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PROJECT PERFORMANCE ASSESSMENT REPORT

THE UNITED MEXICAN STATES

RURAL FINANCE DEVELOPMENT STRUCTURAL ADJUSTMENT LOAN (IBRD-73670)

January 29, 2014

IEG Public Sector Evaluation
Independent Evaluation Group

Currency Equivalents (annual averages)

Currency Unit = M$

2004	US$1.00	M$11.29
2005	US$1.00	M$10.90
2006	US$1.00	M$10.90

Bancomext	*Banco Nacional de Comercio Exterior* (National Bank for External Trade)
BANSEFI	*Banco del Ahorro Nacional y Servicios Financieros* (National Savings and Financial Services Bank)
CAS	Country Assistance Strategy
CNBV	National Banking and Securities Commission
DBs	Development Banks
FIRA	Agriculture Related Trust Fund
FR	Financiera Rural
FSAP	Financial Sector Assessment Program
ICR	Implementation Completion and Results report
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IEGPS	IEG Public Sector Evaluation
IPAB	"*Instituto para la Protección al Ahorro Bancario*" (Institute for the Protection of Banking Savings).
MPA	Matrix Policy Actions
NAFTA	North American Free Trade Agreement
NAFIN	Nacional Financiera
NPLs	Non Performing Loans
PPAR	Project Performance Assessment Report
PROCAMPO	*Programa de Apoyos Directos al Campo* (Federal government farm support programs)
PRONAFIDE	*Programa Nacional de Financiamiento del Desarrollo* (National Program to Finance Development)
RFI	Rural Finance Institution
SAGARPA	*Secretaría de Agricultura, Ganadería y Desarrollo Rural, Pesca y Alimentación* (Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food)
SHCP	*Secretaría de Hacienda y Credito Publico* (Secretariat of Finance and Credit)
SHF	*Sociedad Hipoticaria Federal* (Federal Mortgage Bank)
SMEs	Small and Medium Enterprises

Fiscal Year

Government: January 1 to December 31

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Contents

The preparation of this report was led by Manuel Hinds, who visited Mexico for assessing the project in March, 2012, with major subsequent contributions from Sushma Narain, who under took its finalization, in April, 2013. It was peer reviewed by Stephen F. Rasmussen and panel reviewed by Robert M. Lacey. Anjali Kumar led the overall project. Yezena Z. Yimer provided administrative support.

Tables

Figures

Principal Ratings

	ICR*	ICR Review*	PPAR
Outcome	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory
Risk to Development Outcome	Likely	Likely	Moderate
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory

* The Implementation Completion and Results (ICR) report is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEG product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

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IEG Mission: Improving World Bank Group development results through excellence in independent evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20-25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEG peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the borrower for review. IEG incorporates both Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: http://ieg.worldbankgroup.org).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Preface

This PPAR assesses the Mexico Rural Finance Development Structural Adjustment Loan, approved by the Board on May 16, 2003 and closed on December 19, 2005. It is part of a larger exercise that assesses the performance of several Bank operations aimed at helping in the provision of financial services to underserved sectors—primarily microenterprises but also, as in this case, rural enterprises. As part of this larger exercise, the document includes some considerations and assessments that normally are not contained in PPARS, mostly the evaluation of the performance of the project after the end of the Bank's involvement as well as the inclusion of evaluation criteria within a broader, more global perspective, than those normally used to assess specific projects.

The Independent Evaluation Group (IEG) prepared the report. It is based on the project completion and appraisal reports, the Development Credit and Loan Agreements, a review of Bank files, and discussions with beneficiaries, Bank staff, government officials, non-governmental organizations, institutions, banks, donors, and private sector managers. The cooperation and assistance of all stakeholders as well as the support of the World Bank Country Office in Mexico is gratefully acknowledged.

Following standard IEG procedures, a copy of the draft Project Performance Assessment Report (PPAR) was sent to the Borrower for comments. No comments received from the Borrower.

Summary

This PPAR assesses the Mexico Rural Finance Development Structural Adjustment Loan, approved by the Board on May 16, 2003 and closed on December 19, 2005. The operation had two objectives. The first was to support the liquidation of Banrural, a financial institution that for several decades had provided subsidized credit for agriculture, accumulating very large losses caused by extreme inefficiencies, low collection efforts and excessive administrative costs. The institution had been able to remain liquid in spite of its huge losses by attracting deposits through unsustainably high interest rates (which would not have allowed it to repay the loans in the future). The second was to help the Government put in its place Financiera Rural, which would not receive deposits or issue any debt, was to be totally financed with an endowment created by the government, should maintain the value of its capital endowment in real terms, report periodically to Congress, lend only to low and middle income rural producers, and move, over time, fully to second-tier lending. The Financial Sector Assessment Program (FSAP) mission that visited Mexico in 2001 had recommended these two actions in view of the negative effects of the large losses in the delivery of credit to the rural areas and in the macroeconomic situation of the country. In addition, the Project was designed to buttress several key development objectives of the Government of Mexico, namely: (a) reducing the fiscal drain of loss-making banks, (b) providing access to financial markets to groups not served by commercial banks, (c) providing prudent lending to the rural sector thereby stimulating output growth and employment generation, and (d) improving the financial performance of Financiera Rural as compared to Banrural in terms of outreach and market coverage, portfolio quality, yields, and financial efficiency.

The outcome of the project is rated highly satisfactory. The relevance of the objectives to Mexico’s rural finance development as well as to its macroeconomic stabilization efforts was substantial. The project was implemented as designed. Financiera Rural evolved into a solid financial institution, with accounts that transparently show the true costs of its operations. It has also accumulated substantial capital in terms of knowledge of the rural sector and a philosophy of development. While, through the years, it modified some of the features of its original design, these changes resulted in a performance more aligned with the broad objectives of the project.

The Bank’s performance is rated satisfactory. The quality at entry was highly satisfactory as the design drew from high levels of Analytical and Advisory Assistance and the FSAP report as well as lessons from previous operations. Bank supervision was also satisfactory; in addition to its implementation missions and candid reporting, the team maintained a proactive relation with the Secretariat of Finance and Public Credit and Financiera Rural during the supervision phase of the project.

Borrower performance is rated highly satisfactory. The Government showed a high degree of stakeholder commitment and ownership to the Project and met all implementation-related conditions in the Matrix Policy Actions in a timely fashion. Financiera Rural—the implementing agency—also fulfilled the expectations it raised at the time of its creation.

The assessment draws four lessons

- *High quality analytical work as well as strong borrower commitment is essential for the success of an adjustment operation involving policy and institutional reforms.* Part of the success of this project can be attributed to long-standing analytical work done by the Bank on Mexico's financial sector including rural finance. Also, the financial sector assessment done jointly by the Bank and the IMF in 2001 had a decisive impact on the government's approach to the development bank reform in Mexico and the selection of the business model for Financiera Rural.

- *The development agency model is a good option for transforming a state-owned financial institution, when full privatization is not feasible and there is a need to expand credit to underserved groups in a cost-efficient manner.* Many countries face the need to find a permanent solution to the inefficiency and recurrent losses caused by development banks, which require frequent and costly recapitalizations by the governments. The creation of development banks without a social mandate is not a solution because they would not be much different from a commercial bank. This operation presents a better solution i.e. to transform these banks into finance-oriented development agencies, such as Financiera Rural. The development agency promotes financial access for underserved sectors and market development through market-friendly instruments that do not distort market prices, nor discourage private sector activities, such as matching grants and subsidies that are financed by the government's budget. Their lending tends to be second-tier and funded out of their initial capital endowment or targeted budgetary appropriations, and not from deposits or other liabilities.

- *The strength of institutions depends on the quality of management and the adoption of appropriate procedures and practices.* In the case of Financiera Rural, the project showed that institutions, their business plans and management do matter, and that the effort spent on defining a Strategic Plan, establishing the appropriate procedures and practices, and in building up a management information system was worthwhile. Moreover, flexibility in institutional management is crucial to make changes in procedures and practices in response to changing circumstances and objectives.

- *Keeping the operation simple and concentrated on easily verifiable actions contributes to the success of adjustment operations.* The sharp focus of this operation on institutional building and financial discipline for Financiera Rural proved to be one of the operation's best aspects and contributed to the positive project outcome

Caroline Heider
Director-General
Evaluation

1. Background and Context

Introduction

1.1 This PPAR assesses the Mexico Rural Finance Development Structural Adjustment Loan, approved by the Board on May 16, 2003 and closed on December 19, 2005.

1.2 According to the Program Document, (Program Summary, pp. iv), the operation had two objectives. The first was to support the liquidation of Banrural, a financial institution that for several decades had provided subsidized credit for agriculture, accumulating very large losses. The second was to help the Government to put in its place Financiera Rural, a nonbanking decentralized institution aimed at promoting the development of rural financial markets while lending to small and medium sized rural producers, directly or via rural financial intermediaries. Financiera Rural was to be totally financed with an endowment created by the government, and was required to maintain the value of its capital endowment in real terms, report periodically to Congress, lend only to low and middle income rural producers, and move, over time, fully to second-tier lending. The Joint World Bank – International Monetary Fund Financial Sector Assessment Program (FSAP) mission that visited Mexico in 2001 had recommended these two actions.

1.3 In addition, the Project was designed to buttress several key development objectives of the Government of Mexico, namely: (a) reducing the fiscal drain of loss-making banks, (b) providing access to financial markets to groups not served by commercial banks, (c) providing prudent lending to the rural sector thereby stimulating output growth and employment generation, and (d) improving the financial performance of Financiera Rural as compared to Banrural in terms of outreach and market coverage, portfolio quality, yields, and financial efficiency

1.4 The operation was approved under the 2003 Country Assistance Strategy (CAS), which was organized around five strategic objectives: (a) consolidating a stable macroeconomic framework; (b) accelerating growth through competitiveness; (c) human capital development; (d) balancing growth and poverty reduction with environmental protection; and (e) building an efficient, transparent, and accountable government. By ending the operation of a loss-making institution, the Loan was fully consistent with consolidating a stable macroeconomic framework and by replacing it with an efficient institution that would develop a market for rural credit that was expected to accelerate growth through competitiveness.

The Economic Context

1.5 The economic context of Mexico at the time of the approval of the loan was largely framed by: (a) the stabilization of the economy after the 1994 Tequila Crisis[1]; (b) the growing interaction with the United States economy under the framework of the North American Free Trade Agreement (NAFTA) treaty; and (c) a process of domestic reforms that

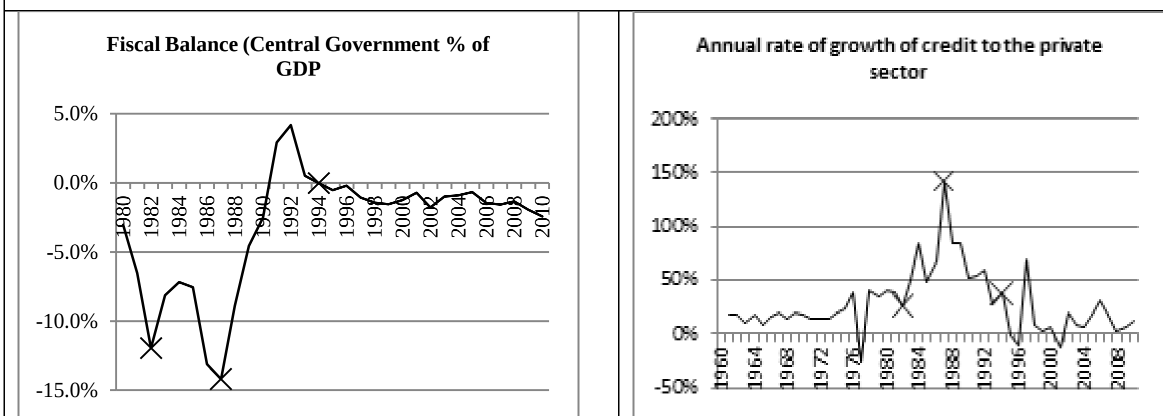
[1] The 1994 economic crisis in Mexico, widely known as the Mexican peso crisis or the Tequila crisis, was caused by the sudden devaluation of the Mexican peso in December 1994.

the Government launched to absorb the losses left by the crisis, to ensure that it would not be repeated and to accelerate growth, reduce poverty and strengthen the country's institutions.

1.6 Monetary and financial indiscipline had been a long-standing problem. The country experienced three serious macroeconomic crises between 1982 and 1994. As shown in the left-hand panel of Figure 1.1, the first two took place while Mexico was running very high fiscal deficits. However, at the time of the 1994-95 Tequila Crisis Mexico was fiscally balanced and had run fiscal surpluses in the previous three years. Thus, the common factor in the three crises was not high fiscal deficits but high average rates of credit growth, shown in the right-hand panel of the same figure.

1.7 After the 1994 crisis, the Government made a firm commitment to prevent its repetition. As shown in the right-hand panel of Figure 1.1, in the subsequent years the rate of growth of credit fell substantially. With one exception, 1997, credit grew at the lowest rates since the late 1970s while the fiscal deficit was held quite small relative to those of the previous twenty years.

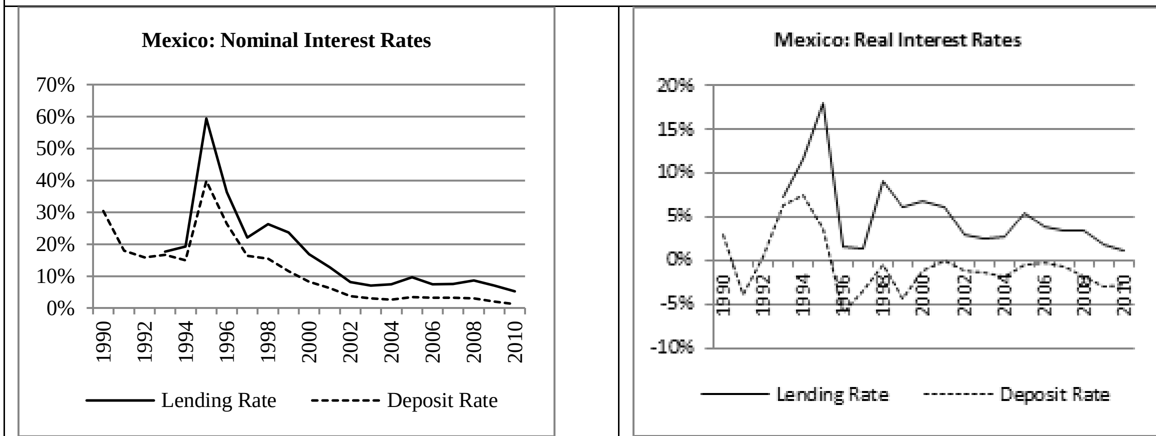
Figure 1.1. Fiscal Balance and Credit Growth



SOURCE: IFS and ECLAC for fiscal balances.

1.8 Monetary stability benefited the financial markets. Interest rates, which had increased in the immediate aftermath of the crisis, went down as the economy stabilized (Figure 1.2). By the time of the appraisal, nominal lending rates had gone below 10 percent while they were below 5 percent in real terms.

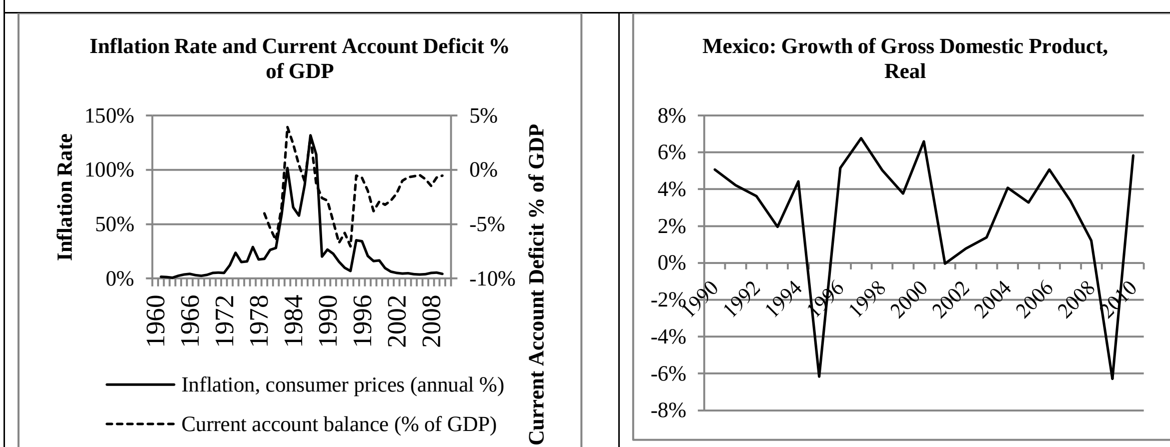
Figure 1.2. Mexico: Interest Rates 1990-2011



SOURCE: IFS.

1.9 As shown in the left-hand panel of Figure 1.3, the rate of inflation, which had shot up in the midst of the crisis, went down to single digits by 2000. Growth also improved. After a sharp contraction in 1995, the economy grew strongly, largely propelled by the increasing integration with the then booming United States economy and the increased macroeconomic stability. Yet, by 2000, the rate of growth contracted sharply in the midst of the 2000-01 United States recession. By 2003, Mexico was sluggishly recovering from that recession (see the right-hand panel of Figure 1.3).

Figure 1.3. Macroeconomic Equilibrium and GDP Growth



SOURCE: IFS and ECLAC for fiscal balances.

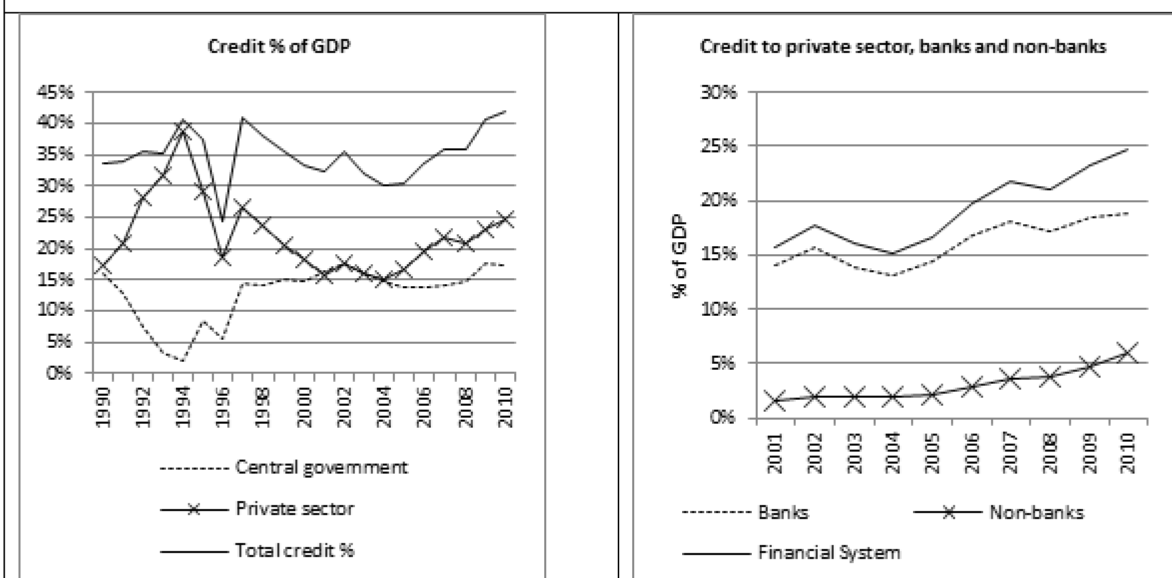
1.10 In spite of the increasing macroeconomic stability, unprecedented for at least two or three decades, the legacy of the crisis was still negatively affecting growth at the time of appraisal. The financial system generated a substantial fiscal burden through two main mechanisms: first, the large losses that the public sector banks had experienced before, during and after the Tequila Crisis, and, second, the losses incurred by the failed private banks as a result of the crisis itself. This seriously constrained the fiscal policies that the Government could apply.

1.11 At the same time, credit to the private sector went down from 40 percent of GDP in 1994 to 15 percent in 2002 (see the left hand panel of Figure 1.4) as a result of a reduction in total deposits as well as a rapid increase in credit to the public sector, which took place largely at the expense of credit to the private sector. This credit was needed to finance the losses that the financial sector was transferring to the Government.

1.12 The Government tried to compensate for the declining credit to the private sector by increasing the credit issued by the public sector banks. The share of these banks as a source of new credit to the private sector increased from 14.3 percent as of December 2000 to 20 percent as of December 2002. At the same time, as shown in the right hand panel of Figure 1.4, non-bank financial intermediaries were increasing their share of the market from one to 5 percent at the end of the decade. Yet, in spite of these developments, total credit to the private sector was still declining in 2002.

1.13 The low volume of credit negatively affected all sectors but with different intensities. Large corporations found financing in the United States, particularly those exporting to that country. Small and medium sized enterprises, however, found it extremely difficult to get credit and access to other financial services. The problem seemed to be worsening at the time of appraisal because the increasing losses of the public sector banks had become unsustainable, and their potential closure could further reduce access to credit.

Figure 1.4. Credit As a Percentage of GDP



SOURCE: IMF, IFS.

The Financial System

THE POST-CRISIS CONDITION

1.14 Mexican financial institutions emerged from the Tequila Crisis in a very weak condition. Non-performing loans (NPLs) remained high in their portfolios and their financial results reflected the major provisioning effort that they were forced to undertake. The Government-owned institutions were among the worst. While the profitability of private banks was low in 1997-2001, it was negative for public sector development banks. Among private domestic and foreign banks, net interest margins as a percentage of administrative expenses averaged above 100 percent, while among development banks they ranged between 22.8 percent in the worst of them (Banrural) to 69.8 percent in the best one (Bancomext).

1.15 Moreover, loan quality was improving in private banks but deteriorating in development banks. The ratio of NPLs to total loans in private banks fell from 11.3 percent at end-1997 to 4.3 percent at end-2001, while the coverage ratio of NPLs by loan-loss provisions rose from 109 percent to 213 percent. Banrural was the extreme case of deterioration, with 40 percent of its loan portfolio classified as non-performing by December 2001, while the coverage of reserves was a paltry 50 percent. Despite some restructuring efforts, Development banks remained far behind the private banks in all efficiency indicators. The poor performance of the development banks was attributable to bad pricing policies, to the free provision of non-financial services (e.g., training, technical assistance), and to sheer inefficiency.

1.16 Development banks' weaknesses posed two serious problems:

- First, their losses were putting unsustainable pressures on the country's fiscal situation, crowding out necessary social spending.
- Second, the Government feared that closing or restructuring development banks could complicate further the problem of lack of access to financial services. In addition to representing about a quarter of the total credit in the country, development banks were major providers of credit to some sectors, particularly to the agricultural sector and to underprivileged borrowers.
- Thus, at the time of appraisal, the government faced several pending tasks in the financial system: (a) to fully absorb the losses of the crisis; (b) to modernize the regulatory framework applicable to all banks, including prominently prudential regulations; (c) to reform the public sector financial institutions to improve their efficiency and their financial performance; and (d) to improve the access of the less privileged sectors, including agriculture and other rural activities, to credit and other financial services.

REFORMING THE BANKING SECTOR

1.17 In late 1999, the Government initiated a program of banking sector reforms to strengthen prudential regulations and address legal obstacles for the resolution of troubled banks.

1.18 The Government program involved actions in four dimensions: (i) legal reforms to improve incentives in the banking sector, including the phasing out of the universal deposit guarantee, the introduction of a limited coverage deposit guarantee, a new bankruptcy law and new secured transactions legislation; (ii) regulatory reforms to improve bank capitalization and financial soundness; (iii) creation in January 1999 of the Instituto para la Protección al Ahorro Bancario" (IPAB or in English, Institute for the Protection of Banking Savings, to assist with the recapitalization and resolution of insolvent banks affected by the 1994-1995 crisis; and (iv) allocation of budgetary resources to fund such recapitalization.

1.19 The Government program succeeded in enabling the return to solvency of major players in the banking sector, as well as in attracting foreign investors to buy them.

1.20 A consolidation process, which occurred through private mergers and acquisitions, as well as bank interventions by the National Commission of Banks and Securities and resolutions by IPAB, led to a reduction of the number of domestic-owned commercial banks from 33 in June 1994 to 11 in December 2001. All the largest banks under IPAB's purview had been sold, liquidated or merged by the time of appraisal. \

1.21 However, the problem concerning development banks was still pending.

REFORMING THE DEVELOPMENT BANKS

1.22 Most development banks were established in the late 1920s to promote foreign trade, the development of agriculture, and Small and Medium Enterprise (SMEs). Development Trust Funds , called ‘fideicomisos’ in Spanish, appeared in the 1950s to complement development banks’ activities as the public sector took a central role in funding key rural, industrial and infrastructure projects. Their share in the total assets of the banking system remained fairly constant around 30 percent at the turn of the 21st century, but their share of deposits increased from 13 to nearly 20 percent.

1.23 The National Program to Finance Development (PRONAFIDE) for 2002-2006 called for the modernization of development banks to help achieve the social and economic goals presented in the National Development Plan. These efforts focused on four areas:

- Legal and institutional reforms to promote and strengthen non-bank financial intermediaries and popular banking;
- Legal and regulatory reforms to improve the governance and accountability of development banks and subject them to the same regulation and supervision as commercial banks; and
- Promoting the operational efficiency and cost effectiveness of development banks and limiting the losses that they may cause to the Treasury.

1.24 The World Bank’s strategy aimed at supporting the government’s Bank Restructuring Program with a series of three transactional loans. The Bank Restructuring Facility Adjustment Loan (Ln 7004-ME) approved in December 1999 and the Second Bank Restructuring Facility Loan (Ln 7060-ME), approved in June 2001, supported the legal and regulatory reforms and the resolution of all the failed commercial banks that were in Government hands since the crisis of 1994/1995.

1.25 The Loan under review supported the liquidation of Banrural and the creation, in its place, of a Rural Finance Institution (RFI) that would operate more transparently and minimize potential fiscal costs. This was considered a very urgent task due to the large losses that Banrural generated to the nation in spite of numerous and costly recapitalizations.

Rural Credit

LIQUIDATING BANRURAL

1.26 Banrural was the main source of agricultural bank lending in Mexico, providing 41 percent of total bank lending to the sector in December 2001. It was created in 1975 through the merger of three development banks—Banco Nacional de Credito Agricola, Banco Nacional de Credito Ejidal, and Banco Nacional Agropecuario—of which two were financially weak. The Government structured the new institution as a system of 12 regional banks and one national bank. Each bank operated independently with its own management and Board. This structure was one of the sources of the institution's governance and financial problems.

1.27 The institution operated as a first-tier lender and took deposits from the general public, other banks, and trust funds. It got most of its funding from three second-tier public financial institutions: the Agriculture Related Trust Fund (FIRA), Banco Nacional de Comercio Exterior (Bancomext) and Nacional Financiera (Nafin). The relationship was closer with the Agriculture Related Trust Fund (FIRA). FIRA financed about one third of Banrural's loans, and allowed a 6 percent spread between the funds it lent to Banrural and Banrural's loans to other banks. On average during 1999-2002, twenty-five percent of FIRA's rediscounts were channeled through Banrural while the rest was channeled through commercial banks.

1.28 Approximately 40 percent of Banrural's loan portfolio was invested in loans to low-income farms and agribusinesses with gross revenues of up to 1,000 times the minimum wage. Eighty-eight percent of its customers were moderate to low income. As of May 2002, 53 percent of its loans in terms of amounts were to organizations of producers and the rest to individuals.

1.29 Banrural's record as a lender to agriculture was very poor. It was plagued with administrative inefficiency and political interference. Moreover, by providing subsidized loans and failing to recover them, Banrural had precluded the entry and active participation of private banks in agricultural finance. The fiscal cost of its operations was very high. Altogether, it received M$25.7 billion in fiscal assistance from 1995 to 2000. Nevertheless, it continued losing money at about M$200 million a month, ending 2002 with a capital deficiency of M$20.4 billion.

1.30 The weak financial situation of this institution was attributable to four recurrent problems: (i) the low quality of its credit portfolio, which had at least 40 percent in NPLs; (ii) the high costs of its staff pension and medical plans; (iii) its high operating costs; and (iv) the high costs of its deposits in both absolute terms (as a result of high branch administrative costs) and relative to loan rates. Banrural's management reckoned that only one dollar out of every four devoted to the recapitalizations ended up as a loan to the rural sector; that 34 percent of all non-interest expenses of Banrural were accounted for by payments to pensioners and retirees; and that 6 dollars in resources were needed to generate 1dollar in lending.

1.31 Given Banrural's extremely weak position, the 2001 Financial Sector Assessment Program (FSAP) recommended its closing. It also recommended replacing it with a new institution to be established under the model of development agency.

THE DEVELOPMENT AGENCY MODEL

1.32 Following the FSAP recommendation, the Government defined development agencies as institutions that would be funded directly through the budget, would not take deposits from, or issue debt to, the public. Their lending activities would be limited (over time in some cases) to second-tier lending through banks and non-bank financial institutions. Their capacity to provide subsidies was limited as well, making those that they did provide more targeted and transparent.

1.33 The FSAP devised this solution noting that development banks suffer from an inherent tension between their social policy mandate (i.e., to foster access to financial services for households and firms that are costlier and riskier to serve) and the objective of avoiding losses in their bank-like activities. The FSAP argued that the development agency model would overcome this tension by setting a strict limit to the funds that the public sector would be putting at risk, and by forcing, through the second-tier structure, the participation of third parties in credit decisions—preferably private institutions that would put their own capital at risk.

1.34 The government decided to act on this advice in the case of rural credit.

THE CREATION OF FINANCIERA RURAL

1.35 To replace Banrural, the Government would create Financiera Rural, as a non-banking decentralized institution in charge of promoting the development of rural financial markets while ensuring the efficient use of public resources. The new institution would report to the Secretariat for Public Credit of the Ministry of Finance.

1.36 Financiera Rural would have two main tasks:

- It would provide credit to low and middle income rural producers, for agriculture as well as rural off-farm activities, for working capital and equipment purchase, with different forms of guarantees, including signature loans, lines of credit and loans with mortgage and movable guarantees. It could also do factoring, leasing, open letters of credit and discount credit documents. Most of the Financiera Rural loans would be up to 700,000 Unidades de Inversión [2] , equivalent to about US$2.2 million. The Board could approve higher credit ceilings. Financiera Rural could participate as co-financier in loans which principal amount exceeds these limits.

- It would help in developing rural financial markets through several channels: (a) it would promote the creation and development of a system of first-tier private intermediaries; (b) it would stimulate the creation of instruments to reduce the risks to producers and intermediaries; (c) it would provide advice and training to rural financial intermediaries; (d) it would provide advice and training to producers to make them subject of institutional credit and of the new financial instruments, particularly rural; and (e) it would act as fiduciary in trusts funds linked to rural activities.

1.37 Financiera Rural's initial capital endowment would comprise the good assets of Banrural plus a one-time budgetary allocation for lending and initial set-up costs. The new institution would have to preserve this capital. This meant that to sustain its lending operations, Financiera Rural would have to adequately collect on the loans, or ask for additional budgetary appropriations to restore its initial capital endowment in real terms. This should create strong incentives for its management to maintain sound lending policies. Its developmental activities (subsidies, guarantees, technical assistance, etc.) to develop rural financial markets, would be funded directly through the budget. Under this system Financiera Rural would have total transparency and accountability to Congress in the use of its resources.

1.38 Not having a deposit base would permit the new Financiera Rural to reduce its branch network and reduce administrative expenses. Even more important, not having access to the deposit market would make the operations of the Financiera Rural much more transparent, because it would not be able to use deposits to get liquidity while making losses, as Banrural had done for many years. Banrural's deposit accounts would be transferred to the National Financial Services Bank (BANSEFI), which would administer them through its branch network, which was well distributed geographically.

1.39 Financiera Rural was relieved of Banrural's "legacy costs", the generous retirement and medical expenses promised to former and then current employees that would be laid-off as a result of the closure of the institution. The Government would assume these financial obligations and compensate all the laid-off workers. The workers that would remain in Financiera Rural would have access to the retirement and medical plans available to the rest of the public employees. This would allow the institution to further reduce administrative expenses.

1.40 According to the Program Document, Financiera Rural management estimated that the shift from first-tier to second-tier lending would take about 5 or 6 years, and that it would be solely a second-tier lender by its eight year of operations. Also, by remaining too long as a first-tier lender, the institution could displace market development or private sector lenders in the rural areas. However, at the time there were very few private sector lenders in these areas

[2] The Unidades de Inversión is an index of funds used in Mexico. It is designed to retain its purchasing power. It is tradable in currency markets

and Financiera Rural was obliged by law to promote the development of such rural financial intermediaries

2. Objectives, Design, and their Relevance

Project Objectives

2.1 The Project had two explicit objectives[3] : (i) to support the liquidation of Banrural, and in its place, (ii) to create the Financiera Rural, a non-bank decentralized financial institution charged with promoting the development of rural financial markets, and with lending to small and medium-sized rural producers directly or via rural financial intermediaries. These objectives were defined after intensive consultations on the best way to introduce financial discipline in the public sector financial institutions and on how to set the stage for developing a rural financial system dominated by private primary lenders to which small and medium-sized rural producers—not only farms but also other rural enterprises—would have easier access, at a reasonable cost. In such a system, government participation was expected to migrate over time to promotional, market making and second-tier funding activities, limiting the government presence to those areas where market solutions had limited success or simply failed.

2.2 In addition, the Project was designed to buttress several key development objectives of the Government of Mexico, namely: (a) reducing the fiscal drain of loss-making banks, (b) providing access to financial markets to groups not served by commercial banks, (c) providing prudent lending to the rural sector thereby stimulating output growth and employment generation, and (d) improving the financial performance of Financiera Rural as compared to Banrural in terms of outreach and market coverage, portfolio quality, yields, and financial efficiency.

The Design of the Operation

KEY CONDITIONS

2.3 There was one general condition—to maintain a sound macroeconomic framework consistent with the policy objectives contained in the Letter of Sectoral Development Policy—and three sets of tranche release conditions. The first set dealt with the liquidation of Banrural; the second with the creation of Financiera Rural; and the third with the maintenance of satisfactory operations at Financiera Rural .

CONDITIONS OF EFFECTIVENESS

2.4 The loan would become effective when the following conditions had been met:

2.5 The Borrower and Nacional Financiera (Nafin) would have entered into a Contract (Contrato de Mandato) whereby Nacional Financiera agreed to act as financial agent of the Borrower with regard to the loan; and (b) the Financiera Rural has provided to the Bank a

[3] For sources, see Chapter 1.

policy document, approved by its Board, establishing interest rate guidelines. This policy would lead to: (i) financial sustainability and (ii) encourage the development of private financial intermediaries. Financial sustainability was defined as maintenance of net income levels in real terms equal to or higher than zero.

FIRST TRANCHE ACTIONS

2.6 A first tranche of US$200 million was to be disbursed upon loan effectiveness, in support of upfront reform measures taken by the Mexican authorities in the following areas:

- Congress approved (on December 13, 2002) the Organic Law for the National Rural Finance Institution.
- Congress approved (on December 13, 2002) a modification to the Income Law of the Federation for the Fiscal Year 2002, to include a budgetary allocation of M$49.9 billion to liquidate Banrural and to provide an initial equity and budget to the Financiera Rural.
- The Secretariat of Finance and Public Credit (SHCP) approved, on April 1, 2003, procedures for the liquidation of the Banrural System as a banking institution.
- Financiera Rural provided to the Bank a Strategic Statement (Programa Institucional) approved by its Board, outlining mission and objectives, target markets and clients, instruments for providing credit, promoting investment and providing technical assistance, and a policy of limited credit expansion (no more than 10 percent) in the first year of operations with respect to the level of lending provided by Banrural in 2002.
- Financiera Rural submitted to the Bank a financial projections model of its operations, agreed to with the Bank. The model would include pro-forma balance sheets and income statements.
- Financiera Rural provided to the Bank a Regional Organization Plan approved by its Board establishing the number of branches (no more than 100), their geographic distribution, and branch staffing levels based on projected size of branches.
- The management structure of Financiera Rural was established, including: the nomination of the Board of Directors (Consejo Directivo), composed of representatives from the Federal Government, the social sector and an independent counsel.
- The General Manager was appointed, as well as the heads of the following departments: Programs and Operations; Administration; Promotion; Legal; Credit Policies and Risks; Policies and Norms; and Internal Controls.
- The heads of the regional centers were appointed.

SECOND TRANCHE ACTIONS

2.7 A second tranche of US$150 million was to be disbursed once the following conditions had been met:

- The lending target for year end 2003 equaled Banrural's lending for the first half of 2003 (M$ 3.8 billion) plus an additional M$5 billion to be lent by Financiera Rural. This target was below the lending of Banrural in 2002.
- The institutions comprising the Banrural System would have ceased to operate as banking institutions, the Secretariat of Finance and Public Credit would have revoked their licenses to operate as banking institutions and their remaining assets would have been transferred to Financiera Rural or to a liquidating agency, and their deposit accounts would have been closed or transferred to qualified financial institutions.
- Financiera Rural had provided to the Bank a Strategic Plan approved by its Board that:
  - included an empirical analysis identifying target markets, clients, including their risk profile, and distribution systems and products to reach these clients.
  - designed its second-tier lending activities including: (i) a time frame for building a second-tier lending business, (ii) the organizational structure for conducting second-tier operation, (iii) the eligibility criteria for potential financial intermediaries, and (iv) the basis for a technical assistance program to strengthen new rural financial intermediaries.
  - provided for the establishment of a management information system and financial control system to monitor the activities of the Financiera Rural
- Financiera Rural had submitted to the Bank satisfactory manuals, approved by its Board, including: (i) norms, policies, and procedures for issuing credit and (ii) recovery procedures for bad credits; and (iii) has tested and implemented credit scoring models.
- The external financial auditors had certified that Financiera Rural complied with the National Banking and Securities Commission’s prudential regulations, including norms for risk classification and provisioning of the loan portfolio.
- The subsidies and transfers received by Financiera Rural under any concept had been clearly declared and identified in each report submitted to the Borrower’s Congress up to six weeks before the Second Tranche Release.

THIRD TRANCHE ACTIONS CONDITIONS:

2.8 A third tranche of US$l50 million would be disbursed once the Financiera Rural had met the following conditions:

- An audit report by external financial auditors had certified that for a six month period Financiera Rural had met the zero net income standard in real terms as defined in the financial projections, including additional budgetary transfers.
- The subsidies and transfers received by the Financiera Rural under any concept had been clearly declared and identified in each report submitted to the Borrower’s Congress up to six weeks before the Third Tranche Release.
- The external financial auditors had certified that the Credit Manuals are being implemented on a consistent basis in accordance with their terms.
- The external financial auditors had certified that Financiera Rural complied with the National Banking and Securities Commission’s prudential regulations, including the norms for risk classification and provisioning of loan portfolio.

- Financiera Rural had submitted detailed cost accounting figures showing the actual cost of its lending and non-lending operations.
- The management information system had been in the process of implementation in accordance with the Strategic Plan approved by Finaciera Rural's Board.

M&E Design: Benchmarks and Performance Indicators.

2.9 To monitor progress over time and judge its success, Financiera Rural would provide information about a series of benchmarks every six months. While all these benchmarks were numerical, the Program Document did not establish target numbers for them—the reason being that the creation and development of Financiera Rural would be a novel operation for which no previous experience existed. Under these circumstances, targets would be arbitrary. Thus, the benchmark indicators were expected to measure progress, not compare it with a certain standard. The indicators were the following:

2.10 Outreach indicators:

- Average loan size and distribution of loan size
- Number of municipalities or localities being served
- Number of active clients in first tier and second tier
- Percentage of clients that are women
- Percentage of clients by income level
- Percentage of clients in export crops

2.11 Portfolio quality/portfolio yield indicators:

- Portfolio-at-risk 30 days: outstanding balance of loans with arrears more than 30 days / outstanding loan portfolio
- Annual loan losses: write-offs /average loan portfolio
- Percentage of restructured loans
- Percentage of loans with subsidized interest rates
- Portfolio yield: interest income (including fees) / average loan portfolio.
- To monitor progress over time and judge its success.

2.12 Efficiency indicators:

- Total operating costs / average loan portfolio (this is indicated in the Financiera Rural Charter)
- SDI (subsidy-dependence index): amount of explicit and implicit subsidies / interest income.

2.13 Parallel to the Bank loan, the Inter-American Development Bank (IDB) approved in October 2003 a US$300 million policy based loan—the Rural Financial System Consolidation Program, Loan ME0243—which included similar conditionality to the Bank Structural Adjustment Loan with respect to the closure of Banrural and the establishment of Financiera Rural, but covered other areas related to rural finance by other agencies, not included in the Bank loan. As of March 2006, only half of the IDB loan had been disbursed, because of pending actions in those additional policy areas.

Relevance of Objectives: Substantial

THE OBJECTIVES

2.14 As already discussed, according to the Program Document, the operation had two objectives: to liquidate Banrural and to create Financiera Rural as a development agency.

2.15 The first objective, the liquidation of Banrural, was highly relevant. The weak financial condition of public sector development banks had become a serious problem, negatively affecting the country's fiscal stance and the allocation of financial resources. Banrural was particularly problematic. Its subsidized loans were preventing the entry of private financial institutions by the financing of agriculture and it had an inordinately high level of non-performing loans. The bad quality of the portfolio plus its excessive operational costs and its huge burden of excessively generous pension and health care programs turned its operation into something that was fiscally unsustainable. Its closure was amply justified and important.

2.16 The second objective, Banrural's substitution by Financiera Rural was in line with the 2001 FSAP recommendations, which promoted the development agency model as the preferred vehicle to channel public financing in support of the rural sector. The two objectives were consistent with the 2003 CAS. They were consistent with the conditions of rural financing and macroeconomic stability at closure and today, as well. Financing the rural sectors with solid institutions like Financiera Rural and its associated intermediaries has contributed to the macroeconomic stability that is one of the country's accomplishments of the last two decades.

2.17 There are two main issues that must be discussed before rating the relevance of objectives, however. First, the possibility that other solutions could have been better than the creation of Financiera Rural; and, second, the narrowness of the loan objectives, which centered on what is normally considered as an output rather than as an outcome of the operation.

2.18 These two issues arise from the fact that the objectives of the operation were defined in terms of liquidating an institution and creating another one—that is, in terms of changes in the means to attain certain objectives, not in terms of the effects that such changes would have in the availability of credit, the operation of the economy and the reduction of poverty. This observation could be purely semantic in the case of the closing of Banrural because, even if the reduction of waste was not an explicit objective of the operation, it is implicitly understood in the entire rationale of the operation. This, however, is not true in the case of the creation of Financiera Rural, in at least two respects. First, since the creation of Financiera Rural was not a first-best solution,[4] its proposal required a detailed justification.

[4] A first-best solution would be one in which the resources were fully allocated by demand and supply in perfect market conditions. The first best is unattainable in the presence of substantial imperfections. According to the theory of the second best, just adopting the form of market allocation in this situation (say, by eliminating the

Second, once it was decided that Financiera Rural should be created, the operation's objective in this respect was defined without reference to the results that would be expected from Financiera Rural in terms of meeting the needs of the rural economy.

WAS IT THE BEST SOLUTION AVAILABLE?

2.19 The ICR Review noted that the creation of a development institution for specialized credit to replace the liquidated one was not a first best solution. It recognized that the case was not straightforward because the possibility of market failure caused by defective or inexistent institutional support could not be discarded without further investigation. Legally unenforceable collections, problems in the registry, or similar potential deficiencies could make it impossible for the markets to provide rural financing. Moreover, markets may have refrained from providing rural credit for valid reasons different from market failure, including an unfavorable balance of risks and profitability, or the existence of distortions, some of which could have been caused by the presence of directed and subsidized credit itself.

2.20 Introducing a private market solution would have taken time even if all the institutional conditions for the functioning of the market had been in place. Removing potential distortions introduced by the directed credit system could have taken even more time and political capital. More importantly, the negative consequences that would have accrued to Mexico if it assumed that a market solution would work and this proved wrong would have been much worse than those that would have accrued to it if it assumed that it needed Financiera Rural and this was not true.

2.21 The project could also have used the opportunity to address the rationalization of the public sector financial system, eliminating unnecessary duplications and arbitrary differences in services offered and their costs. For example, many observers believe that the Agriculture Related Trust Fund, the funds provided by Secretariat of Agriculture and Financiera Rural could have been merged into a single, larger institution serving the rural areas. This, however, would have entailed a long and complicated process, involving politically powerful bureaucracies accustomed to administrative independence and to living under different work cultures—in this case, some belonging to the Secretariat of Finance and Public Credit, others to the Secretariat of Agriculture and yet others to the Central Bank. Merging those institutions could have proven to be politically impossible. Yet, no critical issues were left out because they were politically inconvenient.

2.22 According to the Program Document (pp. 65) at the time of the appraisal the government had already decided that taking Financiera Rural out of the first-tier rural credit markets was not politically feasible or necessarily desirable—implying that the Government had to fill in the vacuum left by the liquidation of Banrural, at least in the short term. Also, merging it with other institutions was not seen as a politically viable option.

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government's intervention in rural financing) would not necessarily approach the first-best allocation of resources. Finding the second best requires a detailed study of the situation. See R. G. Lipsey and Kelvin Lancaster "The General Theory of Second Best." The Review of Economic Studies, 24 (1), pp. 11-32.

2.23 Given this constraint, the Government opted for a dynamic process that would gradually turn the allocation of resource allocation from a government-driven mechanism to a market-driven one. Finaciera Rural's intended movement toward market interest rates and from being a first- to a second-tier institution would help in the gradual creation of a private market solution.

2.24 Given that decision, the creation of Financiera Rural was a reasonable second-best strategy for several reasons. First, it avoided shocking the rural sectors with a sudden suspension of credit. Second, the movement toward second-tier operations pushed Financiera Rural in the direction of involving private institutions in the provision of agricultural credit. Thus, the solution did not negate the first best solution. It only made its introduction gradual, giving time to carry out the institutional changes that could be needed to ensure the working of the market. Third, Financiera Rural's budgetary funding established strong incentives to manage it prudently and efficiently and revealed the extent of the Government's commitment to support rural credit.

LINKING OBJECTIVES TO OUTPUTS, NOT OUTCOMES

2.25 Once the decision to establish Financiera Rural had been made, the objectives of the operation could have been defined in terms of the expected benefits that the Mexican population would obtain from such action. Instead, the objective was defined in terms of the establishment of the institution. Following this logic, the key indicators were defined in terms of the financial performance of Financiera Rural exclusively. This could be justified by arguing that the operation was based on the recommendations of the 2001 Financial Sector Assessment Project. Also, narrowing the objectives to sharply defined actions had some beneficial effects. It kept the operation simple and concentrated on easily measured indicators. Moreover, the sharp focus on institutional building and financial discipline proved to be one of the operations' best aspects. On the negative side, however, it did not include indicators that would measure the impact on the population and validate, or invalidate, the assumption that having an institution like Financiera Rural would be beneficial. This limited the lessons that could have been learned from the operation.

THE RATING OF THE RELEVANCE OF OBJECTIVES

2.26 The rating is a judgment call: whether to concentrate on an operation that would produce sharp, easily measurable results, or design a broader operation to ascertain the beneficial outcomes expected from the creation of Financiera Rural, based on the existence or otherwise of market failures in the rural markets in Mexico—a task better carried out by Analytical and Advisory Assistance. This report leans to the positive side. However, it rates the relevance of objectives Substantial rather than High in view of the fact that the objectives as stated limited the lessons that could have been learned from the operation.

Relevance of Design: High

2.27 The design was appropriate for the solution of the problem at hand in terms of the connection of the objectives with intermediate and final outcomes, and the type of lending instrument and the anticipation of risks.

2.28 As discussed in the section IV on efficacy, the objectives were linked to intermediate and final outcomes and to the policy measures supported by the project in a causal chain that was clear and convincing. Given the way the objectives were defined, their causal chain was straightforward. The actions taken for each of the tranche disbursements were defined in terms of the objectives—closing Banrural and establishing a solid financial institution—in such a way that the first was fulfilled by carrying out the second.

2.29 The Program Document justified the use of a quick disbursing operation based on budgetary needs. The liquidation of Banrural and the creation of the Financiera Rural entailed a significant fiscal cost, mainly comprising: (a) the high "legacy cost'' of Banrural and (b) the capitalization of the new Financiera Rural. Moreover, since the new institution would not receive deposits, its entire portfolio had to be financed with Government funds. While these costs had been fully reflected in the 2002 fiscal accounts, largely on an accrual accounting basis, cash had not been provided as yet. Disbursements under the proposed operation would help the Government to fund some of these expenses.

2.30 In summary, relevance of design is rated High.

3. Implementation

3.1 The operation was implemented in accordance with the objectives, as shown in the next chapter. There were no implementation issues. Coordination with the government and with Financiera Rural's staff was highly satisfactory. The loan was fully disbursed on time.

4. Achievement of the Objectives

4.1 The May 2006 Financial Sector Assessment Program Update noted that substantial progress had been achieved in reforming the system of development banks and trust funds in Mexico along the lines recommended in the 2001 report. It mentioned that the greatest progress in integrating objectives, mandates, functions, and instruments had been registered in Financiera Rural, the Agricultural Related Trust Fund FIRA, the National Finance Services Bank and the Federal Mortgage Bank.

4.2 As discussed in the following subsections, Financiera Rural met or was in the process of meeting its developmental objectives at the closing of the loan and beyond.

Objective 1: The closing and liquidation of Banrural: High

4.3 This entailed two different steps: first, closing Banrural; and, second, liquidating it.

4.4 The closing of the Banrural system to banking business took place as scheduled in mid-2003. The subsequent process of liquidation was long, arduous and complex. It was still continuing at the time of the PPAR mission (March 2012). The long delay is not attributable to any negligence in the implementation of the loan but, instead, to the legal complexities of the Mexican liquidation processes.

4.5 In mid-2003 it was not possible to put a specific value to the final cash cost of liquidating Banrural—something that had to wait until the current process of liquidation was completed. The ICR expected that the final amount would surpass the allocated budget figure approved by Congress in December 2002 (US$3.08 billion equivalent), mainly because of higher expenditures in terms of staff separations, pensions and medical expenses, and the actual liquidation process itself. It is important to note that these cash expenditures did not represent a cost of the operation because they are settlements of liabilities incurred in the previous operations of Banrural. They were there in the form of the losses it had accumulated and the labor and social liabilities it had acquired. These cash expenditures actually stopped the accumulation of losses and liabilities.

Objective 2: The creation and operation of Financiera Rural : High

4.6 The Organic Law that established Financiera Rural provided it with an initial capital endowment (including performing loans and other assets of Banrural) of M$17.515 billion (equivalent to some US$1.72 billion at the time) through a Federal budget allocation. The Charter included all the features that were included in the design of the operation.

4.7 Financiera Rural started operating immediately after its creation, managing the portfolio of first-tier performing loans it inherited from Banrural and lending to new customers in both first and second-tier operations. The following sub-sections summarize its performance.

4.8 Table 4.1 highlights Financiera Rural’s performance indicators, showing that in this respect the new institution performed better than expected.

Table 4.1.Formal Performance Indicators

Indicator	*Performance*
1. Financiera Rural (FR)is a financially viable non-banking institution able to maintain the value of its capital endowment in real terms.	1. FR was provided with an initial capital endowment of US$1.72 billion equivalent starting January 1, 2003. Equity capital stood at US$1.88 billion equivalent at year-end 2005. Also, FR easily met the end-of-project target value of having a positive net income for any six-month period, during the project execution and until today. At the end of 2011, capital stood at US$1.9 billion equivalent. FR has not required additional budgetary allocations since its inception.
2. FR maintains a good value portfolio, with a projected target value of keeping non-performing loans (NPLs) below 4 percent of the loan portfolio.	2. FR’s predecessor Banrural had a non-performing credit portfolio equivalent to 48 percent of gross lending when FR started operations (January 2003). NPLs were 2.5 percent of the loan portfolio at the end of 2005. Loan-loss provisions were equivalent to 269 percent of the portfolio in arrears. By the end of 2011 NPLs were 4.7% of the loan portfolio and provisions covered 129% of loans.

	Management is implementing a plan to reduce the NPLs well below 4%, as targeted in the original performance indicators. However, the NPLs have continued to be above 4%. After declining from 4.7% in June 2012 with a provision coverage of 136% to 4.4% in December 2012 with a provision coverage of 85%, the NPLs have again risen to 4.7% in June 2013 with a provision coverage of 104%.
3. FR is moving towards second-tier lending through rural financial intermediaries (RFIs):	3. The Program Document estimated that FR would be a fully second-tier institution in 8 years. By the time of the project's closing, they represented 12.4 percent of FR's credit portfolio at the end-2005. By 2011 they represented close to 50%. However, as explained in the text, FR has decided to keep in place the first-tier operations because their customers became the prime material for the creation of intermediaries.
SOURCE: ICR and Financiera Rural.	

4.9 By the time of the loan's closure Financiera Rural was a solid financial institution. Its conversion into a second-tier intermediary was, though, behind schedule. This, however, was the result of a conscious and reasonable decision made by Financiera Rural's management. In the ensuing years, Financiera Rural consolidated its achievements in this respect. There were some deviations in terms of non-performing loans in the last two or three years, mostly as a result of the 2008 global crisis and its lingering effects. The institution's management is working to reduce them.

4.10 *Lending Activity*: Financiera Rural has intermediated significantly larger credit volumes than Banrural and at a lower cost. In 2001/2002, Banrural provided an average of US$800 million equivalent in loans with a staff of 3,459, while Financiera Rural provided US$1.19 billion equivalent in loans in 2005 with staff of 1,061. By 2012 loans had increased to US$1.4 billion equivalent, while the staff had increased to 1,200. Thus, Financiera Rural multiplied the ratio of loans per person by 4.8 from 2001-02 to 2005. The ratio went down to 4.1 in 2011 as a result of the increased work carried out by the promoters to upgrade the abilities of the potential borrowers. The improvement is much higher (on the order of 8 times) if the comparison is made in terms of collected loans (net of non-performing loans).

PROMOTIONAL AND ADVISORY ACTIVITIES

4.11 In its role of development agency, Financiera Rural carries out promotional activities funded with budgetary allocations from the Federal Government. Their delivery is outsourced to experts in different fields and clearly accounted for in the financial statements.

4.12 Financiera Rural conveys subsidies to its customers in four ways. First, potential customers are trained in basic business concepts, accounting, and organizational methods. This training is essential in the formation of intermediary producers' organizations. Second, contributions to liquid guarantees are made to facilitate access to credit. Third, subsidies are aimed at reducing the cost of credit. Fourth, Credit Promoting Units have been created, which in turn train the prospective customers, and help in organizing them into producers' intermediaries and in the design of credit operations. A full 50 percent of these resources go to train and support promoters.

FINANCIAL PERFORMANCE

4.13 Table 4.2 shows three different types of financial indicators and their evolution over time. These confirm the strength of Financiera Rural as a financial agency. In particular, they show that efficiency and profitability have been improving over time. Returns on capital as well as lending by employee has increased, turning Financiera Rural into a profitable financial intermediary.

Table 4.2. Financiera Rural Selected Indicators

	Banrural 2001-02	***2003***	***2004***	2005	2011
I. SOLVENCY INDICATORS					
Loan-arrears		2.10%	2.90%	2.50%	4.7%
Loan-loss provisions coverage		850.40%	298.70%	269.10%	129.0%
Capital at risk (arrears / equity)		0.30%	1.20%	1.40%	2.75%
II. PROFITABILITY					
Return on equity (ROE)		-0.30%	-1.10%	2.20%	3.5%
Return on assets (ROA)		-0.20%	-1.10%	2.10%	3.5%
III. EFFICIENCY					
Adm. Expenses / Loan Portfolio		11.80%	9.30%	6.80%	6.92%
Operating Costs / Average Loan Portfolio				8.18%	8.96%
Loan Portfolio / Number of Employees US$	231,281	248,000	642,300	960,500	948,276

SOURCE: ICR and Financiera Rural.

4.14 Financiera Rural still has significant space to grow since it had a large portion of its equity endowment invested in negotiable fixed-income securities at lower interest rates than its loan portfolio.

INSTITUTIONAL DEVELOPMENT IMPACT

4.15 The new institutional arrangement introduced by the Federal Government to support rural financing under the Project had a substantial positive impact on the use of fiscal resources. The bleeding of substantial resources was contained with the closure of Banrural and the appropriations made in December 2002, while the creation of Financiera Rural has resulted in a much more effective and efficient way of supplying financial resources to rural producers. Moreover, the moral hazard caused by Banrural's poor lending practices has been reversed and a larger flow of credit is now reaching small/mid-sized rural producers and businesses. All this has led to a much improved and effective use of public financial resources by private rural producers.

4.16 The operation has also had an important institutional development impact through the promotional and advisory activities carried out by Financiera Rural to help small rural financial entities such as credit unions and financial cooperatives to become rural financial intermediaries.

THE COUNTERFACTUALS

4.17 If the operation had not taken place, Banrural would have kept on lending money to the rural sector, most likely having a negative developmental impact through at least two channels: (a) the institution would have kept on making large losses, negatively affecting the government's ability to allocate its resources efficiently; and (b) Banrural would have kept on distorting the rural financial markets by lending with large subsidies. Thus, the project stopped a costly process of loss generation.

5. Ratings

Outcome

5.1 Outcome is rated Highly Satisfactory based on the relevance of objective rated as Substantial, relevance of design as Highly Satisfactory and the achievement of objectives rated as High, along with the maintenance of a stable macro-economy.

Risk to Development Outcome

5.2 This report rates the risk to development outcome Moderate. The dimensions of risks and their features are listed below.

5.3 *Economic*. In the economic dimension, it would take a crisis such as that of 1994 to negate the benefits of the project. This is unlikely to happen, given the commitment to macroeconomic stability and prudent regulation and supervision of financial institutions that several governments of different political orientation have shown since that crisis. The project itself was aimed at reducing this risk. Regarding international crises, the global recession that started in 2008 tested the resilience of the macroeconomic and prudent financial practices and found them strong enough to avoid a domestic crisis.

5.4 *Financial*. Banrural experienced serious financial difficulties as a result of two main problems. First, the reduction of the institution's intermediation margin that resulted from political pressures aimed at increasing the subsidies conveyed to the beneficiaries of the loans. Second, a constant inflation of costs that resulted from the use of the institution as a mechanism of employment patronage. The financial problems ballooned before they were detected by the Government because Banrural compensated for its losses by increasing the deposits it received, in such a way that it did not become illiquid even if it was insolvent. The risks of this happening have been drastically reduced by Financiera Rural's institutional design, which restricted the volume of funds available to the institution to the initial endowment and, after the 2008 crisis, to this and some controlled financing from other financial institutions.

5.5 *Political.* Mexico has remained politically stable while going through quite fundamental political transformations, which are consolidating the country's democracy. The risk of a reversal in this trend is rated negligible to low.

5.6 *Government ownership and commitment*. Mexico's institutional development seems to have outgrown a possible reversal in the maintenance of financial discipline in the provision of credit to the rural economy. This has been the experience during and after the implementation of the project. The risk of a reversal in this trend is rated negligible to low.

5.7 *Institutional support*. The project requires limited special support from other institutions to operate. According to its by-laws, it has to operate with its initial endowment plus, lately, limited financing from other institutions. It does not require subsidies or privileges. It competes with and finances private financial intermediaries. This risk is rated as negligible to low.

5.8 *Social.* This dimension of risk would emerge if some of the stakeholders in the operation of Financiera Rural—the Government, the first-tier financial intermediaries working with Financiera Rural, and the direct credit customers of Financiera Rural—would withdraw their support for the project. This is very unlikely to happen. As already pointed out, the Government has shown interest in this subject for decades and Financiera Rural's customers—both first-and second-tier—depend on the institution for a large share of their credit. Thus, this risk is also negligible to low.

5.9 *Governance.* This is the most important risk: the possibility that Financiera Rural's management becomes relaxed, eroding the project's institutional integrity. This is the risk that, when materialized, has been responsible for most of the failures of government-owned financial institutions. It was the cause of Banrural's failure. Financiera Rural was designed to mitigate this risk, mainly by restricting the sources of funds available to the institution. The risk, therefore, is that of a gradual change in such design that would relax the restrictions. During the 2008-2010 recessions the Government decided to allow Financiera Rural to get financing from other financial institutions. Until now this measure has not resulted in any dilution of the institution's financial discipline because its culture has been created around responsibility, and many internal controls have been established to avoid profligacy. However, it is noteworthy that risks normally evolve in a gradual way. This risk is regarded negligible to low.

5.10 *Recent Developments*. Overall, the above considerations point to a low risk scenario for the operations development objectives, However, high non- performing loans above 4 percent (4.7 percent in June 2013) as well the financial sector policy announced by the Government in July 2013 which calls for development banks to play a more proactive role in providing (directed) credit at lower interest rates potentially increases the risk to development outcome in light of possible reintroduction of business practices of a decade ago (para. 1.14) undermined the viability of development banks. This report thus rates the risk to development outcomes as Moderate.

Bank Performance

5.11 Bank performance is rated **Satisfactory**.

Quality at entry

5.12 Given its objectives, the quality at entry of this Project was **Highly Satisfactory** for five main reasons.

- First, as discussed in the previous section, the operation was fully consistent with the borrower's and the Bank's objectives as expressed in the 2003 CAS. It competently implemented a recommendation of the 2001 Financial Sector Assessment Program.
- Second, the project design benefited greatly from work done by the Bank in support of Mexico's financial reform and from a pro-active dialogue and exchange of views with the Secretariat of Finance and Public Credit during the preparation stage. Senior Bank experts participated from very early on in discussions with the government on what to do with Banrural. At that stage, the Bank's contributions included the following:
    - The Bank prepared a financial model that simulated the situation of Banrural that showed that no "good bank" could be rescued from the remains of Banrural and that it was better to close it.
    - The financial agency model that puts access to debt and deposits off-limits was a concept articulated and promoted by the Bank.
    - In collaboration with the Inter-American Development Bank, the Bank worked in the preparation of the pro-forma financial statements and projection model used to assess whether Financiera Rural could meet the "zero net-income" test by the end of the Project.
    - The Project design also included a well-sequenced and comprehensive Matrix of Policy Actions and a realistic timetable for implementation.
- Third, the Government of Mexico owned the project, which was defined in an intense dialogue with high-power Bank missions on the strategic course to take. The Government proceeded to implement its strategy with respect to Banrural with solid knowledge of the shortcomings of this development bank and the high fiscal costs involved in its liquidation. It secured the necessary budgetary appropriations.
- Fourth, the design of the operation benefitted from the lessons learned from three previous operations, the Financial Sector Restructuring Loan approved in June 1995, and the First and Second Bank Restructuring Loans approved in December 1999 and June 2001, respectively. These lessons were:
    - Set limited objectives.
    - Use tranches to support reforms that will be implemented in stages.
    - Disburse against specific completed actions.

5.13 All these lessons were applied in the design of the loan. The objectives of the loan were limited and sharply defined; it had three tranches to support, in sequence, the liquidation of Banrural, the creation of Financiera Rural and the institutional consolidation of the latter. The loan was disbursed against specific completed actions in each of the three tranches. The simplicity of the loan's objectives and design helped to facilitate its implementation and evaluation:

- First, the design of the operation also took into account the risks that could arise during its implementation. The Program Document listed several risks associated with this operation and made explicit the measures that were designed to minimize them:

    - First, there was the risk that political pressure may lead to too rapid expansion of credit by Financiera Rural. Political pressures could oblige the institution to use the budgetary allocation recently approved by Congress to rapidly expand lending to agriculture, before it had been able to fully understand the characteristics of its customer base and the cost of serving these customers. To limit this risk, the Board of the Financiera Rural approved a Strategic Statement that, among other things, limited credit expansion in the first year of operation to no more than 10% over the credit given by Banrural during the second half of 2002. This risk has not materialized in the decade-long life of the institution.
    - Second, there was the risk that with the closure of Banrural, credit to lower income rural producers would fall. Banrural used to lend to a wide range of rural producers, from the very small to the very large. Financiera Rural would lend primarily to low and middle-income rural producers (most of the Financiera Rural loans would not exceed US$2.2 million). Banrural's higher income clients (who were among the worst payers) would have to borrow from commercial banks or other financial intermediaries. The average size of loans substantially increased since the end of the project. This, however, was the result of the termination of the Programa de Apoyos Directos al Campo (PROCAMPO), a special program funded by the Federal Government. The average size of Financiera Rural's own operations has remained roughly the same in real terms.
    - Third, lending through rural financial intermediaries could be highly risky because these intermediaries may be inexperienced, lack good governance systems and escape regulatory oversight. To reduce these risks, Financiera Rural presented a plan to develop second-tier lending that would include strict eligibility criteria and lending conditions, as well as a technical assistance program to strengthen their governance and financial management. In the longer term, Financiera Rural realized that the lack of traditional financial intermediaries would become a bottleneck for its own operation, and decided to create a new kind of intermediary (called "credit intermediaries") as well as keeping a substantial presence in the first-tier market to organize these. These changes in the original model did not have any negative impact on the solidity of the institution.
      Fourth, there was a risk that the government policy of providing interest rate subsidies may limit Financiera Rural's ability to charge lending rates that guaranteed financial viability and thus deter the entry of private intermediaries. To mitigate this risk, the authorities committed, in the Letter of Development Policy to make the interest rates of the Financiera Rural congruent with the objective of maintaining its capital endowment in real terms (ensuring that they covered its funding costs and the risk of the operation) and to adjust the interest rates of other government programs in the rural sector to avoid interest rate

arbitrage, while avoiding the creation of market distortions and allowing for competitiveness from private lenders. This risk materialized as Financiera Rural has been forced to compete with cheaper funds from the Federal and State Governments. This risk has been further highlighted by the financial sector policy announced in July 2013 which calls for development banks to play a more proactive role in providing (directed) credit at lower interest rate (para 5.10).

5.14 Thus, the design linked objectives to intermediate and final outcomes in a causal chain that was clear and convincing; was consistent with the reduction of poverty and took into consideration the risks that could derail the operation. It was highly relevant.

Quality of Supervision

5.15 Quality of Supervision is rated Satisfactory. There were two Bank supervision missions during Project implementation—one of them done jointly with the Inter-American Development Bank (IDB) team—which was adequate since the Bank team and Financiera Rural management kept in close contact via email, video and telephone conferences, and on occasions by visits of Financiera Rural to the Bank's headquarters in Washington. Thus, the Bank team managed to actually file three Project Status Reports and two Implementation Status and Reports updating progress made during implementation of the Project.

5.16 The Bank team kept a pro-active relation with the Secretariat of Finance and Public Credit and Financiera Rural during the supervision phase of the project. Its reporting in the Project Status Reports and Implementation Status Reports was realistic and its ratings of progress adequate and justified. The Aide Memoires associated with supervision missions and the memorandums sent to the Bank Board for tranche release were informative and clearly reviewed compliance of the Borrower with the agreed conditionality.

5.17 While reporting on the progress made by Financiera Rural was adequate, the Bank team did not track routinely all of the 12 benchmark indicators (for outreach, portfolio quality and efficiency) included in the Matrix Policy Actions. Because of this drawback, this report rates supervision satisfactory rather than highly so.

Borrower Performance

5.18 Borrower Performance is rated **Highly Satisfactory**

Government's Performance

5.19 Government performance is rated Highly Satisfactory. The Administration that took office in December of 2001 had a well thought-out plan for an in-depth reform of the development banking system. The 2002 decision to close Banrural and create Financiera Rural in its place was part of this process of reforms. This was not politically easy because it required terminating thousands of public workers, allocating a very large budget to the process, and passing the solution the required legislation through Congress. The Government did all this. By the time the Bank prepared the PD in May 2003, the Borrower had already taken many of the crucial actions and set solid foundations for the success of the Project. All along, the Government showed a high degree of stakeholder commitment to the Project.

5.20 The Government met all implementation-related conditions in the Matrix Policy Actions (MPA) in a timely fashion.

- Macroeconomic conditions during the two and half years of implementation were consistent with the objective of establishing a successful Financiera Rural.
- The Government put in place an adequate scheme to implement the project and appointed an experienced team to deal with the final resolution of Banrural's liquidation process though the judicial system.
- The Government reduced the gap that existed between rural lending interest rates under Banrural and the free market rates. Today, Financiera Rural interest rate structure is reasonably close to market values for the level of credit risk it is taking.
- The Government put the right management structure for Financiera Rural in place, approved its Strategic Plan and put a professionally competent and experienced management team in charge, which has been a crucial factor behind the institution's success. This report rates government performance highly satisfactory.

Implementing Agency Performance

5.21 Implementing agency performance is rated Highly Satisfactory. Financiera Rural fulfilled the expectations it raised at the time of its creation.

- It focused its lending on its defined market niche.
- It has been effective in reversing the culture of no-debt payment existing among small/mid-sized rural borrowers when Banrural was their main source of financing.
- It has been able to provide technical assistance to the sector as a separate and accountable activity, which has been an integral part of its business plan.
- It has accomplished its task with a much leaner network system and personnel structure.

Monitoring and Evaluation

5.22 This report rates Monitoring and Evaluation quality as Substantial.

5.23 The responsibility for the design and implementation of Monitoring and Evaluation (M&E) was entrusted to Financiera Rural. Its quality was substantial.5 While not best practice because there were no baseline data and some indicators originally designed were not collected, the system provided a practical flow of information that allowed Financiera Rural's management to make timely decisions regarding the course that the institution should take. Rather than just implementing a M&E system designed to monitor a project, Financiera Rural developed with time a system that keeps track of the development of the institution. In line with the original impulse given to the institution by the project, most of the information

[5] A comprehensive and realistic Strategic Plan implemented (para 2.6) through its four management committees as well the timely supply of accurate information from its MIS were some of the key features of FR's M&E system that facilitated meeting the business goals set out for FR.

refers to financial performance. There is room for improvement in terms of evaluating the institution's impact on the overall rural financial markets and on the reduction of poverty.

5.24 Design: The indicators measured the extent to which Financiera Rural met the operation's objectives. Given the nature of the latter—they were defined in terms of the efficiency of the operations of Financiera Rural—they mainly consisted of the data needed to evaluate financial performance. These indicators were measurable in terms of numbers, timing and location. The M&E design, being mainly based on Financiera Rural's financial accounts, was embedded institutionally and had full stakeholder ownership.

5.25 Yet, there was no planned baseline data collection and the beneficiaries were not involved in defining target indicators and assessing their achievement. The explanation for these deficiencies was that, given the urgency that existed to initiate the project and the disorder that prevailed in the accounts of Banrural, there was no way to estimate the baseline reality from which the new institution would start its operations. Establishing the baseline data in those circumstances would have been arbitrary.

5.26 M&E design was outcome-oriented when focusing on the objectives of closing Banrural and establishing Financiera Rural, particularly in financial terms. Yet, it was output-oriented when focusing on poverty reduction.

5.27 M&E Implementation: Not all the indicators enumerated in the Program Document were actually measured. This deficiency was not addressed during implementation. However, data collected is reliable and of good quality, and the system is sustainable.

5.28 Use of M&E: Financiera Rural is a large, well-managed and mature institution that enjoys investment grade in the classifications of several recognized rating agencies. The M&E system, as evolved over time, in a process driven by the institution's administration rather than by the Bank, has helped management to guide the progress of the institution, reorienting its operation as needed to better accomplish its objectives.

6. Lessons

The assessment draws four lessons:

6.1 *High quality analytical work as well as strong borrower's commitment is essential for the success of an adjustment operation involving policy and institutional reforms.* Part of the success of this project can be attributed to the long-standing analytical work done by the Bank on Mexico's financial sector including rural finance. Also, the financial sector assessment done jointly by the Bank and the IMF in 2001 had a decisive impact on the government's approach to the development bank reform in Mexico and the selection of the business model for Financiera Rural.

6.2 *The development agency model is a good option for transforming a state-owned financial institution, when full privatization is not feasible and there is a need to expand credit to underserved groups in a cost-efficient manner.* Many countries face the need to find a permanent solution to the inefficiency and recurrent losses caused by development banks, which require frequent and costly recapitalizations by the governments. The creation of development banks without a social mandate is not a solution because they would not be much different from a commercial bank. This operation presents a better solution i.e. to transform these banks into finance-oriented development agencies, such as Financier Rural. The development agency promotes financial access for underserved sectors and market development through market-friendly instruments that do not distort market prices, nor discourage private sector activities, such as matching grants and subsidies that are financed by the government's budget. Their lending tends to be second-tier and funded out of their initial capital endowment or targeted budgetary appropriations, and not from deposits or other liabilities.

6.4 *The strength of institutions depends on the quality of management and the adoption of appropriate procedures and practices.* In the case of Financiera Rural, the project showed that institutions, their business plans and management do matter, and that the effort spent on defining a Strategic Plan, establishing the appropriate procedures and practices, and in building up a management information system was worthwhile. Moreover, flexibility in the institutional management is crucial to make changes in procedures and practices in response to changing circumstances and objectives.

6.5 *Keeping the operation simple and concentrated on easily verifiable actions contribute to the success of adjustment operations.* The sharp focus of this operation on institutional building and financial discipline for Financiera Rural proved to be one of the operation's best aspects and contributed to the positive project outcome.

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Annex A. Basic Data Sheet

THE UNITED MEXICAN STATES: RURAL FINANCE DEVELOPMENT STRUCTURAL ADJUSTMENT LOAN (P074655)

Key Project Data (amounts in US$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	505.06	505.06	100
Loan amount	505.06	505.06	100

Cumulative Estimated and Actual Disbursements

	FY04	*FY05*	*FY06*
Appraisal estimate (US$M)	2.05	1.50	1.50
Actual (US$M)	2.00	1.50	1.50
Actual as % of appraisal	97.60	100.00	100.00
Date of final disbursement: December 31, 2005			

Project Dates

	Original	Actual
Initiating memorandum	09/14/2001	02/14/2003
Negotiations	11/19/2001	03/20/2003
Board approval	05/21/2002	06/12/2003
Signing		09/23/2003
Effectiveness	12/22/2003	12/05/2003
Closing date	12/31/2005	12/19/2005

Staff Inputs (staff weeks)

Stage of Project Cicle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Identification/Preparation	46.58	275,183.49
Appraisal/Negotiation	11.26	68,636.04
Supervision	19.12	81,176.46
ICR	8.00	32,955.08
Total:	84.95	457,951.07

Mission Data

Stage of Project Cycle	*No of persons and specialty (e.g. 2 economists, 1 FMS, etc.)*		*Performance Rating*	
MONTH/YEAR	COUNT	SPECIALTY	IMPLEMENTATION PROGRESS	DEVELOPMENT OBJECTIVE
Identification/Preparation				
December -01	2	1 Team Leader, 1 Consultant		
March – 02	2	1 Team Leader, 1 Consultant		
April – 02	5	1 Team Leader, 1 financial Economist, 1 senior Regional Financial Sector advisor, 1 Sector Manager, 1 Consultant		
September 02	3	1 Team Leader, 1 Senior Regional Financial sector advisor, 1 consultant		
December -02	3	1 Team Leader, 1 Financial Economist, 1 Consultant		
January -03	2	1 Tam Leader, 1 Financial economist, 1 Consultant		
March-03	2	1 Team Leader, 1 Sector Manager		
Appraisal/Negotiation				
April -03	3	1 Team Leader, 1 Lawyer, 1 Consultant		
Supervision				
*November -03			S	HS
*June -04			S	S
July-04	1	1 Team Leader		
*November -04			S	S
*April-05			S	S
September- 05	2	1 Team Leader, 1 Consultant		
*Novmeber-05			HS	HS
ICR				
Feburary-06	1	1 Consultant		

Supervision was also carried out through phone conversation, video conference and visits by officers from FR to Washington.
*Date of PSR/ISR.

Annex B. List of Persons Met

In World Bank headquarters (Washington D.C)
Ms. Susana Sanchez
Mr. Fernando Montes
Ms. Margaret Miller
Mr. Ilias Skamnelos

Financiera Rural (Mexico)
Montserrat Xiloti Soberon, Directora de Relaciones Externas
Karla Breceda, Directora Ejecutiva de Enlace y Evaluación de Coordinaciones Regionales
Laura Campaña, Directora de Análisis Sectorial
Jessica Muñoz, Titular de la Unidad para la Administración Integral de Riesgos
Miguel Cano, Director Ejecutivo de Finanzas
Javier Warman Diamant, Director General Adjunto de Planeación Estratégica y Análisis Sectorial
Eduardo Malagón, Director, Fomento y Promoción de Negocios
Eduardo Ibarra, Fomento y Promoción de Negocios
Francisco I. Cueto, Director de Finanzas
Gustavo Gonzalez Acevedo, Finanzas

Inter-American Development Bank
José Ernesto López Córdova, Senior Country Economist for Mexico

Banco de Mexico
Manuel Sánchez, Sub-gobernador

Secretaría de Hacienda y Crédito Público
Lic. Luis Madrazo Lajous, Director General de Banca de Desarrollo
Juan Manuel Valle Pereña, Titular de la Unidad de Banca, Valores y Ahorro
Lic. Ana Saavedra, Asistente del Director
Lic. Catalina Bonnefoi,

Comisión Nacional Bancaria y de Valores
Lic. Raúl Hernández Coss, Director para el Acceso a Servicios Financieros

HSBC
Juan Carlos Aguilar Soler, Gerente de Agronegocio