Public Disclosure Authorized

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Results Profile: Mexico Finance

Overview

A decade ago, Mexico's development banks accounted for one-fifth of the total credit provided by the banking sector, yet their operations were often inefficient, ineffective and blighted by high costs and undue risks. The International Bank for Reconstruction and Development (IBRD) worked with the Mexican government to slim down the number of development banks and to make them more effective and accountable – thereby ensuring public funds were being well-targeted and efficiently used.

Full Brief—5 Pages
Transforming Mexico's Development Financial Institutions—PDF, April 2010

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Challenge

At the beginning of the 2000s, state ownership in financial intermediation in Mexico accounted for about 20 percent of the total credit of the banking system, provided through development financial institutions (DFIs) and funds. Development banks faced a number of problems; some had unclear mandates and activities that overlapped with commercial banks. Their operations were often inefficient with high costs, too many employees and weak internal controls.

Approach

Based on recommendations of the joint World Bank-International Monetary Fund (IMF) Financial Sector Assessment Program in 2000, the Bank used ongoing and new lending to transform development financinal institutions. For example, a restructuring loan helped transform the Financial Housing Aid Fund into the Federal Mortgage Corporation, a well respected and market-engaged institution.

A Rural Finance Development Structural Adjustment Loan assisted in the liquidation of Banrural, an institution that introduced huge distortions in the rural finance markets, and instead established the Financiera Rural to provide financial services to small/mid-sized rural markets.

Finally, a Savings and Rural Finance Loan helped with the transformation of Pahnal, an economic vehicle to invest small depositors' savings in risk-free government instruments, into

More Results

35%

increase in credit portfolio supported by development banks, during the worst months of the financial crisis

MORE INFORMATION

- World Bank in Mexico
- Financial Sector Assessment Program
- Sociedad Hipotecaria Federal
- Nacional Financiera

PARTNERS

- Inter-American Development Bank

Bansefi, to provide cost-pooling for technological development and a common marketing brand for cooperatives.

Results

Through reform, Mexico has achieved a more targeted, accountable and sustainable approach to DFIs, including:

Rationalization. The number of DFIs was halved to six through mergers and closure of poorly performing institutions. DFIs broadly support the development of different financial market segments, in trade, infrastructure and housing.

Governance structure. DFI Boards strengthened their independence through mandatory participation of independent and qualified members, and improved disclosure and transparency through annual submission of operational and financial plans.

Transparency and accountability. DFIs are now required to publish indicators measuring their services to target populations. The Ministry of Finance is required to conduct and publish independent evaluations on DFIs.

Financial performance. All DFIs showed positive positions in 2008 and during the first half of 2009.

Innovation. DFIs in Mexico now provide new, market-friendly instruments to promote access to financial services for small- and medium-sized enterprises.

Counter-cyclical role. From September 2008 through March 2009, during the worst of the financial crisis, the credit portfolio supported by development banks increased by 35 percent.

Toward the Future

A joint Bank-Ministry of Finance conference will take place in June 2010 to develop a blueprint for further development bank reform. Remaining challenges include better DFI coordination, performance measurement and effective use of DFIs as counter-cyclical policy instruments.

The Bank Board approved in 2008 a loan to Sociedad Hipotecaria Federal to strengthen its financial capacity, to develop and consolidate markets for housing finance, and to expand access to lower income groups. A loan to Nafin and Bancomext is in preparation to foster the market development of financial services for small- and medium-sized enterprises, the export sector, and private sector investment projects.

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