



Fourth North American Symposium on Trade and Environment

LIBERALIZATION OF FINANCIAL SERVICES UNDER NAFTA AND ITS EFFECT ON THE ENVIRONMENTAL PERFORMANCE OF THE AGRICULTURAL SECTOR IN MEXICO

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Hypothesis

NAFTA driven Liberalization of Financial Services Affects Farm Credit Policies and Credit Availability which in turn have important Environmental Effects



Methodology & Challenges

- **Surveys conducted to Foreign (19) and development Banks (4) in Mexico**
 - ◆ **Ownership Structure**
 - ◆ **Value of lending portfolio**
 - ◆ **Structure of lending portfolio (small or large farms)**
 - ◆ **Lending Criteria**

- **Interviews with key stakeholders**
- **Secondary data**
- **Challenges: access to Information and lack of research on addressed linkages**



Banking Consolidation in North America: Trend in Mergers and Acquisitions

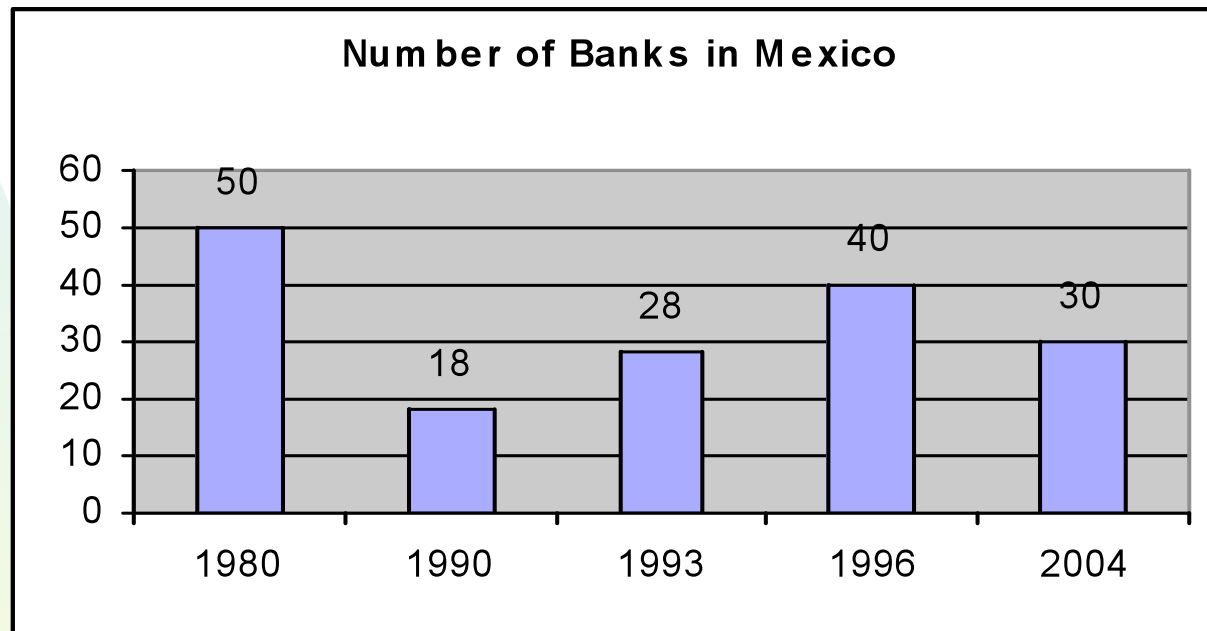
- **Number of Banks has decreased Foreign ownership has increased**
- **Perception that consolidation allows greater “efficiency and profitability”**
- **United States: FRB, by 2006 approximately 50% of domestic business loans came from foreign owned financial institutions**
- **Canada: One of the highest bank concentration ratio in the World**
- **Effects in the United States and Canada: less competition, and reduced loans to small businesses including farms.**



Early Limitations and Arrival of Foreign Banks in Mexico

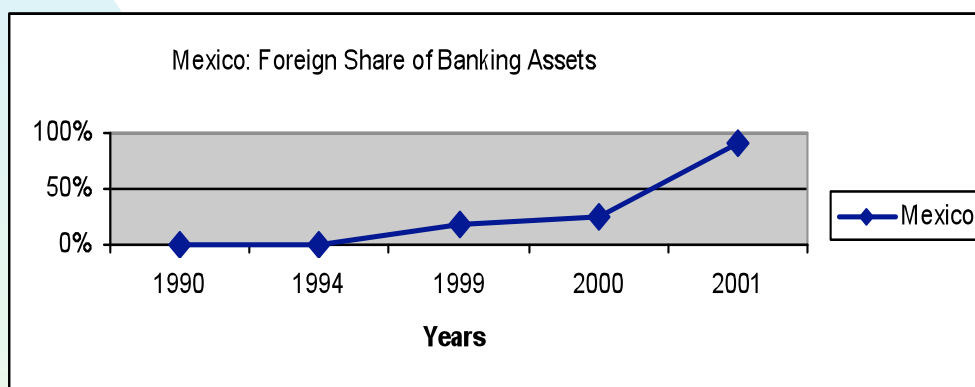
- Different factors contributed to a constant upheaval of the financial sector since the early 1980s:
 - ◆ Nationalization
 - ◆ Privatization
 - ◆ Peso Crisis
- NAFTA Provisions promised a more liberalized banking sector through a slow process. (6 year transition)
- The peso drop by 40%, triggered high inflation, and almost collapse of Mexican financial sector.
- Urgent need for capital, accelerated liberalization process.

Foreign Banks in Mexico

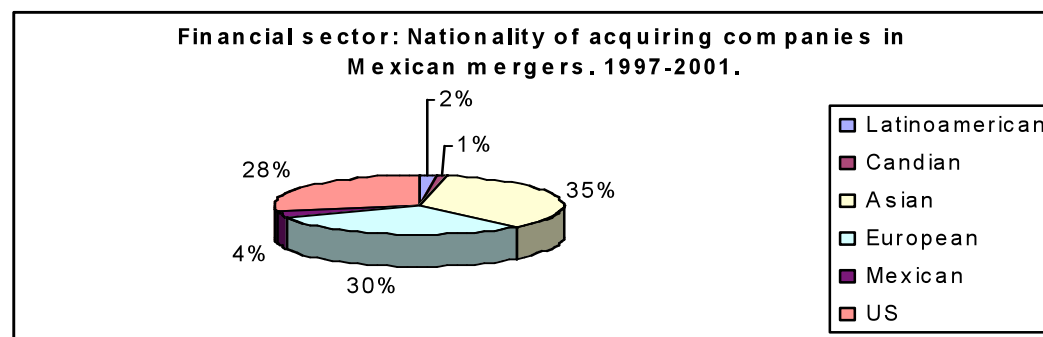


Source: Organization of American States, 2007

Foreign Banks in Mexico



Source: ECLAC, 2002. Foreign Investment in Latin America and the Caribbean



Source: ECLAC. Competencia Bancaria en México. Marco Avalos- Fausto Hernández Trillo



Liberalization and Access to Farm Credit

- One of issues resulting from banking consolidation in the United States and Canada has been a change in lending policy
- Larger banks are less likely to lend to small businesses and small farms.
- **USSBA:** overall farm loans experienced small increases, but slight decline in small farm loans (under \$250,000), especially the smallest ones (under \$100,000).
- Small banks are much more likely to lend to the agricultural sector, particularly to small farmers
- In 1999, banks with assets lower than \$100 million lent out about 10% of their assets to farmers, nearly 90% of which were small farms. At the same time, large banks with more than \$10 billion in assets only gave out loans valued at 0.1% of their assets to agriculture, and less than 30% of it went to small farms
- Farmers depend for much of their credit of small, rural banks that are more community-friendly.



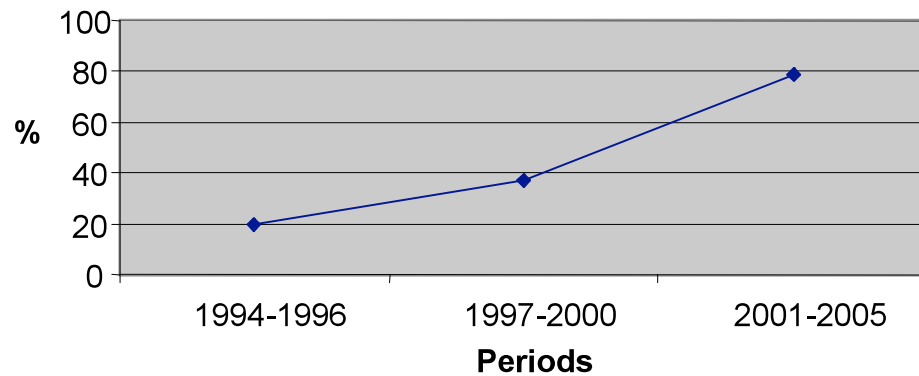
Liberalization and Access to Farm Credit in Mexico

- Foreign Banks brought new banking practices. More streamlined, stringent policy.
- During the early 1990s, prior to NAFTA, different liberalization measures greatly increased the growth of private lending to farmers.
- Average annual growth was at 17% from 1990 to 1994. Private lending represented nearly three-quarters of the entire agricultural credit market.
- After the peso crisis and the accelerated process of financial liberalization, credit to farmers began to drop rapidly



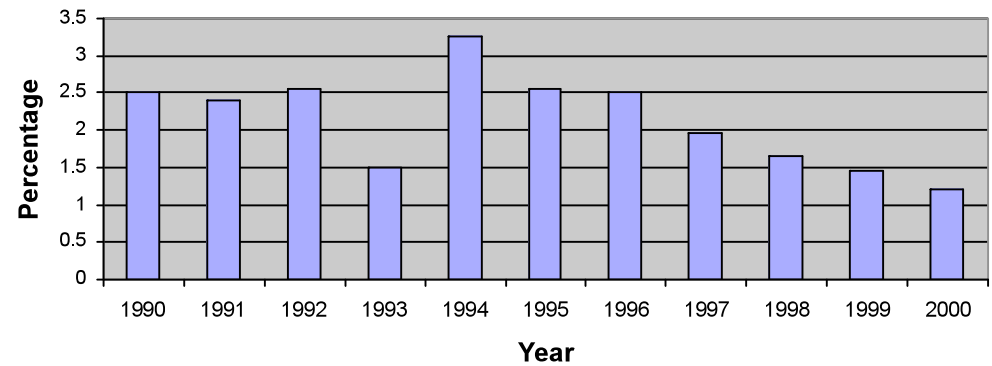
Liberalization and Access to Farm Credit in Mexico: Decline in Agricultural Credit

Percentage of Credit Decline in the Mexican Agricultural Sector during the period 1994-2005



Source: ECLAC, the World Bank and IADB

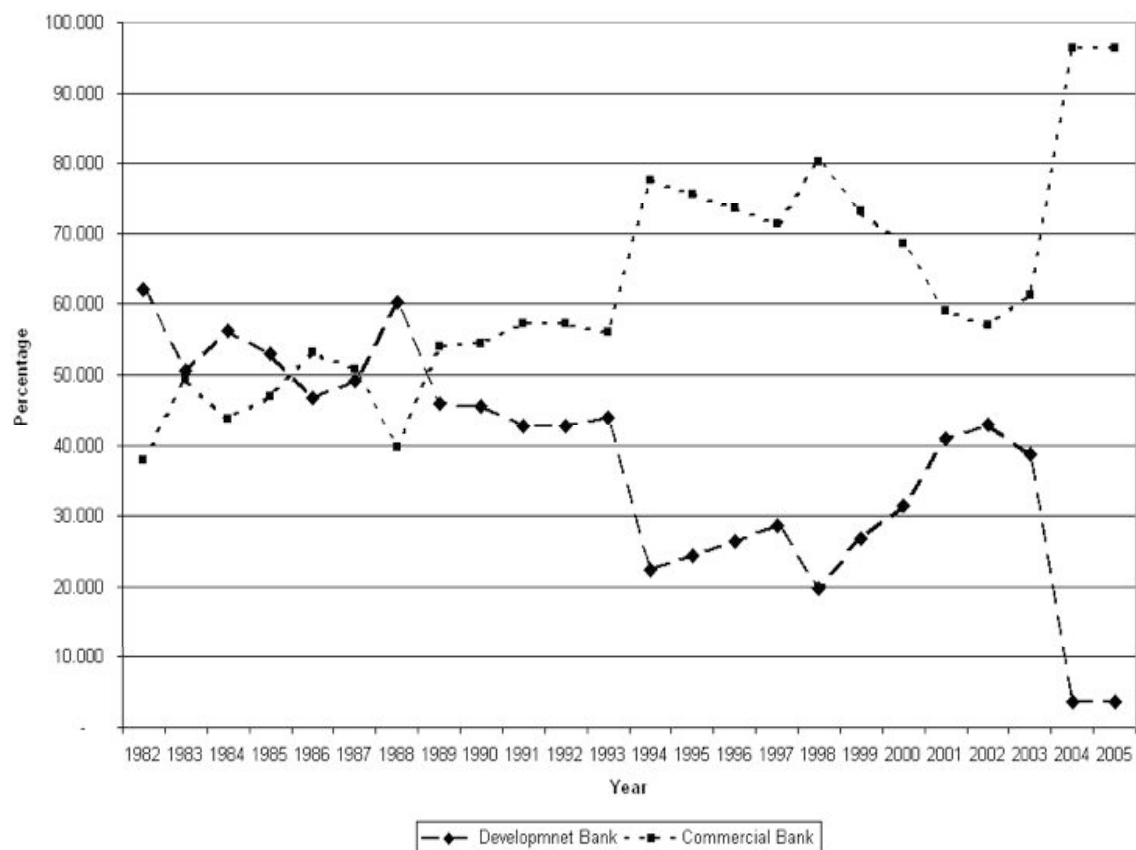
Agriculture Credit in Mexico, 1990 - 2000 (% of GDP)



Source: Mtro. Reyes Tépac M., y Lic. Raquel Martínez Monroy . Consejo Nacional Agropecuario. Política de asignación del crédito agrícola en México durante el período 1994-2000.



Liberalization and Access to Farm Credit in Mexico: Percentage of Agricultural Credit



Source: Richter, Susan m., Steve Boucher, Chris Woodru. The Structure of Rural financial markets in Mexico. 2006



Liberalization and Access to Farm Credit: Amount of Credit lent by BANRURAL and FIRA (2000 Million Pesos)



Source: Richter, Susan m., Steve Boucher, Chris Woodru. The Structure of Rural financial markets in Mexico. 2006

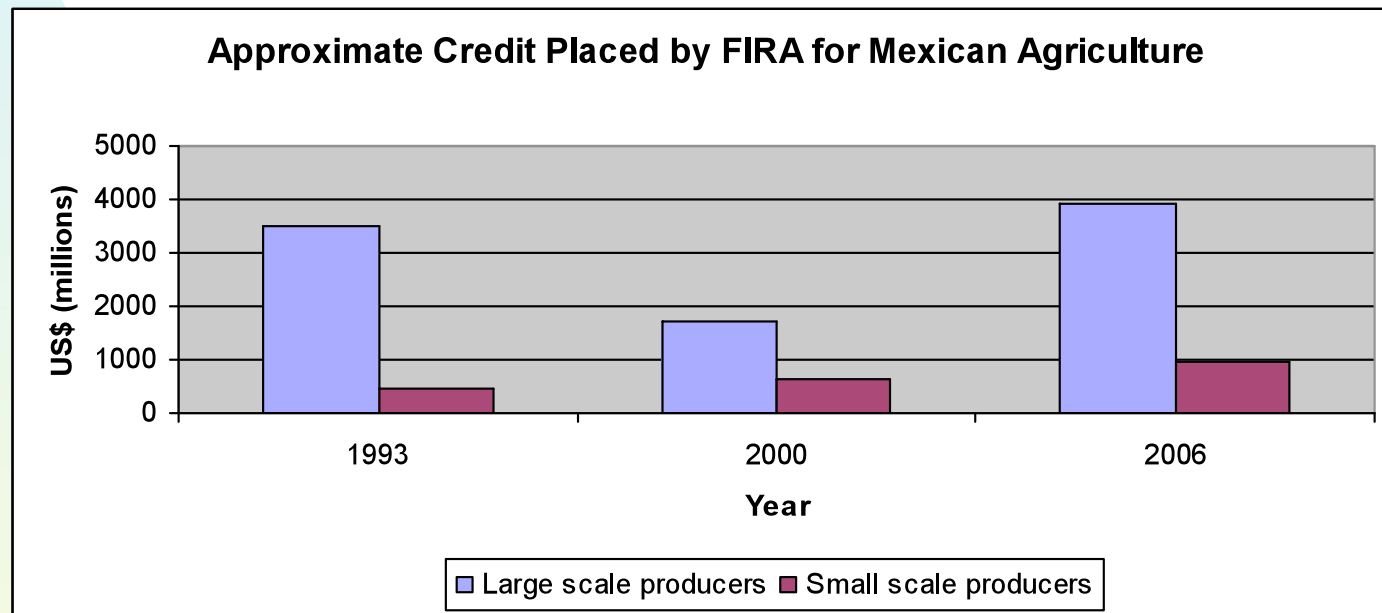


Liberalization and Access to Farm Credit: Mexico

- Survey results showed preference towards farm efficiency, large scale farming (1,000 hectares and above) and crops such as maize and frijol (70% of surveyed banks).
- Shrinking portfolio of agricultural loans has been concentrating in the northern states of Mexico where farming meets these criteria, leaving small farmers in the south in a more vulnerable position.
- No Sustainability guidelines found in lending criteria of any of the surveyed banks.



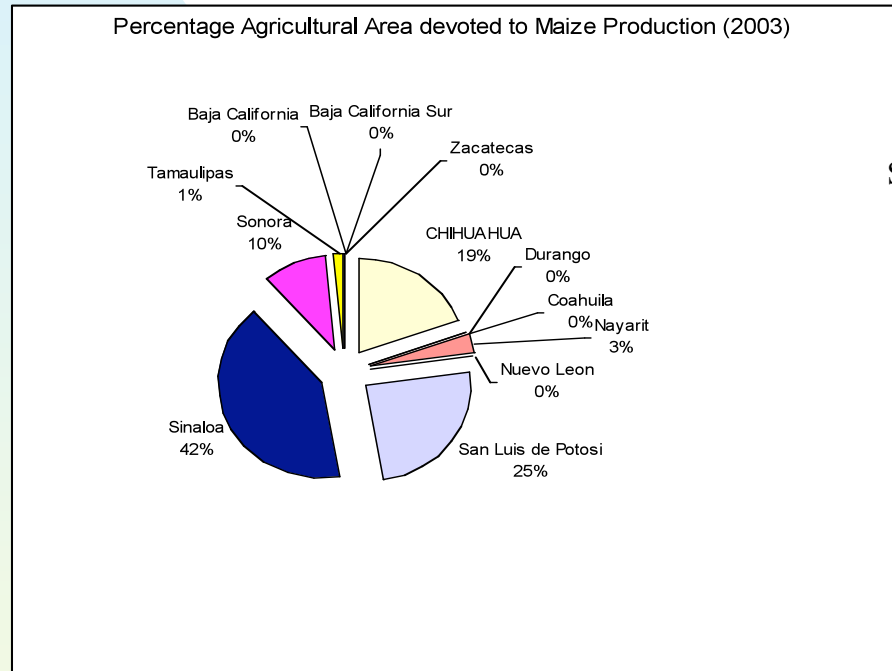
Liberalization and Access to Farm Credit in Mexico



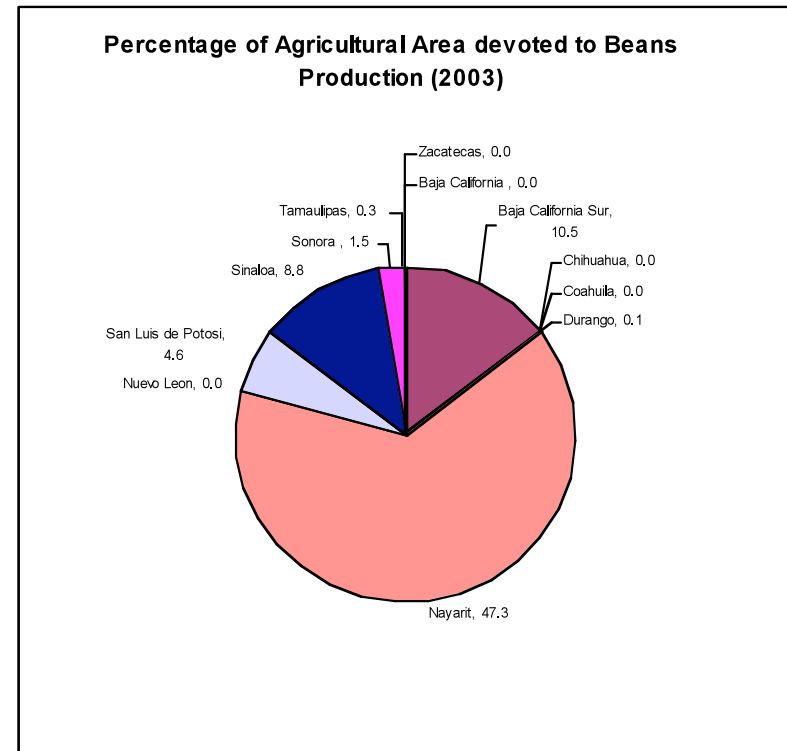
Source: Organization of American States, 2007



Liberalization and Access to Farm Credit: % of Agricultural Area devoted to Maize and Frijol in Northern Mexico



Source: Prepared by OAS with data from Sagarpa. 2007.



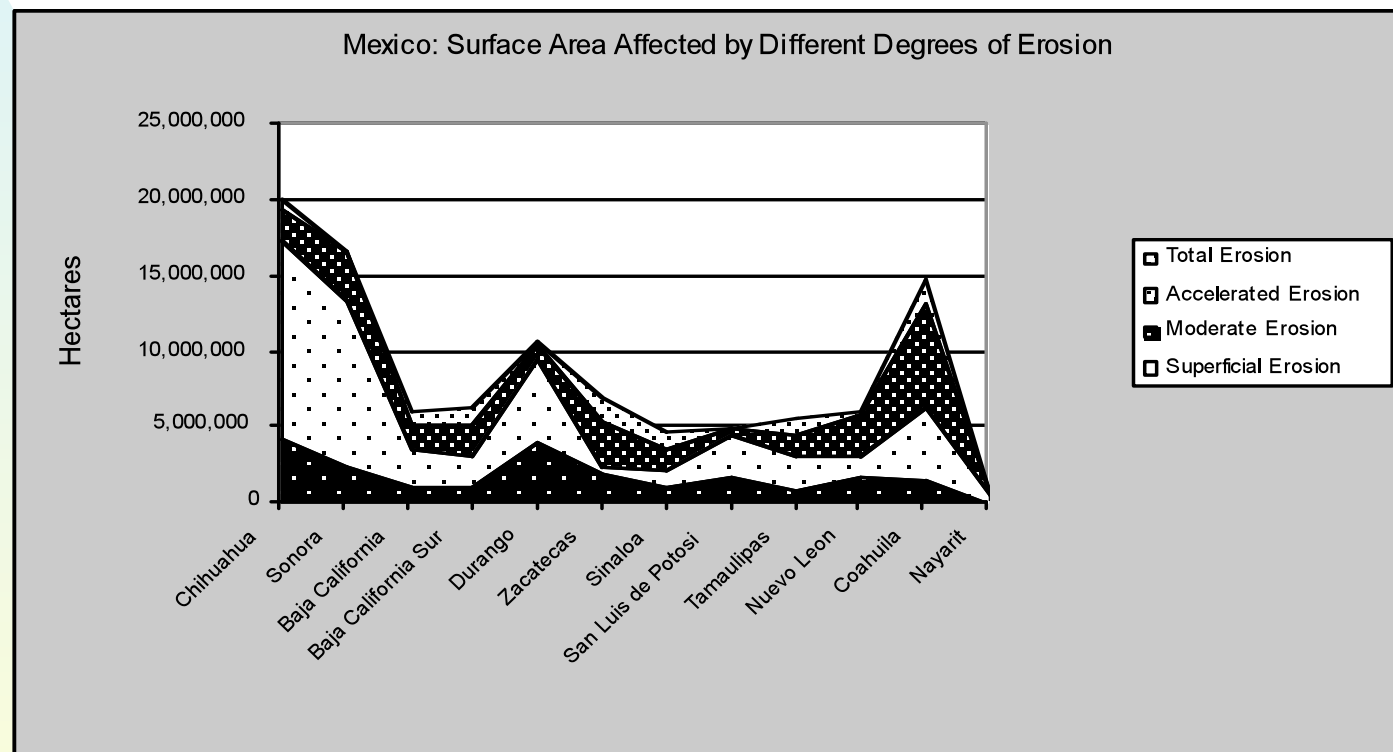
Source: Prepared by OAS with data from Sagarpa. 2007.



Environmental Effects in Agriculture related to Liberalization of Financial Services in Mexico

- Environmental effects mostly linked to the fact that lending criteria of private banks focuses on efficiency rather than on sustainability.
- Producers have to sacrifice environmental benefits by increasing the use of pesticides and fertilizers.
- Loss of soil, fertility reduction, salinization and agrochemical residues.

Environmental Effects in Agriculture related to Liberalization of Financial Services in Mexico



Source: FAO and INEGI



Environmental Effects in Agriculture related to Liberalization of Financial Services in Mexico

- Groundwater contamination and scarcity are also suffered by northern states with higher fractions of agriculture with irrigation.
- Water efficiency rate of these states is approximately 60% and about 40% of the water is lost due to inefficient irrigation practices that also allow significant runoff to be dumped into rivers and sea without any treatment



Conclusions

- Further Research is required
- Problems of the agricultural sector in Mexico are multiple and derived from different sources,
- Post NAFTA private farm credit policies implemented by foreign owned financial institutions in Mexico have contributed to a decline in credit for agriculture
- These policies are an incentive for large scale export oriented farming and have potentially stimulated overproduction of maize and frijol in northern Mexico.
- Liberalization of financial services, accelerated by the peso crisis and agricultural liberalization, have potentially contributed to certain environmental pressures in the agricultural sector but they cannot be considered the sole source of such pressures.



Recommendations

- Further Research on the linkages addressed by paper
- Challenges must be addressed in an integrated approach, through dialogue at the national and regional level, taking into account the roles of different stakeholders and bridging the gap in access to credit between small and large scale farmers,
- Shift of production and reallocation of resources towards crops that provide comparative advantages including from a sustainability perspective,
- Establishment of a specialized soft credit for farmers that choose to join an organic certification scheme.



Thank You

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