

- **Finanzgruppe**
Sparkassenstiftung für internationale Kooperation

**German Savings Banks Experience as a Contribution to Conceptualize
Cooperative Banking Reform in Mexico**

Delhi, 23 November, 2007

In 2001, Mexico initiated the reform of its cooperative banking sector. Cooperative Banks have a history of more than 40 years in Mexico. In the late 1990s, the sector consisted of about 650 institutions serving over 2 million people mainly in poor and marginalized areas. Anyway, the sector was in a state of crisis with widespread frauds and bankruptcies. As a result, the newly elected Government under President Vicente Fox decided to restructure and strengthen the cooperative banking sector. The political objective was to fight financial exclusion and to bring access to finance to more people, especially in marginalized areas, through the cooperative banking sector.

The task of developing a masterplan for the restructuring efforts was given to a small but high-level working group in the Ministry of Finance. The restructuring process started with an analysis of the situation in Mexico and an analysis of international experience and best practice in cooperative banking. As a result, the Ministry of Finance decided to follow the German model of cooperative banking.

Cooperative banking in Germany looks back at 200 years of experience. They were founded during the beginning of the industrialization process of the German economy - and, in fact, they are a result of this process – in order to make basic financial services available to lower income groups, traders and craftsmen. And a second group of financial institutions emerged at the same time and with the same focus: the savings banks or “Sparkassen” with their German name.

Sparkassen and cooperative banks both were founded on the local level, and they have an identical organisational structure in their respective financial groups. The major difference was and still is the legal form and ownership: Sparkassen are institutions under public law, owned by local municipalities. Cooperative banks are cooperatives owned by their members.

Sparkassen and cooperative banks in Germany developed into fully fledged banks during the last 40 years, serving their customers through large financial institutions networks. Together, the 457 Sparkassen and 1255 cooperative banks have more than 500,000 staff in over 25,000 branches all over Germany. Anyway, they are competitors in a very competitive market.

The Mexican Government decided to ask the Sparkassen group in Germany for assistance in the restructuring process. Since 1992, the Sparkassen have an own legal entity for providing technical assistance worldwide, the Savings Banks Foundation for International Cooperation (SBFIC). SBFIC's mandate is to make the German savings banks experience available to financial institutions especially in developing and transition economies.

At an initial phase of the restructuring process in Mexico, the main contribution from the German side was to demonstrate that a network system of small local banks can work and how it works. Documents were made available, including legal framework, bylaws and statutes, but also financing models, internal regulations and others. Various high level delegations visited Germany and learnt about the division of labour in the Sparkassen network, the role of federations, delegated supervision, internal training centers and much more. German experts visited Mexico and had intensive discussions with representatives from the cooperative banking sector, but also

from Ministries, Government, Central Bank as well as the Banking Supervision Authority.

In 2001, a formal project was set up and funded by the German Government. A project office in Mexico City was established. It was agreed that the purpose of the project was to support not individual institutions but the overall development of the cooperative banking sector. The services of the project are available for all stakeholders – politicians from all parties, the Banking Supervision Authority, federations and individual institutions. The project has contributed to the adjustment of the German model to the Mexican environment, the development of a concept for federations, the design of prudential regulation for the sector and many more areas.

As a result, the project office is being regarded as an independent advisor and “think tank” for the development of the cooperative banking sector in Mexico. Most important, it is an independent moderator for discussions on the further development of the cooperative banking sector in Mexico.

In addition to this, SBFIC has taken part in different Technical Assistance project for the cooperative banking sector. At the end of 2007, SBFIC is responsible for the restructuring of 170 mostly small cooperative banks in Mexico in the framework of two Worldbank funded projects. SBFIC has a total workforce of more than 50 people in 7 offices in Mexico.

The restructuring process of the cooperative banking sector in Mexico is going on. Today, only some 30 institutions have received the authorisation, i.e. a limited banking licence, by the Banking Supervision Authority; more than 300 are still on their way. The cooperative banking law has undergone two major adjustments, introducing exception clauses for very small institutions and those not taking deposits. In consequence, the German Sparkassen will continue to support the reform of the cooperative banking sector in Mexico.