARPA Additional Financing Loan – Loan 7500 (project cost: US$60.2 million; Bank financing: US$21.0 million)</u>: The SAGARPA component of the Phase I project, which aimed at promoting secure and sustainable financial services in selected rural marginal areas, through specialized technical assistance and training, was completed in December 2007. This additional loan provides funding to scale up the SAGARPA component to the other marginal areas in rural Mexico. The SAGARPA operation is the first stage additional financing proposed by the Government of Mexico in September 2007, and was approved on January 17, 2008. No withdrawal applications have yet been received although initial consultant payments have already been made. It closes on February 28, 2011.

17. Both BANSEFI and SAGARPA activities were proposed for additional financing by the respective implementing agencies in September 2007. However, since the assistance was required at two different points in time, a "two-stage" approach for Bank support was adopted, with the scale-up of the SAGARPA component starting December 1, 2007 ((D) above). This project responds to the second stage additional financing loan request which would meet the financing gap relating to BANSEFI component activities under Phase II project for an additional three years. The closing dates of this Additional Financing loan, and those of the Phase II project ((B) above) and the Additional Financing loan ((C) above), would all be extended up to July 31, 2012.

18. **Details of the Phase II Project.** The Loan Agreement in the amount of US$75.5 million was signed on October 1, 2004, and became effective on December 9, 2004. On March 21, 2007, the Bank approved an additional financing loan of US$29.0 million to finance a cost overrun in some of the original project-financed activities, without any extension of the original closing date, which remained unchanged at July 31, 2009. Ninety-three percent of the combined loan proceeds of US$104.5 million have already been disbursed.

19. Project Development Objective (PDO). The PDO of the Phase II project as indicated in the original Loan Agreement is as follows: "To assist the Borrower in strengthening the Savings and Credit Institutions sector with institutions which are compliant with the Popular Savings and Credit Law, financially viable, operationally effective, managerially sound, and technologically upgraded, and providing an enhanced level of outreach and access to financial services by the underserved Mexican populations".

20. The Phase II project has four key components to achieve the PDO: (a) Providing technical assistance and training to institutions to ready them for certification under the Law, including their overall financial, operational and managerial upgrade; (b) Developing a technology platform to augment incomes, reduce transaction costs, deepen outreach and access to financial services; (c) Disseminating information to market the financial products offered by the rejuvenated sector institutions; and (d) Project management.

21. The project development objective, design and scope continue to be relevant, and remain unaltered for the purposes of the Additional Financing Loan.

22. Assessment of Overall Project Performance. The project is 12 months away from its closing date. The activities carried out and the outcome indicators recorded in the March 2008 ISR show that project implementation has thus far been satisfactory and consistent with the expectations set out in the Project Appraisal Document, that the activities are clearly focused on achieving the PDO, and that the PDO continues to remain relevant and within project reach.

23. Sixty-nine institutions have been certified; requests for three institutions are with CNBV, the regulatory agency. These 69 entities account for close to 50% of the sector membership and assets. An additional 266 entities are almost ready for certification, having been classified as B+ and B entities. Together, these 335 entities expected to be certified by December 2010 account for 90% of the sector membership and assets. The development and pre-production work on the technology platform has been completed. Its roll-out is being undertaken under this project: it is already operational in 26 entities (several of which are already certified by CNBV), providing support to a private debit card agency, and is being used by all 524 BANSEFI branches. An additional 12 entities are in a transitional planning mode. Attachment 2 provides the project achievements relating to the key performance indicators.

24. The project team is satisfied with the implementation performance of the project, including compliance with the loan covenants. Several indicators support the team's determination:

(a) The ISR ratings over the most recent twelve months, including those for overall implementation progress (IP) and its constituents, project components, and project development objectives (DO) have been consistently "Satisfactory" or higher.
(b) As of July 11, 2008, US$97 million or 93% of the combined loan proceeds of US$104.5 million have already been disbursed, well ahead of the disbursement projections at appraisal.
(c) The project has had no fiduciary (financial or procurement) issues.
(d) The project is categorized "C" from the environmental viewpoint, requiring no assessment of environmental impacts or preparation of an environmental management plan.
(e) OP 4.10 (Indigenous Peoples) is the only safeguard policy that is triggered. The project is in compliance with this requirement. Simplified IPDPs have been prepared for the seven identified marginal regions, and are an input into the Social Development Model (SDM) which uses consultations with identified groups to ascertain their perceptions on savings, credit, and mechanisms to improve their participation in the project. The output of this SDM is to be used by the technical assistance consultants to formulate appropriate strategy for those institutions that are ready for certification and need assistance specifically to deepen outreach and widen access to financial services. Implementation of this sub-component, however, has yet to be initiated at the institution level due the delays in the certification process.
(f) All legal covenants, including the two key covenants impacting on project implementation, one which requires BANSEFI to monitor the performance of technical service providers, and the second to maintain a project management team with appropriate skills-mix, are in full compliance.

25. **Causes of the Financing Gap and Project Components.** Activities under all project components, which are crucial to the achievement of PDO, are expected to experience a financing gap, and also require an extension of the original project closing date to July 31, 2012 to be completed. Some activities under the Technical Assistance for Sector Consolidation component could well be characterized as scaling-up resulting from amendments to the sector Law and the deep and longer term changes expected to be achieved in the sector. However, over 75% of the incremental project cost is attributed to cost overrun. The main causes of the financing gap and implications for the project components are summarized in Attachment 3, and provided below.

26. Component 1: Technical Assistance for Sector Consolidation: US$25.0 million (Bank share: US$11.0 million). Recent amendments to the Law increased the threshold for compulsory certification: only entities with assets more than UDI 6.5 million or US$2.5 million equivalent need to be certified. Close to 250 entities fall below this threshold. These entities do not have to be certified, in which case they will operate as 4 BIS entities which has significant limitations: no access to lines of credit from development banks, no distribution of funds under government programs, no access to debit or credit cards or checking facility, no involvement in remittance receipts or other foreign exchange transactions, no issuance or negotiation of letters of credit, and no operation through ATMs, among other activities. About 108 entities are registered as 4 BIS entities, including 40 entities, earlier operating outside the law, have sought "limited" technical assistance to improve the management of their operations. Some of these smaller entities may also require assistance to merge/fuse them with other stronger entities.

27. A second change relates to the extension in the deadline for entity certification from December 2008 to December 2012 with incentives for early certification. Entities above the asset threshold which do not get certified by December 2008 cannot: (a) engage in activities other than those based on their operational classification for the next two years; (b) expand their portfolio more than 20% annually; nor (c) open up new branches. Should they get delayed beyond December 2010, in addition to the above restrictions, they

will have to operate only as 4 BIS entities. It is expected that these restrictions, including a limitation on the activities permitted under 4 BIS classification, would provide adequate incentive for all sectoral entities, including those below the threshold asset level, to get expeditiously certified.

28. As a result of the above changes, this project provides: (a) full scale TA and training for an additional 25 entities which have expressed a desire to enter the program for certification, starting July-August 2008 and up to December 2010; (b) TA for "limited" oversight support of about one man-month of TA to the entities already under the project over a two year period (up to December 2010 as required by law); (c) about 110 4 BIS entities with TA for either limited management improvement or with mergers and fusions; (d) limited TA to select intermediaries to transform them into savings and credit institutions; (e) training and support for strengthening federations to continue to provide supervision and value-added services to their member entities; (f) certification-related services such as accounting migration, auditing, and valuation of assets; and (g) support for M&E and sector-related studies. This final round of technical assistance is critical to the consolidation, regulation, and overall enhancement of the quality of entity performance in the sector.

29. Component 2: Commercial Roll-out of the Technology Platform: US$65.0 million (Bank share: 31.87 million). The technology platform is operational with a high level of reliability in 26 entities, one private debit card company and all 524 BANSEFI branches. The core banking module, the debit card module, and the regulatory and management reporting module have all been in production in these different types of entities. From a functional perspective, the platform is now stable and capable of offering a diverse range of services to the clients.

30. While the platform has already started to generate revenues through charge-out rates to client entities, these would not be adequate to cover the operating costs during the transition phase due to the delayed entry of the entities resulting partly from the extension in deadline for certification, and partly from the longer than expected time required for the platform to reach the production stage. Under a conservative scenario, based on a Business Plan study by an external consultant, the platform is expected to become financially sustainable during FY 2012. The gap between the projected operating expenses and revenues during this transition period will be financed under this project.

31. Linked with the objective of nationally rolling out the platform, there is a need to move from the development and "pre-production" activities to the next generation of activities, namely: (a) marketing the platform to an additional 110 entities by sharing the data migration cost with the core banking clients (20% to be provided by the entities), and to 35 non-core banking clients for electronic payment services; (b) installing the platform in client entities; (c) maintaining and regularly upgrading the applications package; (d) obtaining systemic efficiencies to reduce operating costs and internal controls; and (e) migrating to a service-oriented architecture to introduce other functionalities such as internet-based electronic banking.

32. Component 3: Information Dissemination and Communication: US$11.5 million (Bank share: US$5.0 million). The additional loan will focus on introducing entity membership to the benefits of savings and deposits, financial products available, and other banking services that could be used. It will market the benefits emanating from the technology platform to the federations and the client entities to get them to subscribe to the platform. A BANSEFI-initiated sector newsletter is also proposed to disseminate information about developments in the sector, including making use of the BANSEFI website, DVDs, and web-based services, where possible.

33. Component 4: Project Management: US$4.0 million (Bank share: US$2.0 million). This amount is required to finance costs relating to project management staff within BANSEFI to monitor project during the extended period, up to July 31, 2012.

III Proposed Changes

34. Project DO, Design and/or Scope. No change in the original project development objective or in the project description is proposed.

35. Project duration, execution and oversight. The Additional Loan will be disbursed concurrently with the parent project loan, and the closing dates for the loans will be extended from July 31, 2009 to July 31, 2012. BANSEFI will continue to be the executing agency for the project, and oversight will be provided through the same Core Team, already created and operational under the project.

36. Project Costs and Financing Plan. The original project cost was about US$160.0 million. The cost escalation of US$34.8 million is being financed out of the first additional financing loan. With the proposed additional financing project, the total project cost would be about US$300 million, with Bank funding of about 52% (US$154.5 million). The revised project costs are provided below to indicate the original project costs and those being financed through the additional loans.

Project Components	Original Project (US$M)	First Additional Financing Project (US$M)	Proposed Additional Financing Project (US$M)	Total Revised Project (US$M)
Strengthening Sector Institutions	13.00	6.70	25.00	44.70
Developing a Technology Platform	136.90	26.20	65.00	228.10
Information Dissemination	7.50	1.40	11.50	20.40
Project Management	1.90	0.50	4.00	6.40
Total Project Components	159.30	34.80	105.50	299.60
Front-end Fee	0.75	0.00	0.13 Note	0.88
TOTAL PROJECT	160.05	34.80	105.63	300.48

Note: The exact amount of the FEF is US$125,000.

37. The revised financing plan would be as follows:

Source:	Original Project (US$M)	First Additional Financing Project (US$M)	Proposed Additional Financing Project (US$M)	Total Revised Project (US$M)
Borrower (United Mexican States)	14.69	5.80	53.63	74.12
IBRD	75.50	29.00	50.00 Note	154.50
Participating Entities	69.86	0.00	2.00	71.86
TOTAL PROJECT	160.05	34.80	105.63	300.48

Note: The additional loan of US$50.0 million will meet US$49.875 million of the financing gap, and the front-end fee of US$125,000.

38. Project Implementation and Management. Activities proposed to be funded through the Additional Loan will be implemented through consultants and hardware/software service providers, and managed/coordinated through appropriate departmental teams within BANSEFI. Procurement and financial management, including accounting, disbursement, financial reporting, and auditing will continue to be the responsibility of the department of International Finance, under the overall guidance of the Institutional Banking Director.

39. Accounting and Financial Management Arrangements. The World Bank financial management team has supervised the project implemented by BANSEFI. This supervision work involved ensuring that the arrangements allow for an appropriate level of transparency that facilitates oversight and control, while also supporting smooth implementation.

40. The Bank has been receiving satisfactory audit reports for the project. The auditors' opinions have been "unqualified" and no major issues have been identified.

41. Based on the February 2008 supervision work which included a risk review, and an evaluation of the institutional capacity and the performance of BANSEFI for the projects currently under implementation, a "Satisfactory (S)"[1] rating has been provided for project performance and the overall FM-related risk for the additional financing is rated as Moderate (M). A summary of the FM arrangements is provided below.

(a) *Implementing entity and capacity.* The project team within BANSEFI will continue to be responsible for the project's fiduciary aspects including accounting, FM reporting, internal control and funds flow;
(b) *Flow of funds and Disbursement.* The project will continue to use the existing arrangements for the flow of funds and disbursements, which are already in effect for the projects currently under implementation. The funds for projects, which are allocated to process payments to suppliers of goods or services, are 100% pre-financed by the national treasury (TESOFE). These budgeting arrangements are embedded in BANSEFI's standard budgetary procedures, including formulation, monitoring and control. The Disbursement Letter, however, provides the flexibility of opening a US$ Designated Account into which Bank advances would be made for project expenditures. In such case, the project could use both disbursement methods: reimbursement and advances to a US$ Designated Account;
(c) *Accounting and Internal Control.* All policies and procedures related to flow of funds and disbursement comply with Bank standards. Financial statements will continue to be prepared using cash basis, and project funds will be processed through the financial system in place at BANSEFI, supported by documentary evidence for related goods and consulting services;
(d) *FM section of the Operational Manual.* The existing FM section of the Operational Manual has been updated to incorporate these recent agreements;
(e) *External Audit.* The project Designated Account, Statement of Expenditures and Financial Statements (and accounts) will continue to be audited annually by auditors acceptable to the Bank. Audits carried out by the Secretariat of Public Function through BANSEFI's Internal Control Unit are considered acceptable;
(f) *Bank Supervision.* The Bank will carry out at least one supervision mission per year. At the end of each mission a FM rating for the Implementation Status and Results (ISR) will be recommended to the TTL, and the FM-related risk will be updated and documented (an action plan will be agreed as needed); and
(g) *Retroactive Funding.* An amount of US$5 million has been provided for eligible expenditures incurred for project activities after January 1, 2008.

42. Procurement Arrangements. An ex-post review of procurement activities relating to the project was completed in October 2007. The ex-post review conclusions indicated that BANSEFI's procurement team is well-prepared and has enhanced their experience and understanding of procurement-related issues. The procurement system installed by BANSEFI allows satisfactory monitoring, reporting, and record keeping of transactions.

43. For the purposes of activities relating to the Additional Financing loan, it was concluded that: (a) the existing procurement staffing arrangement and capacity is adequate; and (b) the existing procurement system is acceptable. All contracts under the project will

[1] Satisfactory – This rating indicates that minor shortcomings in financial management exist but (a) do not prevent timely and reliable provision of information required to manage and monitor the implementation of the project.

be subject to the 2004 Procurement and Consultants Guidelines as revised in 2006. A procurement plan is already being prepared for the activities to be financed through the Additional Loan.

44. Safeguards Policies. The original project is categorized "C" from the environmental viewpoint, requiring no assessment of environmental impacts or preparation of an environmental management plan. Since no changes to the project activities are proposed, the initial "C" environmental category of the project remains unaltered.

45. OP 4.10 (Indigenous Peoples) is the only safeguard policy that is triggered in the original project, and relates to the preparation of outreach and access strategy for entities with IP membership. No change to this initiative is proposed under the Additional Loan and the ISDS for the original project remains unchanged. Simplified IPDPs (already prepared and disclosed under the original project) and the Social Development Model are to be used to formulate appropriate strategy for institutions that are ready for certification. The focus of the original project until now has been on getting entities certified. Activities under this sub-component will be undertaken possibly starting January 2009.

IV. Consistency with Country Partnership Strategy (CPS)

46. The Additional Loan will meet the financing gap relating to existing project activities. The proposed AF project operation is strategically aligned with the CPS (Report 42846-MX, dated March 4, 2008) which clearly identifies inadequate access to financial services as one of several impediments to improving competitiveness, and includes rural and financial sector development initiatives under the second pillar of "Economic competitiveness and Generation of Jobs" in its National development Plan. The project also complements IFC's initiatives in broadening and deepening the financial sector by extending rural financial services to the lower income levels of the population. This project is part of the Bank's "transition program" agreed with the government for FY09, which serves as a bridge from the previous business model (focused mainly on investment lending) to the new business model (focused mostly on advisory services).

V. Financial and Economic Analysis of the Financing Gap

47. **Financial Analysis.** This was carried out for the original loan, focusing specifically on the technology platform investment, at three levels: (a) SCI entity and BANSEFI branch level; (b) BANSEFI IT Business Unit level; and (c) the project level. These constituted the more quantifiable and monetary benefits of the project interventions.

48. The financial analysis was reviewed to ascertain if the project remained financially viable with the additional cost proposed for the technology platform to attain financial sustainability. To be conservative, the analysis includes: (a) cost relating to the development of the limited IT pilot under the BANSEFI Phase I project (US$25 million); (b) cost relating to transforming the platform into an integrated full-service platform under the BANSEFI Phase II project (US$65 million); (c) cost incurred under the first Additional Financing Loan (US$26 million); and (d) operational expenses (US$56 million) proposed under this project to achieve financial viability in 2012. The results of the revised financial analyses are presented below.

49. Implications on the incremental cash flows of the SCI entities and BANSEFI branches. This analysis compares the expected impact on the financial performance of entities "with the revised project" and "without" it. The ***incremental net cash flow*** to the SCIs and BANSEFI branches resulting from the technology platform, both through cost reduction and additional income, is estimated at US$500.8 million over the 12-year period, from 2008 through 2020, clearly demonstrating the benefit of the technology platform.

50. Implications for the BANSEFI IT Business Unit. The net cash flows for the BANSEFI IT Business Unit are rather modest due to the initial market-development type pricing adopted by BANSEFI. A competitive pricing strategy has been proposed to help attract more entities which will help the platform operate at more cost-effective levels.

The analysis indicates that the BANSEFI Business Unit will generate a surplus of about US$36.5 million up to, and including, 2020, and becomes self-financing from FY2012 onwards.

51. Implications at the project level. Financial analysis based on the all costs relating to technology intervention investment under the Phase I and Phase II projects, the first Additional Financing Loan, and the proposed additional loan was carried out comparing the ***incremental net cash flow*** from the SCI sector (including BANSEFI branches) and the BANSEFI IT Business Unit with the aggregate investment on the platform. The outcomes are as follows:

	With Revised Project
Incremental Cash flows from SCIs/BANSEFI branches	US$500.8 M
Incremental Cash Flows from BANSEFI Business Unit	US$36.5 M
Investment on the Tech Platform under this project (Phase I, Phase II, the first Additional Financing Loan, and the proposed Additional Financing Loan)	US$94.8 M
Aggregate Incremental Cash Flow	US$442.5 M
NPV of Aggregate Incremental Cash Flow at 12% discount rate	US$32.4 M
IRR	17%

52. The above financial analysis is a conservative projection (using full cost of the IT platform incurred under all BANSEFI projects) in the improvement of sectoral financial performance, and does not consider benefits from management and portfolio quality improvement, income from other technology-related products, among others.

53. **Fiscal Impact.** The principal fiscal effects on government resources are associated with the sector upgrade, and will now consist of: (a) the one-time investment of about US$365 million by the government (US$137 million under Phase I project with the additional loan for the scale-up of the SAGARPA component, and US$228 million under the Phase II project, with the two additional loans) coordinated through BANSEFI; and (b) costs associated with liquidation of unviable entities.

54. Investment to upgrade the sector. All activities under the project are expected to be self-financing over time, and will require no government subsidies after project implementation. The operating costs of the technology platform will be paid by the users after a start-up period (commencing FY2008). BANSEFI is already recovering a fee-for-service through a pricing mechanism based on a hybrid terminal/transaction formula. It will be responsible for the continuous upgrade in the platform to be responsive to the client needs through the proposed cost recovery mechanism. The financial benefits accruing from the technology platform provide a strong incentive to the entities to sustain it well beyond the project period.

55. Costs associated with liquidation of unviable entities. Payments will have to be made to depositors of SCIs which are not viable and need to be liquidated. The Bank will ***not finance*** the bailout, and the government has made the necessary arrangements to ensure that the required funds are made available. Government estimates are that total liabilities of the institutions which may need to be liquidated are of the order of some US$330 million (or about 0.06 percent of GDP). The actual cost to Government will depend on the guarantees held by the institutions, including blocked savings which are customary in SCIs, a figure which is not yet available. The project provides an opportunity to the government to allocate limited resources for SCI sector upgrade in a program-based approach and represents a fiscal management benefit of the project.

56. **Economic Analysis.** In addition to the financial benefits at the sector level from the technology investment, and the fiscal benefits at the government level, there are a range of other benefits which will emanate from the technical assistance program. Due to the special difficulties that technical assistance interventions convey for quantitative analysis,

expected economic impacts are assessed on a qualitative basis at two levels: (a) institutions (including SCIs and their organizations); and (b) clients.

57. At the institutional level, the key economic benefits consist of the emergence of a solid, financially sustainable, operationally efficient, consolidated, legally compliant, and an effectively regulated SCI sector, as follows:

(a) about 340 institutions estimated to emerge from the consolidation process will have a more intensive branch network, will be financially viable, fully strengthened and restructured as needed to be compliant with the new law. Consolidation will also yield scale economies with a larger number of clients per consolidated entity;
(b) about 100 entities below the certification threshold are expected to benefit for management improvement initiatives;
(c) there will be huge efficiency gains emanating from the technology platform cost reduction and income generation outcomes, and from the management improvement resulting from better reporting, governance, and high quality auxiliary supervision;
(d) depositor confidence will be strengthened with the establishment of a Deposit Protection Fund, and the supervision process by the federations and CNBV will become more cost-effective with improved accounting and reporting due to technology intervention at the entity level; and
(e) L@Red de la Gente, which is the commercial alliance among BANSEFI and SCIs, will become the first financial services branch network in terms of municipal presence, and will be the main agent for distribution of government aid.

58. At the client level, the key economic benefits consist of deepening outreach, reducing transaction costs, and economic empowerment of the sector clients, as follows:

(a) the number of clients of the SCI sector was expected to increase from 4 million in 2003 million to 9 million in 2008. This will most likely increase to about 12 million by the revised closing date. Conservatively, access to financial services will have increased from about 10% of the 40 million economically active population to about 15% by project-end. Also, since a large increase in the membership/accounts is expected to be recipients of government transfer payments, and a large proportion of this group is poor, expansion of the SCI sector will most likely draw large numbers from the low-income segment of the population into the banking sector;
(b) reduction in the transaction costs relating to government transfer payments, remittances, and payments for utilities and other services. Recipients without a bank account have to pay sizeable commissions to cash the transfers/ remittances. Maintaining accounts as a result of the transfer programs will also help in building credit history, making it easier for clients to access loans; and
(c) access to financial services as a means of integrating poor households into the national economy is clearly a poverty-alleviation tool. This is particularly pertinent for the population in rural marginal areas. Transforming informal, non-earning financial assets, and monetizing even a fraction of the savings held in physical form would have clear benefits in terms of safety and return, and financial empowerment, making these groups less vulnerable to economic shocks.

VI. Expected Outcomes

59. The Additional Loan will meet the financing gap relating to existing project activities. No changes are proposed that would alter the nature of the project's expected outcomes or outputs. A summary of the key expected outcome and output is provided below:

	Original Project	First Additional Financing	Proposed Additional Financing	Total Revised Project
OUTCOME				
Entities certified by CNBV (regulatory agency)	200 entities	140 entities through TA contract extension	25 additional entities	365 entities
Entities using the IT platform to generate cost savings and incremental income	100 entities	No change	40 entities	140 entities
Percentage of the participating entities with satisfactory auxiliary supervision results	90%	No change	No change	90%
Sector membership (including BANSEFI clients) increased from 4 million to:	9 million	No change	12 million	12 million
OUTPUTS				
Technical Assistance for Sector Consolidation				
Assistance to entities already receiving TA under the Phase I project	150 (increased to cover all 375 Phase I project entities) entities	No change	No change	375 entities with full-scale TA
TA for additional entities willing to operate under the Law	45 entities	No change	25 entities with full-scale TA; 110 entities with limited scope TA	70 entities with full-scale TA, and 110 entities with limited scope TA
TA for advanced entities to go "beyond" certification	40 entities	No change	No change	40 entities
Merger/Liquidation TA for entities	20 entities	No change	No change	20 entities
Assistance with establishment of Deposit Protection Fund	One	No change	No change	One
Developing and Implementing a Technology Platform				
Develop applications software for an integrated IT platform	Integrated applications package	No change	No change	No change
Finance operational services during the development period up till platform reaches financial sustainability (hardware leasing, connectivity, data center services, and license fees)	Up to 2009	No change	Extend the period from 2010- 2012 to attain financial sustainability	Finance operational services till 2012 to achieve financial sustainability
M&E, Studies and Information Dissemination				
M&E of project components	Improve the size and credibility of household surveys	No change	No change	No change
Studies relating to new financial products, pricing of platform services, and sector issues;	Studies, as required	No change	No change	No change
Information dissemination	Communication campaign, as required	No change	Additional campaigns to market financial products and remittances network	No change

VII. Additional Benefits and Risks

60. There are two main benefits emanating from this additional loan. First, it will: (a) facilitate further sector consolidation by assisting an additional 25 entities willing to be certified, in case they qualify for certification assistance, adding to the potential supply side of the financial services sector; (b) attempt to upgrade the management and related aspects of about 110 4BIS entities which do not need to be certified but where such improvements could significantly enhance the overall integrity and performance of the rural financial sector; and (c) assist federations to provide value-added services to their member entities.

61. Second, financing the gap between the platform revenues and the operating expenditures till it achieves financial sustainability will be critical to the longer term viability of this initiative. The additional loan will also help to reduce the platform costs, improve its efficiency, and permit incorporation of a number of other financial products and functionalities such as electronic banking by moving towards a three-tier architecture.

62. No changes are proposed that would introduce any "additional" project-related or fiduciary and reputational risk that could jeopardize the achievement of the project's development objective.

VIII. Financial Terms and Conditions For The Additional Loan

63. The financial terms for the Additional Financing Loan are as follows:

(a) IBRD Flexible Loan with Fixed Spread, with a 15 year grace period;
(b) Front-end Fee (FEF) of US$125,000 on the Bank Loan: 0.25% of the US$50.00 million Additional Loan, to be financed out of the Loan Proceeds;
(c) A single bullet repayment of the entire loan amount on September 15, 2023.
(d) Conversion Options: Currency, Interest Rate and Caps/Collars, all to be financed out of the Loan Proceeds.

Attachment 1

INTER-RELATIONSHIP BETWEEN BANK-ASSISTED AND BANSEFI-MANAGED PROJECTS

	Component 1: TA for Sector Consolidation	**Component 2: Technology Platform**	**Component 3: Deepening Outreach through entities – implemented through SAGARPA**	**Component 4: M&E, Studies and Communication**
Phase I Project	Technical Assistance for about 300 entities to upgrade them for certification	Develop a pilot IT platform with limited functionalities	Technical Assistance to about 20 entities (with some 190 points of service) in seven rural marginal regions in Mexico to deepen penetration – focusing on new entities, existing entities through new branches and strengthening current branch network structure	M&E related to BANSEFI and SAGARPA components
Phase II Project	(a) Due to the homogeneity across sector entities, and a larger than expected C and D classified entities, need for prolonged technical assistance for about 150 entities; (b) An additional 45 entities requested technical assistance; (c) An additional 40 more advanced entities were expected to seek assistance to deepen penetration; and (d) Need to move to a key next generation reform – establishing a Deposit Protection Fund	(a) Discussions with entities indicated the need for a more integrated full-scale service providing platform to avoid parallel systems; and (b) Arrangements at BANSEFI required to roll out the platform nationally to those entities seeking this service	No assistance for the SAGARPA component	Limited assistance for M&E focused on gap-filling of house-hold surveys and campaigns relating to financial products, including remittances through L@red de la Gente
Phase II First Additional Financing Loan	Due to the extension in the deadline for certification, TA service providers were required to provide interim immediate evaluation for TA eligibility. This additional loan financed extension of TA assignments for all entities up to the certification deadline – December 31, 2008	The development of the full-scale service providing platform posed several technical problems resulting in cost overrun. This additional loan financed the cost escalation	No assistance for the SAGARPA component	No assistance for M&E. Limited support to market the financial products of the platform

Phase I SAGARPA Additional Financing Loan	No assistance for this component	No assistance for this component	Since the SAGARPA component produced very good results, the Government of Mexico wanted to scale up the SAGARPA component to other marginal rural regions of Mexico. This additional loan provides financing for an additional 59 entities and about 350 points of service	Assistance for M&E related to SAGARPA component
Proposed Phase II Second Additional Financing Loan	Due to amendments to the Law, the deadline for certification was extended up to December 31, 2012 but with a scheme of progressive disincentives for delayed certification. This additional loan finances: (a) continued limited technical assistance to about 375 entities already assisted under Phase I and II Projects; (b) technical assistance to an additional 30 entities seeking support for certification; (c) technical assistance to an additional 100 small entities below threshold to improve management performance and support mergers and liquidations where necessary	Due to the delayed development of the full-scale service providing platform, and due to the delayed certification resulting in less than the required entities seeking platform services, the July 2009 date for financial sustainability of the platform got extended to 2012. This additional loan finances the gap between the operating revenues and expenses until 2012.	No assistance for the SAGARPA component	Limited M&E relating to the BANSEFI components. However, providing a more intense focus on communication relating to remittances and sector-related aspects

Attachment 2

PROJECT ACHIEVEMENT AGAINST KEY PERFORMANCE INDICATORS

Indicators	Original Project (including the February 2007 AF loan)	Incremental Indicators with the proposed AF Loan
Component 1: Provide Technical Assistance to Strengthen Sector Institutions	(a) TA provided to 150 entities assisted under the Phase I project, and to 45 new entities. *Achievement:* Due to changes in the Law in 2005, the TA assignments for all entities participating in Phase I project had to be extended in time to December 2008. The additional 45 entities were also incorporated into the TA program, taking to total to about 375 entities. (b) Specific strategies developed to deepen penetration for about 40 entities ready for certification. *Achievement:* Due to delay in certification, this sub-component (which also involved specifically addressing Indigenous Peoples issues) has not been initiated. (c) At least one Deposit Protection Fund established. *Achievement:* Three Deposit Protection Funds have been established, two at the federation level and one at the Confederation level. (d) At least six training sessions in various subjects completed. *Achievement:* Close to 1,800 staff trained in aspects such as prevention of money laundering, operational risks, internal controls and governance.	(a) Continuance of TA (limited in scope and time, up to December 31, 2009) to the 375 entities already being assisted under the project (cost escalation); (b) TA for certification to an additional 25 entities entering the project for the first time: in-depth, and possibly for a two year period (scaling-up); and (c) TA to an additional about 100 4 BIS entities (to be determined during preparation) - small entities in terms of membership or assets: limited in scope to improving management practices and/or assistance with mergers (scaling-up)
Component 2: Develop and Operationalize a Fully Integrated Technology Platform	(a) Integrated technology platform developed (applications package, hardware, connectivity, and data center services), and operationalized in the six entities participation in the technology pilot *Achievement:* Technology platform developed and functional. (b) Platform rolled out nationally to those entities wanting to participate in it (requiring financing of operating costs during the transitional period	(a) Optimization of the platform to reduce costs and improve efficiency (cost escalation); and (b) Finance the deficit between revenues from the platform and the operating costs in the transitional period for the platform to achieve financial self-sufficiency, now expected in early FY2012 (cost escalation)

	between the development of the platform and its achieving financial self-sufficiency (originally expected in late FY2009). *Achievement:* Integrated platform operational in 26 entities, and all 524 BANSEI branches; one private debit cards company also using the platform. Twelve additional entities are in transitional planning mode.	
Component 3: M&E, Studies and Information Dissemination	(a) Household survey and household case studies completed. *Achievement:* Between this project and the Phase I project, four rounds of household surveys completed; case studies for BANSEFI and SAGARPA modules too completed. (b) Specific output/outcome-focused studies completed – TA, platform and training components. *Achievement:* An assessment of the TA component from the point of view of service provider performance review has been carried out. Training component has also been reviewed. The platform has just become operational. A review is planned soon. (c) Communication Campaign disseminating the benefits of the new Law and marketing the financial products undertaken. *Achievement:* Completed.	Continue with the Communication Campaign to market the platform to potential clients, and also market platform-related financial products, including remittances, and L@red de la Gente (cost escalation)

CAUSES OF COST OVERRUN AND IMPLICATIONS FOR PROJECT COMPONENTS
FEBRUARY 2007 FIRST ADDITIONAL FINANCING
AND PROPOSED ADDITIONAL FINANCING

Project Components	Original Project	February 2007 First Additional Financing	Proposed Additional Financing
Component 1: Provide Technical Assistance to Strengthen Sector Institutions	(a) Assistance to 150 entities already receiving TA under a separate project; (b) TA for an additional 45 entities willing to operate under the Law; (c) TA for advanced entities to deepen penetration in rural marginal areas; (d) Assistance with establishment of a Deposit Protection Fund; (e) Training of entity, federation and CNBV staff.	Due to changes in the Law, the certification deadline was extended to December 31, 2008. Entities were required to get an additional assessment done to qualify to remain in the TA program. BANSEFI is obligated under Law to offer TA to all entities desirous of operating under the Law. *Incremental funds required to: (a) carry out the additional assessments; and (b) finance the on-going TA assignments to cover the extended period up to December 31, 2008.*	More changes in the Law following recent elections. Certification deadline extended and a system of incentives incorporated for early certification. Threshold for certification also enhanced, with an option of voluntary certification for those below threshold. Final opportunity for TA to get certified and operate within the Law. *Incremental funds now required to: (a) provide limited TA up to December 31, 2009 to those entities already participating in the project; (b) provide limited focused TA to entities below the certification threshold to improve performance, or facilitate their merger with stronger entities to consolidate the sector; and (c) provide TA possibly over a two-year period to the final batch of about 25 entities willing to operate within the Law.*
Component 2: Develop and Operationalize a Fully Integrated Technology Platform	(a) Develop additional software application modules (internet banking, ERP and data warehousing) not a part of the original pilot initiated under a separate project, but necessary to bring in bigger entities to the platform; (b) Finance operational services during the development period (hardware leasing, connectivity, data center services, and license fees); (c) Manage the quality of the platform component through an expert external consulting firm; and (d) Strengthen BANSEFI IT to roll-out the platform nationally to those entities willing to embrace it.	Due to IT system complexity, the applications integrator (IBM) encountered problems to complete the development on time. Additional functional requirements were to be incorporated (multi-currency operation, debit card module, inter-institutional money transfers, etc.). To expedite the functioning of the platform, there was a shift from a three-tier architecture to a two-tier architecture with the introduction of a citrix servers layer. Need for additional main frame capacity and new functionality related equipment. *Incremental funds required to complete the development of the integrated platform and take it through pre-production to a state of readiness for roll-out.*	The platform is now fully functional and in operation in 26 entities, all 524 BANSEFI branches and a private debit card company. However, due to delay in the development of the platform, the number of entities buying into the platform did not come forth. This has delayed the platform reaching a state of financial sustainability. Although revenues are being generated, these are short of meeting the platform expenses until 2012 (break-even year for the platform). *Incremental funds now required to: (a) install the platform in entities willing to buy into the platform; (b) optimize the platform to minimize its operational cost; and (c) finance the operating deficit of the platform during the transitional period, up to FY2011.*

Component 3: M&E, Studies and Information Dissemination	(a) M&E of project components; (b) Studies relating to new financial products, pricing of platform services, and sector issues; and (c) Information dissemination	Marketing of some new financial products, including L@red for remittances from Mexican immigrants in US to their families in Mexico. *Incremental funds required for the above.*	Due to changes in the Law, there is a strong system of incentives for early certification (not necessarily known to the entity membership). Also there is a push towards a new Cooperative Law in Mexico which could provide an alternative registration mechanism to the new Law. There is a need for a forum which provides a balanced perspective on sectoral issues and developments. The communication will also focus on marketing the technology platform to potential sector clients. *Incremental funds now required to: (a) disseminate information about the benefits of certification even for "below threshold" entities, and other sectoral issues; (b) market the benefits and comparative cost advantage of using the BANSEFI-developed platform; (c) continue with the campaign on remittances; and (d) help L@Red de la Gente achieve a better market position.*