

Partnership for Prosperity
Report to President Vicente Fox and President George W. Bush
Monterrey, Mexico
March 22, 2002

Creating Prosperity Through Partnership

Mexican President Vicente Fox and U.S. President George W. Bush launched the Partnership for Prosperity with the vision of “unfettering the economic potential of every citizen, so each may contribute fully to narrowing the economic gaps between and within our societies.”

With this Partnership, we move beyond our extensive trading relationship to work together as trusting neighbors to create new and better opportunities for all of our citizens. The Partnership aims to build on Mexico’s strong regional development efforts, increased macroeconomic stability, and growing international trade and investment by developing new strategies to foster growth in less developed areas of Mexico.



The Partnership is a giant step reflecting a new era of cooperation between our nations that will result in increasing economic and labor opportunities. We want all citizens to

“The world changed on September 11, but one thing that did not change is our countries’ friendship and our commitment to this Partnership, in particular.”

President Vicente Fox and
President George W. Bush
Monterrey, Mexico

have access to the window of opportunity offered by broader and deeper global connections in the 21st century. The Partnership seeks to create jobs where they are needed the most, to foster an environment in which no Mexican feels compelled to leave his home for lack of jobs or opportunity.

Recognizing that government doesn’t have all the answers, the Partnership seeks to leverage private sector experience, resources, and commitment to generate greater economic growth in Mexico. As

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our Presidents know from their own experience as businessmen and governors, U.S. and Mexican businesses already are working together to build long-term relationships in Mexico, invest in Mexican infrastructure, and make philanthropic contributions that reflect our shared values. Accordingly, our Presidents directed the Partnership to forge a public-private alliance and “harness the power of free markets to

boost the social and economic well being of citizens, particularly in regions where economic growth has lagged and fueled migration.”

The Partnership called on the expertise of more than 100 U.S. and Mexican business leaders, government officials and academics in two conferences – one held in Merida, Mexico, in December 2001 and the other in Washington, D.C., in February 2002. At the conferences, we identified several overarching strategies as fundamental to the Partnership’s success. Implementation of these strategies forms the basis for this report: expanding and broadening access to capital; sharing best practices and technical expertise; linking institutions with shared goals; and building capacity for future growth.

Drawing on the best ideas from these conferences, we present a concrete, innovative action plan, designed to turn the vision of the Presidents into reality. We recognize that the Partnership's goals will

"Growth is the outcome of millions of independent decisions of people seeking, in a competitive environment, to improve their personal welfare."

Francisco Gil Díaz
Secretary of Finance
Mexico

not be achieved overnight, but we believe these initial steps will build a strong foundation for long-term progress. To ensure that the Partnership continues to be dynamic and productive, we will monitor results using a management scorecard that will track how well the Partnership is fulfilling the vision and meeting its goals.

While there will be other measures, productivity gains will be the cornerstone of how we will measure success.

"If we are to accomplish our goal of raising living standards around the world, we must focus intently and solely on projects that raise productivity. So, here is our approach: In the case of each new loan, each new grant, each new project, each new program, we need to ask: 'How is this flow of funds going to raise productivity or raise income per capita?'"

Paul O'Neill
Secretary of the Treasury
United States of America

Representing the Partnership for Prosperity:

Agustín Carstens, Deputy Secretary of Finance and Public Credit, Mexico

Kenneth Dam, Deputy Secretary of the Treasury, United States of America

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Eduardo Sojo, Chief, Presidential Office of Public Policy, Mexico

Action Plan

A. Expanding and Broadening Access to Capital

"Most funds for development do not come from international aid -- they come from domestic capital, from foreign investment, and especially from trade."

President George W. Bush

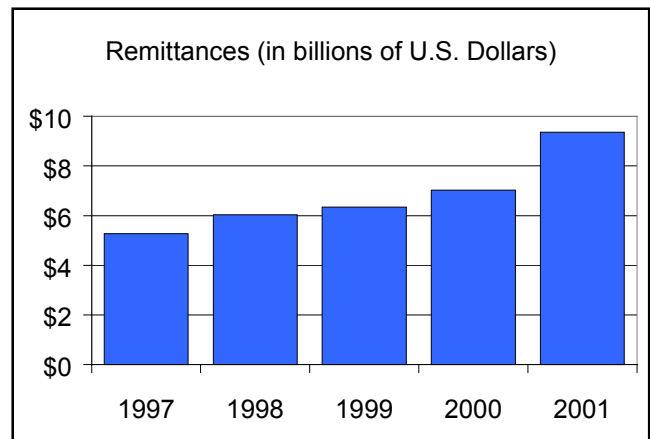
Expanding and broadening access to capital in Mexico is a critical component of the Partnership's growth-promotion strategy. Though Mexico has been remarkably successful at attracting investment, a substantial portion of capital has traditionally flowed to just a handful of regions. For example, 95 percent of all foreign direct investment channeled into Mexico in the second half of the 1990s was

funneled to just nine states (mostly along the U.S.-Mexican border) and the Federal District. The remainder was spread among the other 22 states. A primary goal of the Partnership is to remove obstacles that prevent capital from flowing freely to all parts of Mexico, particularly those areas that are less developed. These initiatives focus on improving Mexican entrepreneurs' and farmers' access to new and existing sources of capital on more competitive terms by broadening the array of financing options available. These initiatives also seek to enhance understanding of the financial system and equip citizens with the tools they need to make good economic choices.

Remittances – Lowering the Cost of Sending Money Home

- The Partnership will work to lower the cost to Mexicans working in the United States of sending money home by, in part, encouraging more banks to market aggressively the opening of accounts to Mexican workers and offer remittance features in their accounts. For example, the U.S. Treasury's First Accounts and Financial Literacy programs will introduce more people to the use of formal financial institutions, such as banks and credit unions, where the cost of sending money is less. Private-sector initiatives, such as the \$10 charge to transfer money now being offered by several institutions including Wells

Fargo, Bancomer, and the Border Federal Credit Union, have already contributed to lowering the cost of remittances from the U.S. to Mexico.



- The Partnership applauds private sector innovations in the area of remittances, including an initiative by Citibank and Banamex to allow Mexicans in the U.S. to take out a loan, and identify a recipient in Mexico who can then collect the proceeds in the form of supplies to construct a home in Mexico.
- The Partnership endorses the use of remittances to support development projects and create jobs in Mexico. For example, the Inter-American Foundation will grant \$2 million (to be matched by the private Mexican foundation Fundamex) to 90 communities in 21 Mexican states with the highest rates of poverty and migration to the United States. A variety of development projects will improve the quality of life in these rural communities and offer income-generating opportunities in agriculture, microenterprise and marketing.
- The Partnership endorses the Inter-American Development Bank (IDB)'s recent Multilateral Investment Fund (MIF) grant to Mexico to promote the development of international Automated Teller Machine infrastructure to improve access to banking services in rural Mexico. We support IDB and the World Bank efforts to fund additional projects.

"This project underscores the importance of the U.S. and Mexican relationship and the strong economic, social and family ties that bind our two nations. The MIF grant will help increase productivity and raise incomes by expanding the financial services offered to small businesses and microenterprises across Mexico."

José A. Fourquet
U.S. Executive Director
Inter-American Development Bank

Housing – Promoting Private Investment to Meet Demand and Strengthen Roots

- The Partnership will work to facilitate investment in Mexican housing by Mexicans in the United States through cross-border mortgages and construction loans. The project will design, implement, and evaluate a pilot program to link mortgages to the source of remittances. This project will include the development of model documents and legal and administrative infrastructure to assure cross-border recourse. The project will also include a certification program to assure both the sender in the U.S. and the recipient in Mexico that the transaction is secure. It also will include the development of an immigrant education program on savings, investing remittances in housing, and improving financial skills.
- The Partnership will encourage U.S. philanthropic organizations to design, finance and/or construct low-income housing. For example, the Partnership applauds a housing project undertaken by the USA/Mexico Strategic Alliance and the initiatives of Mexico's Adopt a Community program.

Small and Medium Sized Business – A Powerful Engine of Employment Growth

- The U.S. Export-Import Bank (ExIm Bank), the U.S. Overseas Private Investment Corporation (OPIC), the U.S. Small Business Administration (SBA), the U.S. Trade and Development Agency (TDA), the Mexican Nacional Financiera S.A. (NAFIN), the Mexican

Banco Nacional de Comercio Exterior, S.N.C. (BANCOMEXT), and the Secretariat of Hacienda and Public Credit (SHCP) will develop a specific list of pilot projects including: franchising, retail distribution services, housing, and regional tourism development.

- NAFIN will establish a program to encourage the participation of Mexican companies in qualifying U.S. franchise opportunities, to be financed by U.S. institutions, including OPIC. U.S. and Mexican financing institutions will seek to expand Mexico's licensing arrangements and retail distribution network through the exchange of public and private information.
- ExIm will expand its financial products to include a risk-sharing arrangement with NAFIN and other Mexican financial institutions to share up to 50 percent of certain risks, and provide local currency guaranties for loans to a large number of small- and medium-sized enterprises.
- The Partnership will identify ways of improving the efficacy and sustainability of small and microenterprise finance activities (savings, credit and other financial services) in Mexico. The U.S. Agency for International Development (USAID) and appropriate Mexican institutions, such as the Program of Microcredit of the Secretaria de Economia and the Popular Banking Program of BANSEFI, will cooperate to assist in the expansion of capitalization and technical support to the small and microenterprise finance sector, with the objective of assuring financially self-sustaining institutions. Areas of cooperation will include development of procedures for small and microenterprise finance regulation under the new Popular Savings and Credit Law, as well as exploration of new methods to increase capital, including use of remittances, portfolio guarantees, savings, and capital markets.

Farmers – An Important Component of Regional Economies

- The U.S. Department of Agriculture and the Mexican Agriculture Secretariat will encourage public-private partnerships in areas including farm credit financing and extension of technical advice and expertise.
- The U.S. Department of Agriculture and the Mexican Agriculture Secretariat will encourage modernization of warehousing systems to strengthen guarantee programs and make it attractive for market investors to acquire certificates of deposit for commodities. This also may be done through the stock market with the objective of offering repurchase agreements, on the one hand, or through infrastructure modernization, technical training and legal framework development, on the other.

B. Sharing Best Practices and Technical Expertise

A second critical component of the Partnership's strategy is to expand access to information and know-how. By creating new opportunities to share ideas and best practices and broaden access to public and private sector technical expertise, we hope to achieve a number of goals that support our main objective: promoting widespread economic growth. For example, we seek to help Mexican businesses – small- and medium-sized enterprises in particular – to identify new opportunities that will lead to job creation, and ultimately community development, in Mexico.

To meet these aims, the Partnership has devised new ways to facilitate the exchange of information between U.S. and Mexican business leaders and government officials.

- The U.S. Treasury Department will coordinate the provision of technical assistance to Mexico's Sociedad Hipotecaria Federal (SHF) to encourage securitization of mortgages and the creation of a secondary mortgage market in Mexico. In these efforts, Treasury will draw upon experts with experience in housing finance from private financial institutions, government-sponsored agencies (like Fannie Mae, Freddie Mac, and Ginnie Mae), and the U.S. Office of Federal Housing Enterprise and Oversight (OFHEO).
- Texas A&M University will direct an effort to work with appropriate Mexican and U.S. universities to develop agricultural extension courses for small- to medium-sized farms and agribusinesses (including co-operatives) on marketing, finance, management and negotiation.
- The U.S. Department of Agriculture and the Mexican Secretariat of Agriculture will examine the feasibility of launching a "greenhouse" program in regions with inadequate water supplies to promote cultivation of vegetables and flower products for which Mexico has a comparative advantage.
- The U.S. State Department will work with the Mexican Consejo Nacional Para La Cultura y las Artes (CONACULTA), the Programa de Apoyo Al Diseno Artesanal (PROADA), and the Mexican Secretaria de la Economia and BANCOMEXT to establish a network of contacts for indigenous Mexican handicraft producers to market their goods throughout the United States.
- NAFIN, SBA, OPIC and others will provide technical assistance to Mexican financial and investment managers and business executives on venture capital and private equity financing, and will help identify specific sectors in which private equity funding is needed. In April 2002, NAFIN, with the IDB's Multilateral Investment Fund, will sponsor a venture capital best practices seminar focused on policy-makers, authorities and Mexican entrepreneurs.
- NAFIN, in coordination with SBA, will provide financial and investment training to Mexican small business and hometown associations in the United States in areas with significant Mexican migrant populations. As a pilot project, NAFIN has begun work with Mexican hometown associations representing the states of Puebla, Guanajuato and Zacatecas.
- USAID, ExIm, OPIC, SBA, NAFIN and BANCOMEXT will work together to offer technical assistance in the development of new financial products.
- Agencies working with the USA Freedom Corps will collaborate with the private sector to provide volunteer experts in areas such as financial management, information technology, and business management to provide assistance on specific projects. Volunteers will also be provided to help communities in need of basic education and language skills.

C. Building Capacity for Future Growth

For Mexico to take full advantage of the benefits of its open markets and build capacity for future growth, the Partnership aims to promote investment in Mexico's physical infrastructure and its human capital. Better technological and social infrastructure play an important role in facilitating growth. Establishing incentives for private sector participation, such as increased insurance for larger-scale private investments in infrastructure, enabling better and lower cost sharing of information and coordination of business activity, and facilitating the exchange of innovations are all critical to long-term infrastructure growth.

Physical Infrastructure -- Investing in What Connects Us Together

Building on what Mexico has already begun, we need to work together to accelerate the development of high priority infrastructure projects. Given projected population growth and associated demands for municipal services, Mexico will look to attract investment to smaller infrastructure projects in more isolated areas as well as in the large-scale undertakings already on the drawing board. One of the Partnership's long-term goals is to craft a comprehensive approach to project finance, using the resources of TDA, ExIm, and OPIC financing, Mexican financial institutions such as NAFIN and the Banco Nacional de Obras y Servicios Públicos, S.N.C. (BANOBRAS). Long-term success will be measured in part by the ability to attract private sector infrastructure investment in key sectors such as transportation, electric power, and telecommunications.

- The Partnership supports enhanced U.S.-Mexican cooperation to identify critical Mexican infrastructure needs in such areas as airports, roads, ports and customs facilities to expedite trade so that productivity gains are not lost on the road to the market. TDA will work to encourage private sector participation in those projects.
- TDA will fund orientation visits to promote Mexican infrastructure projects to U.S. companies and to facilitate the exchange of information and technical expertise. For example, opportunities for U.S. information technology companies to get involved in Mexico's "e-Mexico" system to expand Mexico's internet infrastructure.
- TDA will fund feasibility studies for priority infrastructure projects developed by the private sector or the government. For example, TDA will fund a feasibility study for the public-private Operadora Estatal de Aeropuertos S.A. to plan an air cargo facility in Puebla.
- TDA also may support feasibility studies to expand the Ports of Veracruz, and Dos Bocas in the State of Tabasco; expand Intermodal Mexico, S.A.'s terminal network; plan Aeropuertos y Servicios Auxiliares (ASA) priority airport infrastructure projects; support PEMEX cogeneration facilities; and develop alternative energy projects.
- In order to build information technology connectivity and promote investment by the private sector, the Government of Mexico will follow through on telecommunications reform in a way that promotes competition and facilitates further investment.

Human Capital – A Vital Ingredient

The human ingredient is vital to the Partnership's goals. We hope to find better ways to teach business, entrepreneurial and managerial skills. We will use creative tools to disseminate these skills, particularly in the countryside. Our goal is to distribute opportunity more widely.

- TDA, ExIm and OPIC will support technical assistance and training for Mexican federal, state and local government authorities to build managerial capacity and enable officials to better assess the viability of infrastructure projects and finance techniques. For example, TDA may support technical assistance for state and local government water operating entities in conjunction with BANOBRAS and the National Water Commission modernization program Programa para la Modernizacion de Organismos Operadores de Agua (Promagua).
- The Partnership recommends that the Presidents call on the Governors of all 50 U.S. states to provide at least 500 scholarships in technical, regional/urban planning, and/or engineering careers for Mexican students. The State of Georgia recently announced such a scholarship program.
- The Partnership endorses the U.S. State Department and USAID's Training, Internship, Education and Scholarship Program (TIES) partnership with the academic community and private sector to initiate a \$50 million, five-year initiative to improve Mexican capacity to take advantage of new economic opportunities. Over a five-year period, with significant private sector funding support, TIES expects to implement some 35 partnerships between Mexican and U.S. higher educational institutions to provide approximately 750 scholarships for undergraduate and graduate studies.
- The U.S. Department of State will promote entrepreneurship and small business development by training Mexicans in less developed areas to use information and communications technology to improve production processes and access new markets.
- USAID, ExIm, OPIC, SBA, NAFIN and BANCOMEXT will work to develop training and technical assistance programs to assist less developed regions and sectors. Specifically, this effort will focus on the enhancement of managerial, financial and marketing skills of Mexican small- and medium-sized enterprise managers and farmers.

D. Linking Institutions with Shared Goals

The Partnership recognizes the benefits of improved coordination between institutions with similar goals. Since the Partnership's creation, there have been many opportunities to exchange information. We have identified areas in which coordination could enhance the delivery of services and increase the effectiveness of programs. Some examples of how the Partnership will improve institutional coordination include:

"This is a great opportunity for both the United States and Mexico, to show that in the new world scenario our countries have decided to walk together in the construction of a Partnership for Prosperity, based in the values of liberty and democracy that we both share."

Eduardo Sojo

Chief, Presidential Office of Public Policy
Mexico

- TDA and NAFIN will sign a Master Grant Agreement to facilitate TDA funding for feasibility studies or technical assistance to projects identified by NAFIN. TDA and BANOBRAS will soon enter into a similar agreement.
- The Partnership seeks ways to integrate Mexican small- and medium-sized enterprises (SMEs) into the global economy and cross-border supply and distribution chains using e-commerce and other information technology tools. Similarly, SMEs could be linked to larger companies in both countries. The work of the U.S.-Mexico Chamber of Commerce with its “Wiring the Border” project provides a useful model upon which to build.
- NAFIN, with assistance from the SBA, will establish small business development centers in Mexico, and will include technical assistance to Mexican Info-Centers and the Red Nacional de Centros Regionales para la Competitividad Empresarial (CRECE), a Mexican network of regional centers for private entrepreneurial competitiveness.
- The U.S. Department of Agriculture and the U.S. State Department will work to develop contacts for the Mexican government to consult on commodities futures issues, for example, including a Mexican white corn contract on the list of products traded, establishing delivery points in Mexico, and creating a virtual trading floor for joint investment in commodity markets.
- The United States and Mexico will seek to expand institutionalized cooperation between research and development centers, laboratories, and universities, and to create technical training programs/centers to develop information technology skills in rural Mexico, including English-language training. The State Department will contribute to this effort through cultural and academic exchange programs.
- The U.S. Treasury Department will work with U.S. state bank supervisors on remittance cost disclosure by money transmitters. The Partnership will work to make disclosed data available to consumers in the United States and in Mexico.
- The U.S. Federal Reserve Bank and the Banco de Mexico, have agreed to explore the possibility of implementing an Automated Clearing House (ACH) solution that would provide an efficient interbank payment mechanism for the exchange of payments between the United States and Mexico that is accessible to depository institutions.

“Partnership for Prosperity should identify and bring together sister institutions to enhance the capability of both countries to promote investment and growth in the region.”

Agustín Carstens
Under Secretary of Finance, Mexico

E. New Ventures/Pilot Projects

The Partnership identified several promising new ventures and projects that can be accomplished relatively quickly and allow us to test the effectiveness of the Partnership's overall strategies. These projects require access to capital, sharing of best practices and technical expertise, and investment in infrastructure. If successful, these pilot projects could be replicated more broadly across Mexico.



- The Partnership will work to spur development of the Gulf of Mexico Horseshoe Project starting with an information technology cluster in Southeast Mexico.
- Mexico will work to foster the creation of software parks and factories. The United States will contribute by facilitating private sector contacts.
- The Partnership will work to build on the existing “*Pueblos Mágicos*” initiative to develop a program to generate a new type of tourism linked to rural areas, small communities rich in culture and history (e.g., Guanajuato and Michoacan).
- The U.S. Department of Agriculture and the Mexican Agriculture Secretariat will match producers with agribusiness firms and retailers to encourage the direct commercialization of Mexican products in the U.S. For example, trade missions will be organized to provide match making and contract farming opportunities.
- The U.S. Department of Labor will continue to assist Mexico's Labor Secretariat in the ongoing development of an internet-based job and talent databank based on a U.S. model that will be used at employment service centers in Mexico.
- The Partnership will encourage private sector participation in the Mexican Social Telecom Fund which supports development of telecommunications infrastructure and rural connectivity to narrow the digital divide.

Implementation and Measuring Success

“Government likes to begin things – to declare grand new programs and causes and national objectives. But good beginnings are not the measure of success. What matters in the end is completion. Performance. Results. Not just making promises, but making good on promises.”

President George W. Bush

“We are striving to create a new culture of transparency, disclosure of information, performance evaluation and accountability... Only by identifying priorities clearly and following up on them permanently, will we be certain that we are on the right track.”

President Vicente Fox

The U.S. and Mexican officials who have led this effort will be responsible for a focused implementation of the Action Plan, including measurement of results. We will identify and match the appropriate private sector and government officials and resources for carrying out the programs and projects outlined in the Action Plan. We will continue to seek the advice of experts in business, academia and government as appropriate. We will confer intermittently to monitor progress and enhance the Action Plan as needed and report back to the Presidents in six months on progress. The Partnership will rate itself according to the following four concrete measures of success:

“...For an economy as a whole, economic progress itself is based on productivity growth. Higher standards of living cannot occur without productivity growth...”

John B. Taylor
Under Secretary of the Treasury
United States of America

- **Performance.** Although in the end what matters are results, we can’t get there without adequate performance from a host of public and private sector participants. Performance requires commitment, planning, the engagement of sufficiently senior personnel, and the dedication of resources to implement the plans.
- **Results/Productivity.** We must demonstrate that our actions advance the Presidents’ shared vision of unfettering the economic potential of every citizen so that each may contribute fully to narrowing the economic gaps between and within our societies. Our cornerstone measurement of success, therefore, will be whether the Partnership’s activities contribute to productivity increases in the parts of Mexico where growth has lagged and fueled migration.





- **Private participation.** We seek to leverage private sector expertise and resources. We will therefore regard the Partnership as more successful the more the public sector capitalizes on private sector expertise and resources.

- **Speed.** Time to market is an important measure in the business world. It should also be an important measure of the Partnership's success.

"Whatever policies we end up deciding are appropriate for increasing investment, we must keep in mind that our governments must play the role of facilitators, rather than of substitutes to private initiative."

Miguel Hakim
Under Secretary of Foreign Affairs
Mexico

Drawing on the common-sense, business-like approach of both Presidents, we propose to rate our performance with respect to these measurements using a traffic-light system of red, yellow, and green lights. While the more important ratings will be those we earn over the next six months and beyond, we have already started rating our efforts:

<i>Measures of Success</i>	<i>Assessment</i>	<i>Rating</i>
Performance	Through two conferences we have identified several areas in which to concentrate our efforts to facilitate private investment: housing, agriculture, infrastructure, information technology, and enterprise finance. We have obtained commitments of time and resources from several private and public participants to address issues in each of these areas. If we can sustain this level of commitment and complete projects in each of the identified areas, we hope to earn a green light.	 (yellow)
Results/Productivity	Although we have obtained some early results and prepared an action plan for next steps, most of our results will come in the future. It should also be noted that measuring productivity gains will itself be a challenge. Initially, we may have to measure productivity gains qualitatively.	 (red)
Private Participation	While we have reached out to scores of experts in the private sector, we can still increase the ratio of private to public sector participants and projects.	 (red)
Speed	In six months time we have launched a new partnership, held two conferences, achieved some early successes, and produced an action plan. If the action plan can be implemented on a timely basis, we hope to improve to a green light.	 (yellow)

Conclusion

We chose to present this report at the United Nations Financing for Development conference because we see the Partnership as an example of leveraging private resources to achieve economic development goals. Indeed, the Partnership is an innovative approach to meeting the challenge of financing for development and its goals are fully consistent with the goals outlined in the Monterrey Consensus.



We have crafted an ambitious Action Plan, but one that we believe is fully achievable with the sustained cooperation between our two governments that has brought us to this point in the Partnership. We welcome the

challenge our Presidents have presented us through their vision for this initiative. We have no doubt this Partnership will become a cornerstone of the relationship between our two countries.

"We have established the foundation for a new stage in our relationship with the United States. The fact that President Bush made his first international visit to Mexico has enabled us to establish the general framework for constructing a full, mature, and balanced relationship for the sake of shared prosperity."

Jorge Castañeda
Secretary for Foreign Affairs
Mexico

"Our dealings with Mexico impact on the lives of millions of Americans. Our common border is no longer a line that divides us, but a region that unites our nations reflecting our common aspirations, values and culture."

Colin Powell
Secretary of State
United States of America