

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

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.

BANSEFI—strengthening the savings and credit sector

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 institutions advanced software and services—such as treasury management, funds compensation, and portfolio risk analysis—at lower costs.

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. 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.

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. As of December 31, 2003, L@Red de la Gente had distributed payments from these programs to more than 1.5 million 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 for the beneficiaries of *Oportunidades* as a new way to transfer the government subsidies through L@Red de la Gente. This has not only made *Oportunidades* more transparent, but has had the effect of bringing some of the poorest Mexican families into the financial system. As these 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, about 80 percent of the 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.

SAGARPA—reaching marginal rural areas

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, build the capacity of existing EACPs, and bridge the gaps 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 per year in interest if they borrow money.

To help remove these constraints, 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 savings and credit institutions operating in the marginal rural areas with technical assistance to develop their outreach capacity. It also provides professional technical assistance and limited start-up funding for different types of community organizations 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.

As of January 2004, PATMIR had strengthened and increased the outreach capacity of 41 savings and credit institutions in Chiapas, Huasteca, Guerrero, and Veracruz, providing more than 10,000 clients with access to financial services at new branches or institutions, and improving the financial institutions upon which nearly 24,000 people rely. These clients now have more secure savings and greater access to remittances and government transfers (via L@Red de la Gente). These financial institutions also offer credit funded by member savings.

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—women, youth, and the aged, as well) and their financial institutions, so that each understands its investment in the other.

In addition, PATMIR helps the EACPs to incorporate new ways of attracting and responding to marginalized clients—by hiring multi-lingual staff to promote their services and introducing personal digital assistants and mobile banking to make savings more convenient and attractive, for instance.

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. Much of this money 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 are developing the capacity to better manage and capitalize on they generate and receive from multiple sources..

Main lessons

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 programs' overall impact, 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, institutional 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.