

Liberalization of Financial Services Under NAFTA and its Effect on the Environmental Performance of the Agricultural Sector in Mexico

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As a result of its peso crisis in 1994–1995 and the need for capital, the Mexican government accelerated the financial liberalization process projected under NAFTA, increasing foreign ownership of banks. These changes and ensuing legislation greatly affected the credit market in Mexico. In general, research has shown that larger banks tend to prefer lending to large businesses as well as large-scale farmers, given the fact that their managerial structure makes the evaluation process for small businesses and farm loans costly and unprofitable.

Results from a survey conducted by OAS-DSD with major foreign-owned banks in Mexico showed preferences toward farm efficiency, large-scale farming, and crops such as maize and frijol in northern Mexico. Environmental pressures in this region, such as loss of soil, fertility reduction, salinization, agrochemical residues, and groundwater contamination and scarcity, could potentially be exacerbated by the lending criteria of private banks, which focus on efficiency rather than on sustainability, under the assumption that this approach will increase profitability and reduce risks. Even though financial institutions have not stated it officially, it is clear that in order to achieve “efficiency,” these producers have to sacrifice environmental benefits, for instance, by increasing the use of pesticides and fertilizers.

While this is an area that requires further research, to ensure sustainability the above-mentioned challenges must be addressed in an integrated approach, through dialogue at the national and regional levels, taking into account the roles of different stakeholders and bridging the gap in access to credit between small and large-scale farmers. Some recommendations include a shift in production and reallocation of resources toward crops that provide comparative advantages from a sustainability perspective, and the establishment of a specialized form of soft credit for farmers that choose to join an organic certification scheme. If it contributes to environmental protection, this last option could potentially benefit financial institutions by improving their image.