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In mid-April, the Chamber of Deputies approved legislation that allows US, Canadian, and Chilean companies limited participation in the management of pension plans. Under a new government strategy, which takes effect on Jan. 1, 1997, retirement funds will no longer be managed exclusively by the social security institute (Instituto Mexicano del Seguro Social, IMSS) but instead will be turned over to private companies that will be known as Administradoras de Fondos de Retiros (AFORES). Workers will be given the choice of placing their funds in one of the privately managed plans.

Under the plan, foreign companies will be allowed to form joint ventures with Mexican firms to compete in the AFORES program. Participation from companies from the three countries will be limited to a 49% share. The legislation passed by the Chamber of Deputies specifically bars companies from any other country from participating in the AFORES program. The decision to allow US, Canadian and Chilean companies a 49% share was reached after lengthy negotiation among the four political parties represented in the legislature: the governing Institutional Revolutionary Party (PRI), the National Action Party (PAN), the Democratic Revolution Party (PRD), and the Labor Party (PT). The approval in the Chamber of Deputies represented a victory for President Ernesto Zedillo's administration, since the proposal had faced strong opposition in the legislature (see SourceMex, 04/10/96).

The Zedillo administration views the AFORES program as a new mechanism to encourage an increase in domestic savings in Mexico, which many economists consider essential to help ensure a long-term economic recovery. Shortly after passage of the bill, Chile's Provida and Mexico's Grupo Nacional Provincial announced the creation of a joint venture to manage worker retirement funds. Provida, which is one of the largest pension plan companies in Latin America, expects to invest about US$40 million in the joint venture. Provida's partner, Grupo Nacional Provincial which will own a 51% share in the joint venture currently holds a 20% share of the Mexican casualty and life insurance market.

In a related matter, Mexico's largest employer organization, Confederacion Patronal de la Republica Mexicana, (COPARMEX), rejected a proposal to allow the IMSS to participate in the AFORES program. In opposing the proposal, COPARMEX directors argued that the IMSS will have "inside information" because of its long management of pensions, and therefore will have an unfair advantage over competitors. On the other hand, participation by the IMSS is strongly endorsed by the labor confederation Confederacion de Trabajadores de Mexico (CTM). CTM leader Fidel Velazquez, who has lobbied heavily for IMSS management of AFORES, acknowledged the concerns that the IMSS could have an unfair advantage over other competitors. Nevertheless, he said IMSS participation would provide workers with the option of placing their retirement funds with a public

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institution rather than in a privately managed AFORE. "The CTM opposes any move to charge fees for the use of our money," said Velasquez.

Velazquez also denied reports that he and Finance Secretary Guillermo Ortiz had clashed over this issue. He said the CTM's position was drafted in consultation with both Ortiz and the legislators in the Chamber of Deputies who represent labor. For its part, the national manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, CANACINTRA) has also expressed interest in participating in the AFORES program. CANACINTRA president Carlos Gutierrez acknowledged, however, that the organization lacks experience in managing investments, and therefore may defer a final decision.

According to some financial analysts, the new pension legislation has significant shortcomings. For example, in a report published in late April, Grupo Financiero Banacci said that the law fails to take into account certain areas that were guaranteed under previous social security programs, such as the special housing fund for workers. In addition, analysts said the legislation does not mention what will happen to the money that had been deposited in the government's previous pension program (Sistema de Ahorro para el Retiro, SAR). "This would leave significant resources outside of the program," said Banacci analysts. (Sources: Excelsior, 04/22/96; Reforma, 04/11/96, 04/22/96, 04/23/96; Agence France-Presse, 04/16/96, 04/30/96)

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