

REACHING THE HARD TO REACH:

Comparative Study of Member-Owned Financial Institutions in Remote Rural Areas

Case Study

Mixtlan Rural Cooperative, Mexico: Does Being Federated Help Remote Outreach?



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with funding by **FORD FOUNDATION**

Antigonish, Nova Scotia, Canada • June 2008

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ISBN 978-0-9680725-7-8

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Mixtlan Rural Cooperative, Mexico: Does Being Federated Help Remote Outreach?¹

Executive Summary

Cooperatives have long been recognized for their ability to reach rural populations. Legitimate concerns, however, have been raised regarding cooperative performance: Low repayment rates, problematic governance linked to over-subsidization, and domination by local elites, among others. Smaller, more decentralized member-owned institutions (MOIs) can face liquidity shortages and demand for more diverse products than local management can handle. In this context, large cooperatives or federations of cooperatives with economies of scale and a stable asset base could be one solution to these concerns. Mixtlan, a rural cooperative within a largely urban federation in Mexico, illustrates this scenario.

In Mexico, there is a trend towards the creation of bigger cooperatives and cooperative federations that reach formalization and scale, through regulation. While this policy is an important step to reduce risk in the sector given past fraud, there are some worries about the viability of remote cooperatives under the new rules. However, Mixtlan case proves that the situation could be different. Mixtlan has shown strong rural outreach that could not have been achieved to the same extent as a savings and credit cooperative (SACCO) on its own.

By obligating SACCOs to federate, it places proportionately more pressure on remote SACCOs that find it difficult to pay the costs of compliance. Operational sustainability is quite low as a result and portfolio quality has been diminishing. Unfortunately, excess savings has not been taken up by members through loans.

Nevertheless, for a relatively small rural savings and credit cooperative, Mixtlan has shown strong growth both in members and in total assets. The growth strategy has focused on expanding to new feeder communities (i.e. more remote) rather than trying to deepen within existing communities.

The federation's scale has provided important efficiencies and the use of a remote collector have reduced per-member costs even further. The efficiencies gained through product development and standardization through the federation has allowed Mixtlan to offer a range of savings and loan products at better rates than their competitors. The urban presence is crucial for market linkages including

¹ The author gratefully acknowledges: Don Eustolio Guerra Reyes; Lic. Ramón Octavio De León De León; Lic. Felipe Figueroa Ruiz; Lic. Arturo Mora Cárdenas; Lic. Gabriel Gutierrez; Lic. Carlos Lozano; Lic. Daniel Domínguez Velásquez; Lic. Wendy Sánchez Nuñez; Lic. José Martín Lima Velasquez; Lic. Victor Miranda Soberanis

remittances, a highly demanded service for remote members. Mixtlan is the only service provider in the area offering this service.

Mixtlan members report that they value Mixtlan over competitors for the products mainly used for emergencies. They also valued cheaper interest rates on loans and the close proximity. In the most remote communities a mobile collector comes to them once per week. Members also remarked on the trust and treatment developed between Mixtlan and the communities. This is reinforced by the high retention rate and growth in savings.

While member ownership in the cooperative is important to them, it will not retain them if continued service quality is not kept. Also, while members report their ability to participate in decision-making, most rural members do not attend meetings or question financials provided. They trust their more educated representatives to make fair decisions on their behalf. Particularly for remote members, participation in meetings is costly and time-consuming.

Context and Case Selection

National Context: Recent Context of Financial Crises

Mexican crises in recent decades have had a profound effect on the economy in general and the rural sector in particular. The economic crisis of 1982 and its ensuing inflation, financial market instability and capital outflow brought new fiscal and monetary policies, and commercial bank controls that affected the rural economy negatively. In that context, rural cooperatives became a financial alternative for this unprotected sector.

During the period 1982-1991, the Mexican economy stabilized, GNP per capita grew and foreign trade was liberalized. There was evidence that the rural sector was being negatively affected by these new policies, so the social programs were designed and implemented to support the agricultural sector through the new scenario.

At the beginning of 1994, an armed group, the Zapatista National Liberation took control of different cities, and the official party candidate to the Presidency of Mexico was assassinated. The political and social instability threw the country and the economy back into a crisis situation. In order to correct these imbalances, the currency was devalued. At the end of 1994, Mexico was on the brink of financial collapse, inflation exceeded 30% in 1995. The poorer sectors were the worst affected with few or no assets to protect themselves from these shocks.

The Mexican agricultural sector deteriorated due, in part, to government policy. The sector was regulated and subsidized by government programs that funded rural areas through subsidies and transfers directed to peasants. These programs lacked control of recovery. Rural member-owned cooperatives were not given proper supervision or monitoring support resulting in serious fraud problems.

Over the years, the steady reduction of agricultural production and salary gaps contributed to high rates of migration from the rural areas to large cities in Mexico and the United States. From 2000 to 2005, close to 1.8 million jobs in the rural areas were lost (Bartra, 2003). Remittances became a key source of financing for rural marginalized areas, particularly from the United States. Since 2002, government policy for reducing poverty focused on subsidies to the poorest population of the rural areas. Cash-conditioned transfers were used for food, clothes and seed, education, health, farming and small enterprises, which provide help but they also cause liquidity excesses in these areas.

Mexico operates in an open market economy with growing domination of the private sector in agriculture and industry. Recent infrastructure improvements (transportation, communication and energy) have increased competitiveness. The North American Free Trade Agreement of 1994 has tripled trade with the US and Canada. However income disparity is high and the per capita income is one-quarter that earned in the US (CIA, 2007).

Member-owned Sector Dominated by Cooperatives, largely Rural, and now Federated

The outreach of the formal financial sector in Mexico is limited. Approximately only 28% municipalities have bank branches. At least 25 million people of productive age do not have formal financial services such as banks, stock market or other intermediaries (Mexican Council of Popular Savings and Loans). Financial services are concentrated in a few states: 10 of the 32 Mexican states have 70% of the nation’s bank branches.

The microfinance sector provides an alternative through registered microfinance institutions (MFIs) including civic associations, public limited companies, productive trusts, financial societies of limited liability, credit unions, cooperatives and mutual societies, as well as MFI federations. After 50 years, Mexico’s 106 million people have 3 million microfinance accounts.

Figure 1: Microfinance Institutions in Mexico (2005)

Institution by legal type	Type of financial services and target group	Total no. of institutions (%)	Total clients (%)	Total out-standing loan portfolio (%)
Civic Associations (non-profit community organizations)	Largely gov’t channeled loans and grants for social purposes	41%	14%	16%
Public Limited Companies	Microcredit, profit-oriented	1%	2%	1%
Productive Trusts	Private & public funds for medium enterprises	5%	2%	21%
Financial societies of limited liability	Guaranteed loans for members for specific purpose such as a car	18%	62%	45%
Loan Unions	Productive inputs on loan largely through dev. banks	16%	13%	14%
Cooperative or Mutualist Societies	Member-based loans and savings	19%	7%	3%
		100%	100%	100%

Source: El portal de las Finanzas populares en México (2005)

Financial societies have the largest market share both in terms of membership and scale of lending operations. Within the registered microfinance sector, approximately

35% (shaded area) would be considered member-owned. In 2002, the MOI sector comprised an estimated 600 societies offering popular saving and loan activities of which 388 societies were formally registered. Though the societies were located in 30 states of the country, close to half were concentrated in 5 of the 32 states of Mexico.

The *first* characteristic of the MOI sector is its rurality, with 49.4% located in rural areas, only 16.5% in urban areas, and 34.1% with members in both areas. The *second* feature is that most MOIs are organized in federations. Presently there are twelve registered federations, according to the National Commission of Bank and Values (CNBV). Federations, considered to be second-tier institutions, grant auxiliary supervision and offer their affiliated institutions technical assistance. In the present regulatory framework, The Popular Savings and Loans Law of 2006 (LPSC) and the CNBV require MOIs to be federated to mobilize deposits and on-lend. If an MOI does not become part of a Federation there is no legal protection for members' resources in case of bankruptcy or fraud.

Tightened Regulation of Cooperatives

In the 90s, after some fraud problems in the cooperative sector and the haphazard growth of the "popular saving and loan" sector, a new regulatory framework was created to regulate the more than 600 financial organizations with diverse legal statutes (SACP/BANSEFI). The legal statute that organizations should adopt was not always clear given the varied and overlapping types of institutions operating in the system. This confusion, combined with the high incidence of fraud has created a high-risk operational environment.

In response to this confusing and unstable scenario, in 2001 the Congress approved the New Law of Popular Saving and Credit (LPSC) and the Statutory Law of the National Bank of Financial Services, BANSEFI. Within this law, the National Commission of Bank and Values (CNBV) is responsible for authorizing the federations; to regulate, supervise and audit them. BANSEFI operates like a central financing facility and third-tier federation for the second-tier institutions (federations). BANSEFI has 554 branches providing retail finance to its federation members and wholesale finance to local MOIs, once they comply with the law. BANSEFI supports compliance to legislation and regulation but does not directly supervise it.

BANSEFI is the successor to that country's state savings bank that has been restructured to become the apex organization for a reformed popular savings and credit movement. As local cooperatives come into compliance with the new regulatory framework, they have access to technical assistance, new technologies, accounting support and a common brand *La Red de la Gente*. They also have access to BANSEFI's social benefits and remittances distribution capacity which allows them to offer savings products that can receive social benefits or remittances channeled through BANSEFI. BANSEFI has negotiated a number of contracts with government and banks abroad to receive and distribute such money. BANSEFI's research shows that within three to four cycles of a client receiving such inflows, their account then typically starts to be used for voluntary deposits of cash. Because BANSEFI also manages pre-borrowing savings accounts for a number of low cost

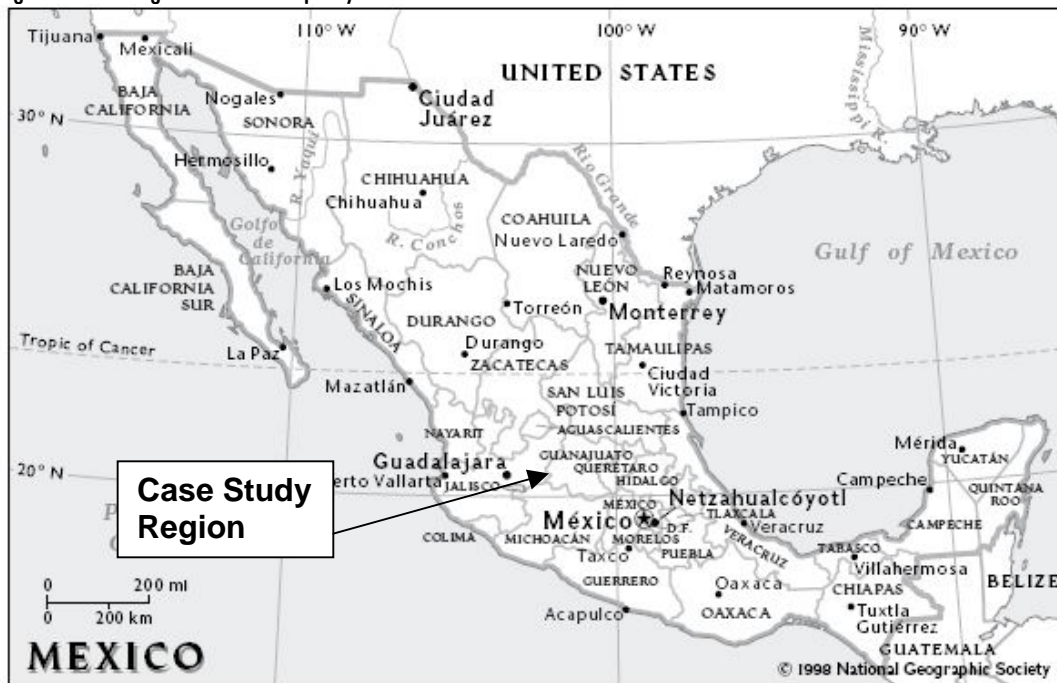
loan schemes, it is also able to offer migrant workers the option to qualify abroad for cheap housing finance for either themselves or their relatives (Peachey, 2006). BANSEFI's long-term objective is to become a wholesale financing facility for member-owned institutions self-financed by their membership.

Local Context: Mixtlan Cooperative

The intention of the research was to help understand different types of MOIs' potential for depth, breadth, scope, length, worth and cost of remote outreach. The second level of analysis examined how outreach was affected by three areas: Networking and linkages; governance and ownership; and regulation and supervision. Mixtlan cooperative was chosen as the case study in order to show how a rural MOI could achieve a solid operational model and at the same time provide significant remote outreach. Also, this case allows us to show the relevance of a small SACCO becoming part of a federation. This case was also chosen because the federation was rated as a strong federation by Mexican financial federated institutions.

Mixtlan cooperative is located in Mixtlan municipality that covers over forty localities in the north Mountain range of Jalisco State. In Mexico, each state comprises several municipalities and each municipality comprises several localities. A concentration of municipalities or localities is called a region. Mixtlan works in a rural (under 15,000 inhabitants) and remote area, the nearest input supplier being a distance of 247 km. Mixtlan is one of the few rural cooperatives within the largely (70%) urban UNISAP Cooperative Federation.

Figure 2: Locating Mixtlan Municipality



National Geographic Society: <http://www.nationalgeographic.com/xpeditions/atlas/>

Among rural MOIs, Mixtlan shows one of the highest rates of local outreach, nearly 90% (Figure 3). The rate may look high due to the strong rate of out-migration. Between 2000 and 2005, the municipality's population fell by 16.73% due to migration to the US, mainly young men between 14-32 years of age. Many people who migrate, particularly from remote localities, remain members of their MOI. As a result, there are localities where MOI membership is greater than the actual size of the population.

Figure 3: Rural MOIs within UNISAP Federation

MOI	Marginalization level, 2000	Distance to nearest urban centre (km)	Population (2000)	MOI membership Dec. 2006	MOI membership as % of total second tier membership	MOI membership as % of total population in the municipality
José Ma. Velasco	Medium	38	13,736	4,519	1.28%	32.90%
Mixtlan	Medium	247	3,938	3,542	1.00%	89.94%
Minatitlán	Medium	45	8,466	3,364	0.95%	39.74%
Tonaya	Medium	47	5,928	3,379	0.95%	57.00%
Polotitlán	Low	60	11,065	2,109	0.60%	19.06%
El Limón	Low	72	6,026	1,188	0.34%	19.71%
Progreso García	Low	48	3,547	902	0.25%	25.43%
Liberación	High	60	6,577	152	0.04%	2.31%

Mixtlan MOI includes the head office in Mixtlan municipality and two branches in smaller feeder communities to Mixtlan; Talpa and Atenguillo, 20.9 km and 22.5 km from the main office, respectively. Most of its members are concentrated in these three localities where there is access to the majority of basic services such as water, schools, medical clinics, communication technologies, markets and other civic and financial services. In 2000, only 9.4% of the population over fifteen years was illiterate but only 35.8% had finished primary school. 87.3% of people in the municipality had spring water, 62.6% sewerage, and 85.1% electricity. 27.5% of the inhabitants are economically active and 45.5% are economically inactive. Of the economically active, 46.1% are dedicated to agriculture, 20.0% to manufacturing local handicrafts, and 32.69% to services (13.28% of which is construction).

Mixtlan also has presence in localities as remote as 137.5 km away from the main office. In La Laja, Mixtlan members comprise 51% of the local population, 385 members of a total population of 760. The predominant livelihood activity for these members is subsistence farming in corn, sorghum and beans in communal land (*ejido*). These people depend on remittances. Particularly in December and January, their deposits display a significant increase. Some of them also receive subsidies and/or pensions.

Methodology

Two weeks of field research were conducted in Mixtlan SACCO and UNISAP Federation. Outreach was measured in terms of Schreiner's (1998) six aspects: Breadth, depth, cost, worth, length, scope. Financial and outreach data for UNISAP was collected using researcher assessment against financial statements. Twelve focus groups comprised of Mixtlan's rural and remote members were selected for more in-depth discussions and mapping exercises, particularly worth/demand of alternative financial services and ownership. Key informant interviews were held with MOI

staff, regulators and staff of the second-tier cooperative structure. See Appendix A for research definitions and general case methodology.

Member-Owned Institution Outreach

Breadth of Outreach of UNISAP

For an understanding of breadth of outreach, all of the rural MOIs affiliated with UNISAP Federation at the end of year 2006 were considered. Forty MOIs of UNISAP Federation are concentrated mainly in this single state of the country reaching very remote localities, where the presence of other federations is unlikely. Most of their affiliated MOIs have a penetration of 72% of members of this region. The forty MOIs have 159 branches in different municipalities and 355,558 members in total; 20% of the MOIs are located in rural areas with 19,155 members (from which about 470 members are considerably remote).

From 1999 to 2006, Mixtlan has shown very strong membership growth compared to other SACCOs within UNISAP (2007), growing by 50.14% from 2003 to 2006 (Figure 4).

Figure 4: Growth Rates of Mixtlan Membership

Year	No. of members of UNISAP at year end	Growth rate of UNISAP federation	No. of members of Mixtlan at year end	Growth rate of the Mixtlan membership
1999	139,079		1,034	
2000	145,204	4.40%	1,121	8.41%
2001	161,569	11.27%	1,212	8.12%
2002	178,965	10.77%	1,262	4.13%
2003	195,719	9.36%	1,346	6.66%
2004	285,472	45.86%	1,568	16.49%
2005	305,129	6.89%	2,255	43.81%
2006	355,366	16.46%	3,542	57.07%

Assets, too, have shown strong growth averaging 22.5% over the last three years (Figure 5).

Figure 5: Mixtlan Total Assets Evolution

Year	Total Assets	
	Amount of money (US\$)	Growth rate (%)
1999	953,665.71	
2000	1,278,645.75	34.1
2001	1,780,472.24	39.2
2002	1,964,792.21	10.4
2003	2,403,358.68	22.3
2004	3,133,855.03	30.4
2005	3,647,713.58	16.4
2006	4,405,507.40	20.77

Source: Second tier, but the last year data source is from the MOI

Mixtlan's growth strategy is not based on increasing the number of members in the same localities. Mixtlan's growth has been based on broadening its territorial coverage, reaching more members in remote localities. Figure 6 shows Mixtlan's current portfolio.

Figure 6: Mixtlan Portfolio Report (May, 2007)

Number of borrowers	1,260
Loan portfolio	US\$3,083,916.88
Number of savers	2,482
Savings portfolio	US\$4,365,446.25
Voluntary savers as % of borrowers	197%*

*197% = (2,482/1,260) x 100

Depth of Outreach

Distance as a measure of depth (remoteness) is not enough. In Mexico, marginalization indicators are used to include access to infrastructure, health and education. Even financial services are examined. Marginalization is broader than poverty indicators because poverty relates to personal income and expenditure rather than structural conditions. Mixtlan is located in a municipality with a medium degree of marginalization. Mixtlan's members are located in municipalities with low to medium marginalization indices.

98.93% of Mixtlan members live in rural municipalities. 23% of its members are in extreme poverty (income insufficient to cover their minimum feeding necessities), and 61.8% in patrimonial poverty (income insufficient to cover their food, health, education, clothing, house and public transport necessities) (SEDESOL, 2007). The average loan size (US\$405.69) as percentage of per capita GDP (US\$962.44) is 42.15%.

Mixtlan has a high participation rate of women at 49.43% of Mixtlan members. In remote localities, this rate rises to 54.12%. There are more female remote members since their work, while demanding, is less dependent on a schedule so they can travel.

Scope: Products and Services of this MOI relative to other Financial Services

Mixtlan offers a wide range of services to its members including short and long terms savings, productive and consumption loans and remittances.

To collect savings and offer small loans to remote members, they use a mobile collector who travels weekly to La Laja, a rural community 122 km from the MOI head office. People from El Ollejo the poorest, most marginalized, and most distant (137.5 km from the MOI head office), travel 15 km to be serviced in La Laja. Much in the way informal ROSCAs work, the collector collects savings, usually small amounts between US\$5-20 and provides loans of up to about US\$181.60. If loan requests match what is collected, she will at this time offer small loans. Importantly, to avoid risk she does not carry money or have the chance to review loan histories for larger amounts. She also collects payments for electricity and water. However, she cannot offer other products such as remittances or loans larger than the amount of savings collected. She uses a simple notebook for recordkeeping. Savings that exceed loan demands are carried back at some risk. If savings are not enough to meet loan demands, members must wait for the following Thursday or if it is urgent go to the nearest office. While the collectors certainly extend otherwise unavailable services to remote areas, there are risks and limitations.

Figure 7: Products and Services Supplied by the Mixtlan MOI

Financial MOI products	Nominal interest rate (monthly)	Period (months)	Payment Frequency	Percentage of MOI members using product	Average value Minimum value Maximum value
Savings (Ordinary-to guarantee loan)	5.00% Annual	Monthly	voluntary contributions	74%	Avg=US\$1,501.70 Max=US\$9,079.6 Min=US\$72.87
Term savings	4.47% any term, 7.5% greater investment to US\$4,539.80 to 6 months, 8.0% greater investment to US\$4,539.80 to ore than 1 year	1 month 3 month 6 months 1 year	voluntary contributions	1.7%	Avg=US\$1,494.70 Max=US\$9,079.60 Min=US\$77.21
Saving in current account	Interest not paid on savings	without fixed term	voluntary contributions	2.9%	Avg=US\$2,040.51 Max=US\$9,079.60 Min=US\$117.06
Child Savings (<18 yrs.)	5.00% Annual	Monthly	voluntary contributions	22%	Avg=US\$192.24 Total value=US\$ 150,328.03
Ordinary Loan (<300% of deposits)	1.00% for agriculture loan 1.30% for another type of loan use	up to 18 months	Monthly	32.8%	Avg=US\$3,422.37 Max=US\$18,159.20 Min=US\$ 27.24
Confidence Loan (<US\$180)	1.00%	up to 8 months	Monthly	6.2%	Avg=US\$2,421.20 Max= US\$15,995.35 Min=US\$54.48
Emergency Loan (<90% deposits)	1.30%	up to 12 months	Monthly	2.1%	Avg= US\$6,296.37 Max=US\$18,159.20 Min=US\$272.39
Automatic Loan (<100% deposits)	1.00%	up to 12 months	Monthly	2.0%	Avg=US\$5,732.17 Max=US\$18,159.20 Min=US\$90.80
Remittances					Avg=US\$14,801.13 in a month; Dec. 2007 = US\$37,391.48 Remittances are 1% of MOI assets

There is no significant difference between male and female members' use of products with two exceptions: Long-term savings (70% women and 30% men) and current account savings (62.1% of women members and 37.9% men). Women use saving services more than men because they manage resources of the home. The deposit of these resources is used as a financial protection system (for contingencies, emergencies or future expenses). This is also reflected in their disproportionate use of local ROSCAs for saving. Women members save more than men but men ask more loans than women.

An important part of keeping Mixtlan competitive is its offering of remittances at a low rate. Generally, remittances are sent to Mexico from expatriate Mexicans in the United States. The fee is only a flat-rate US\$1.63. This low fee does not contribute significantly to financial income but it does provide a highly demanded service for members and keeps Mixtlan competitive. No other local financial supplier offers transfers. Mixtlan receives approximately 15 remittances daily (US\$24.52), just enough to cover operational costs. The MOI chose the current remittance company

RIA because it offers a smaller cost and it asks for fewer requirements. Other alternatives in the region are Western Union, HSBC Bank and Copel.

Mixtlan provides some additional services at no cost to benefit its members. Loan insurance is offered to members at no cost. In the case of member death, existing debt is forgiven, as well utility or other bills are paid. Mixtlan also provides targeted credit through a government funded program. Even though this program has had poor recovery results it has not affected repayment.

Worth and Local Financial Services

In the region there are many suppliers of financial services and products including commercial banks, solidarity groups, cooperatives and those that belong to the same second tier federation as Mixtlan. It is not uncommon for people to use the financial services of two or more at the same time, mainly to obtain loans and to pay off its debts from one institution to another.

Mixtlan dominates the local market (Figure 8). Members valued the following features: Lower interest rates; close; helpful in emergencies and trust/good treatment. Perhaps the only area where informal sources were preferred was for quick access. In the focus groups, members expressed the importance of quick access, being able to deal quickly with emergencies. Data from the MOI also confirmed that loans are used mainly for subsistence or emergencies. 48.2% of the total loan amount is for illness, medicine, education, food or funeral expenses; 33.2% of the credits are used mainly in agriculture, cattle activities and cattle ranch; only 18.6% are used for expenses for assets like the house, car or land (Mixtlan, 2007).

Figure 8: Relative Value and Fit of Alternative Products and Services

Suppliers	Products/Rates (monthly)	Market Share of local Loan Demand	Relative value or worth expressed by members
Mixtlan	Range of loans (emergency; vehicle; business) 1-1.3% per month; savings; remittances; insurance	Approx. 90%	Proximity-mobile collectors; low interest; higher returns on savings; remittances; range of loan products –individual. Trust-know institution 47 years.
Moneylenders	Multipurpose Loans 5-10% per month	Approx. 2%	Quick access/liquidity; no requirements; emergencies.
Cooperative Association <i>Lugar de Nubes</i>	Productive/Enterprise loans 2.3% interest rate	Approx. 28%	Proximity (same locality); ties loan use to purpose (cattle, agriculture, & commerce); must be in group (5-10 people); difficult for members; government funded.
Solidarity groups (Caja Solidaria Guachinango, Caja solidaria Talpa, Caja Hualulco, Caja Popular Mexicana, Caja Liberación).	Productive loans 1-2% Deposits	Approx. 16%	Low interest rates (government funded); tie loans to use; distant (10.5 km).
Commercial Banks (HSBC, Bancomer, Banco del Bajío, Banco Banamex, Banco Azteca).	Mortgage 10% annual; Car 15% annual; Loan Cards; Term and Demand Savings Accounts; Productive loans; Consumption loans	Approx. 22%	Bureaucratic (require collateral or credit history); impersonal; distant (44 km); slightly higher interest rate
ROSCAs (plus catalogue purchases in a ROSCA form)	Small amounts (20 pesos) saved and rotated weekly to one member. No interest.	Approx. 6%	Important for savings in times of emergency because it is the quickest option; mostly women; quick access.

Member Emergencies

“when my father died the cooperative lent money to me to pay the expenses of the funeral that was very expensive.”

– *Mixtlan member*

“we had saved some money in the cooperative. When the drought came we lost the harvest and had to take out money from the cooperative to be able to eat”

– *Mixtlan member*

While there is a fair mix of products, there are some complaints from members on contract terms. Policy changes reduced the maximum loan term from 36 to 18 months which has put some financial pressure on borrowers. Members are looking for deposits that provide liquidity and return, and a product to insure against agricultural risks, something that Mixtlan does not provide. For savings, members prefer Mixtlan because it offers more attractive interest rates than commercial banks although ROSCAs are frequently used for saving small amounts and for emergencies. Also, small enterprise members demand checking services.

When asked if they would change to another financial institution if offered better interest rates member answers were diverse (Figure 9).

Figure 9: Features Valued by Mixtlan Members

people with medium income	Security, the treatment and the confidence that the MOI provides
Elderly people and people with high restriction of time like housewives	Distance—if the difference in returns is not great they prefer to remain in the present MOI than incur high costs of transfer
People with very low resources	Loan access is most important. Low interest rates are preferred over other characteristics like distance or terms of payment.

Source: Focus groups in Field study

Cost of Outreach

The following list corresponds to the annual effective interest rates of lending options that are in the region including the transaction costs (distance and time).

Mixtlan offers competitive effective rates from 14.7% to 19.5%. Most others are above 19%. The nearer competition of Mixtlan considering distance and loans allocation is the Cooperative *Lugar de Nubes*, also located in Mixtlan. They offer an annual effective interest rate of 19.6% but the loans it supplies are just for projects of cattle, agriculture and commercial production.

Figure 10: Annual Effective Interest Rate

Financial institution and mechanism name/ (location)	Annual effective interest rate	Distance from Mixtlan head office MOI
Cooperative Mixtlan (located in Mixtlan)	14.7% ¹ to 12 months 19.5% ¹ to 18 months	0 km
Productive Cooperative Fund of the Jalisco state government named Lugar de Nubes (IMixtlan)	19.6% ¹	0 km
Cooperative Guachinango (Guachinango)	22.4% ¹	10.5 km
Cooperative Atenguillo (Atenguillo)	21.0% ¹	23 km
Cooperative Ahualulco (IAhualulco de Mercado)	24.6% ¹	32 km
Cooperative Talpa (ITalpa)	28.2% ¹	78 km
Cooperative Caja Popular Mexicana (Ameca, Puerto Vallarta & Guadalajara)	21.8% ¹	61km, 88 km & 134km
Cooperative Liberacion (San Sebastian del Oeste)	20.15% to 3 months 22.78% to 6 months 25.71% to 12 months 28.58% to 18 months	65 km
Moneylenders (Mixtlan)	From 79.6% to 120% depending on amount	0 km
Agriculture Trusts (FIRA) =Bank of Bajio (IAmeca & Talpa)	28.07% and 33.46% ²	61 km & 78 km
Bank HSBC (IAmeca & Guadalajara)	40.25% ²	61km & 134 km
Bank Bancomer (Mascota & Ameca)	35.80% ²	43 km & 61 km
Bank Banamex (IAmeca & Guadalajara)	34.6% ²	61km & 134 km
Bank Azteca (IAtenguillo, Ameca & Talpa)	32.8% ²	23 km, 61 km & 78km

¹Rates calculated with base information provided by MOI personnel and members interviewed.

²CONDUCEF (2007)

Length of Outreach

In general terms, Mixtlan has shown good financial performance. Mixtlan was rated with a B grade (according to CNBV standards) and was operationally sustainable at 35.8%. Mixtlan does not receive subsidies of any type for its own operations. It does channel subsidies from a government program (*apoyo a la palabra*) to poor farmers, but does not charge a fee for this service. It is something they do to serve members. Perhaps the only area that threatens the viability of the Mixtlan MOI is the portfolio at risk over thirty days that has risen in recent years: 5.4% in 2004, 8.4% in 2005, and 7.9% in 2006. The highest default rates have occurred with agricultural loans, both short and long-term. In January of 2007, US\$939,681.76 in loans were dispensed for agricultural expenses. Only 17.8% of that amount was recovered (Mixtlan, 2007).

Net loans as a percentage of total assets is 74% for Mixtlan which is adequate, well within World Council of Credit Unions (WOCCU)'s benchmark for fund utilization. They could maximize their savings even more but there does not seem to be demand for loans. Mixtlan currently loses money on their deposits in commercial banks but earns between 7-8% by placing excess liquidity in government treasuries.

The operational costs of the MOI are low because of the economies of scale.

Figure 11: Key Efficiency Ratios (2006)

Mixtlan operating expense ratio (operational expense/average total assets)	1.5%
Mixtlan cost per member	\$US 211.01
Remote collector cost per member	\$US 6.93

Source: Mixtlan and Second Tier

Fees paid to UNISAP by Mixtlan completely cover the costs of federation supports. The economies of scale of the second-tier institution keeps unitary operational costs low in remote and difficult zones using remote collectors. In the case of Mixtlan, the US\$9,261.19 charged for by the Federation covers the full cost of their support. Each MOI contributes to the Federation and receives support according to their amount of assets and number of members. So there is not cross-subsidization but assistance proportional to payment. Federations have a Supervision Committee to help the affiliated MOIs in order to promote their financial discipline and to detect possible problems on time. This gives greater certainty and security to the MOIs' members. UNISAP have been one of the Federations that have increased their service quality standards.

These low operational expenses allow them to reach the most remote localities. For example, operational costs through the La Laja collector are US\$6.93 per member as opposed to Mixtlan operational costs at US\$211.01 per member. The collector is a cashier of the Mixtlan. She has been working in the MOI for four years. She earns a cashier wage of (US\$136.20 monthly) plus travel expenses (US\$4.54 every Thursday). She doesn't receive money from the MOI for gasoline or depreciation expenses. She meets in a dance hall that the MOI rents for a very low cost (US\$45.40 monthly) for use one day a week. She has a secondary school certificate and technical training to become a secretary. Born in Mixtlan, she is well-known in the community. This helps to control fraud. If she were to commit fraud, her family would be responsible.

What Has Allowed this Member-Owned Institution to Reach Remote Members?

Being part of a strong federation was important for achieving broad remote outreach, particularly access to a broader range of services. Given the financial crises in the past and fraud committed by Vallarta cooperative and others, members highly value a stable federation that ensures the safety of their deposits. The federation also provides private technical support and tighter financial management through standardized monitoring. While some strictness is necessary there are important aspects of flexibility. For example, the legal frame does not require greater provisioning of the portfolio and capital when the loans are taken with solidarity guarantee, that is to say, without collateral. Finally, the federation also provides an important liquidity exchange function when this and most MOIs are over-liquid.

While most members felt ownership with their MOI, remote members felt less able to influence decision-making due to their level of education and their ability to participate in meetings. While ownership was important to them it was not as important as access to quality and competitive services.

Being Part of a Strong Federation

Of the twelve federations of MOIs in Mexico, UNISAP was rated as one of the strongest federations by the Mexican financial federated institutions. Their rating system, called the “Integration Index”, looks at key indicators of financial management and governance:

1. Effective economies of scale—the effort made to operate economies of scale in the production and acquisition of inputs, including handling financial intermediation and control of contractual risks associated with the acquisition of inputs
2. Standardization within financial operations
3. Separation of strategic and operational functions
4. Governance structure—assuring the protection of the interests of the contracting parties, specifically the ability to avoid opportunism or domination by the members
5. Contractual solidarity—including control on the opening of branches, the constitution of a contingency fund and crossed subsidies, among others (Fischer, 2004).

UNISAP’s governance structure, unlike many federations, allows a certain amount of autonomy to the local MOI. There is no second-tier office or staff working in each of their affiliated MOIs, which allows each MOI to determine its own product offerings.

Participation in a large, broad-based regulated federation has many benefits. As noted above, the economies of scale of a federated system have allowed the MOI greater growth and ability to take care of the most remote population. UNISAP audits the MOI on behalf of the Superintendency. UNISAP also helps its affiliated MOIs with liquidity, credit, outsourcing, connecting with other companies to hire maintenance services of computers systems, with stationery and a corporate image.

Perhaps the most important advantage of being part of the federation is the access to more sophisticated financial services such as insurance and remittances. Payment of services such as electricity and water, regardless of whether they are remote or not, are concentrated just in Mixtlan head office and the two branches. The collector cannot offer services such as utility bill payments. People from the most remote localities have to go to the Mixtlan head office.

Being part of a federation regulated by the LACP and the CNBV has given certainty to the MOI members on the safety and use of their resources. It is easier for cooperatives located in remote rural areas to have capital outflow problems. After the existence of Federal mechanisms and the regulation that integrates and controls these remote MOIs there is greater security in the resources of the members and greater membership. The supervision and advice provided by the second tier ensures security to members. They know that there is legal recourse in case of fraud.

“When the Vallarta cooperatives committed fraud my husband had his money there but he could not recover anything. People from the government said there was no law or organization authorized to give the money back.”

– *Mixtlan member*

The last benefit the federation provides is access to private suppliers of liquidity exchange and other forms of technical support. The MOI has the ability to contract a consulting company through the federation to access technical support. To standardize information, they must contract the same company of the MOIs in the Federation. In part, the diversity of products and access to a broader range of suppliers depends on standardized, sophisticated systems.

There is an intention (induced by the present legislation) to merge the Mixtlan with another bigger MOI, but members’ opinions are divided:

- Young and more educated members are in favour of the merge
- Old people and members with low income are against the merge

“If they get Mixtlan MOI out they are going to take off part of our life. The Mixtlan MOI is part of the history of the locality, is part of our history, is part of our life.”

– *Mixtlan member*

Ownership may be Important for Internal Control...

“It is better to have someone old that you know than someone new to know.”

– *Mixtlan member*

Based on focus groups held with members, being owners of the MOI holds great value for them. They felt that the institution belongs to them, that they can influence decisions taken for the MOI. This has an inherent value. For example, whenever the MOI decided to expand its number of offices into rural communities, the members were consulted.

General assemblies are held once a year, but regular MOI meetings are held as follows:

- MOI administration directors meet twice a month and additionally as required.
- Members in charge of monitoring and administration of the MOI meet monthly and additionally as required.

The decisions on the control of the MOI funds are discussed in the meetings of the MOI’s assembly. MOI members who attend assembly meetings are chosen by the MOI members. Members think that fraud potential is minimal because there is both a members’ board and members’ assemblies. In meetings, the representing members are consulted and informed on the MOI statements and decisions are taken with respect to the assets of the MOI. Additionally, the second tier monitors through mandatory monthly reports from the MOI. If there is a problem they will visit and supervise.

The members of the Committees of monitoring, loan and supervision of the MOI typically have higher education levels, with greater availability of time, and live in close proximity to the MOI location. Committee members, the MOI manager and people of the Federation (second tier) are those who make the decisions on the loan distribution, the services that the MOI offers, and the internal policies on the deposits (the amount of assets that must be maintained and the amount of assets to invest, among others). Loan allocations are evaluated by a Committee integrated by the administration board (comprising 45 of the representative members), two employees of the cooperative, the director, the accountant, and one MOI employee. The committee considers loan requests based on the loan record of the members although participation in review of loan records is difficult for remote, illiterate members.

Rural and remote members participate less in decision-making due to distance and lack of instruction. Roughly 40-45% of members attend annual meetings, which is very low considering it is the main source of member input. Those who do not attend do not generally vote on issues, or on committee membership. However, they can express complaints or restlessness in writing or verbally to the MOI. Financial results and issues are presented, especially in rural areas, through posted bulletins. A loudspeaker is used to announce upcoming meetings through the municipality. The MOI staff posts a weekly bulletin with financial results at the head office, the branches and the collector. Mainly, governance falls to members who attend the meetings and to the workers of the MOI.

Nevertheless, members expressed trust in the managers who are making decisions on their behalf. This trust is demonstrated in part by growth in savings (80% over the past three years) and in member retention which was 90.4% in the last year. In fact, 25.6% of the present MOI members are founders, having joined the Cooperative the year it was founded (in 1958).

“The administrator is not a person who arrives one day to the MOI and the other day goes away with the MOI resources.”
– *Mixtlan member*

The current Director was hired in 1962 by members of the directive board and is about 68 years old. Though this seems like a very long time to continue administration, it is one of the reasons that members believe they have achieved good performance. He is well-respected and trusted in the community. Moreover, he has taken steps to ensure that the systems and internal control mechanisms are not dependent on him.

Over 45 years, the Director has created networks with the members and has information about them to influence his decisions of allocation and loan recovery. Mixtlan is a small community and the manager has met several generations (children, parents, grandparents). With knowledge of members' lives and ability to pay, loan allocations can be based on subjective criteria instead of countable criteria. His

knowledge of people and customs of the region has generated trust by MOI members.

...But Members Prioritize Services over Ownership

Nevertheless, the members do not necessarily value being a member owner of the cooperative more than the value of low loan costs, the time of allocation of the loans, the adjustable and convenience of the MOI services. Focus group discussions reinforce these sentiments:

“In the past, loans terms were longer and we could extend our house with the loan. Now the loan terms are shorter so we must think if we should pay the loan or eat.”
– *Mixtlan member*

“It is very well to be member of the MOI but we lack some services. For example, to have our deposits available at any time and receive higher interest for it.”
– *Mixtlan member*

Members value being owners of the MOI. They find the MOI competitive and trustworthy and are optimistic about the cooperative’s future growth. Members think that the MOI can expand in assets due to regional economic growth. There are new schools and growing remittances. However, this worth is not sufficient to retain them if the financial services of the MOI are not competitive.

Regulation and Supervision Formalize the Sector and Force Scale

The new Law of Popular Savings and Loans (LACP) forces the integration of the popular saving and loan sector generating economies of scale and bind cooperatives to be part of a federation. This type of regulation that encourages scale, viability and formalization has important implications for remote outreach and safety of remote deposits.

Current savings and loans organisations can only be transformed into one of two legal entities: Popular Financial Associations or Savings and Loan Cooperatives. Mixtlan is classified as a Savings and Loan Cooperative. The LACP proposes an auxiliary supervision to promote and to regulate the Popular Savings and Loan Sector; this is divided in *extra situ* and *in situ*, they are periodic and serve to prevent risks. To be approved by the LACP and endorsed by a government system, MOIs require fulfilling certain requirements, for example to maintain an amount of assets that allows them to endorse the members’ deposits. There have been mergers and some MOIs have had to close. Others are being encouraged to merge. This has had an impact in Mixtlan because it has had to adapt to the law. The MOI has had to channel resources and efforts to comply with the legal requirements, neglecting other important aspects for their development such as solving problems of overdue portfolio.

While strictness, standardization and professionalization are needed to ensure safety of deposits, aspects of flexibility are crucial for remote MOIs. For example, the legal

frame does not require greater provisioning of the portfolio and capital adequacy when a solidarity guarantee mechanism is used for collateral.

Formalized processes can also be quite costly and bureaucratic. For example, in 2007 Mixtlan will have to pay to the second tier US\$9,261.19 for auxiliary supervision (in countable and financial items) and other services like stationery store and software maintenance. Product standardization takes time for the employees to update and maintain the system—time that could be channeled into other activities in the MOI. This is a challenge for any institution involved in transformation or legal compliance. It is particularly difficult for smaller, remote MOIs.

The problem according to the organisations of popular savings and loans is that the process of adjusting to the regulatory frame is not easy and it requires time, for example popular savings and loans organisations (including Mixtlan) have to be approved by a second tier or federation and the CNBV. Costs are implied in the bureaucratization of processes (reports and human resources). Yet, becoming a regulated institution generates benefits like the ability to catch savings that can be used to fund loans, which diminishes dependency on external financial sources and encourages long-term sustainability. Although the process to obtain approval by the CNBV is long and expensive, the alternative of not reaching this legal status is to risk the sustainability of the organization since it would not be possible to catch savings.

The LACP establishes requirements that may exclude smaller remote MOIs. Federations watch that these requirements are fulfilled. Among them, MOIs have to handle a greater number of assets to endorse their growth and the members' resources. Nevertheless, a reduced number of MOIs can comply with these legal requirements and for that reason extensions are established to obey the law and mechanisms like mergers between MOIs within the same second tier organization. For example, UNISAP is suggesting that two small MOIs in the same region merge (Mixtlan and MOI Jose Market Mercado). This would allow a single MOI to service the population in the region, but with a greater amount of assets and members. Also, this could address Mixtlan's portfolio at-risk issues.

The merger has generated mixed feelings, and Mixtlan members seem torn by these tensions. While they identify external controls put in place by the federation and law as even more important than internal control for the safety of their savings, they worry about merging and prefer that it does not happen. People from Mixtlan think that they will lose their identity as a MOI since the other MOI is greater, and think that mergers could have negative effects on the 57.1% membership increase. If Mixtlan merges with another MOI, it would stop being the Mixtlan Cooperative and people of the region feel more identified with Mixtlan as a part of their town more than with another MOI. Also the Committees of supervision and monitoring of the MOI Jose Market are larger. Therefore, there is a real risk that they would establish new criteria of operation and members of these Committees would have a greater decision power over Mixtlan members. The merger could mean greater control of the market at the risk of local identity with Mixtlan.

Conclusion

MOI growth has favoured not only the Mixtlan members, but also inhabitants of other highly marginalized communities who would not have access to other financial services due to high transportation costs. While MOI members in highly marginalized areas face high transaction costs to access the services of the Mixtlan, they find in the MOI alternative financial services at lower costs and closer proximity. This is compared to those offered by the formal financial services, such as commercial banks, which are located great distances from these communities. Economies of scale obtained through the federation is a reason for these lower costs.

The members' perception about being owners of the MOI has a great value for them in the sense that the institution belongs to them. They can participate in and influence decision making at the MOI, and see this as an inherent value. However, remote members are less able to participate in decisions. MOI members do not necessarily place a higher value on member ownership than the value of low loan costs and the convenience of MOI services. In summary, members value the fact of being owners of the MOI but this value is not sufficient to retain them if the financial services of the MOI were not competitive.

The 47 years that Mixtlan has been in the locality has allowed members access to financial services which they could not obtain in other forms. The MOI's membership in a network, as UNISAP Federation, contributes to product diversification and it also provides access to other commercial suppliers and technical support. Services of Mixtlan cost less and are certainly closer in proximity. Nevertheless, some dissatisfaction of members relates to product terms, liquidity and returns.

In the case of Mexico, with a history of fraud, resource security and confidence are most important. The Law of Popular Saving and Loans that has forced greater formalization and integration of the MOI sector has both benefits and challenges. While it grants members security and ensures that the sector is viable and growing, mergers and compliance present particular challenges for small MOIs like Mixtlan where localized ownership, skills and costs make compliance more difficult.

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Links / Statistical Data:

BANSEFI, sector del ahorro y crédito popular
<http://www.bansefi.gob.mx/>

Consejo Nacional de Población, indicadores de población
<http://www.conapo.gob.mx/>

El portal de las finanzas populares, PlaNet Finance México
<http://old.developmentgateway.org/node/356568/mexique/Mapas.htm>

Federación UNISAP
<http://www.unisap.coop/>

INEGI, Banco de Información Económica, BIE
<http://dgcnesyp.inegi.gob.mx/cgi-win/bdieintsi.exe/NIVA1000040002#ARBOL>

Pobreza y marginación, CONEVAL
<http://www.coneval.gob.mx/coneval/index.htm>

SEDESOL
<http://www.sedesol.gob.mx>

UNISAP
<http://www.unisap.coop>

World Bank Database

<http://devdata.worldbank.org/external/CPPProfile.asp?PTYPE=CP&CCODE=MEX>

Abbreviations

BANSEFI	National Bank of Financial Services
CNBV	National Commission of Bank and Values
LACP	Popular Savings and Loans Law
LPSC	Popular Savings and Credit Law
MFI	Microfinance Institution
MOI	Member-owned Institution
ROSCA	Rotating Savings and Credit Associations
SACCO	Savings and Credit Cooperative
SACP	Census of the Popular Saving and Loan Sector
UNISAP	Federación Nacional de Cooperativas Financieras
WOCCU	World Council of Credit Unions

Appendix A: Methodology

Study Objective

To illustrate how varied member-owned models in different contexts have been able to achieve significant outreach in remote, rural areas.

Defining Member-owned

- Clients are both owners and users of the institution
- Member equity is tied to ownership and decision-making (shares; savings; rotating/internal capital)
- Member equity is a key source of funds
- Legal entity is based on member-owned (i.e. association)

In order to cut across models definition needs to account for a variety of forms of equity and decision-making. Even what legal entities are possible will vary from context to context.

Defining Remote

Unserved in its own market. This can be due to several factors:

- Geographical distance from nearest service or input provider
- Population density
- Socio-cultural aspects of access such as gender or ethnic background as in the case of lower castes in Asia or indigenous groups in Latin America

Study Methodology

The intention of the research is to help answer some questions about different types of member-owned institutions to determine what potential they have for depth, breadth, scope, length, worth and cost of remote outreach, using Schreiner's (1998) six aspects. In-depth institutional analysis of each MOI sample examines remote outreach and demand by remote members and member groups. The second level of analysis focuses on how remote outreach is influenced by three key drivers:

- Networking and linkages
- Governance and ownership
- Regulation and supervision

The perspective of analysis is from the lowest tier association, SACCO or set of groups and their members. Selection of case MOI(s) is based on the 20% most remote MOIs within their sample universe. Selection is based on remote members/groups that are representative and mostly strong. The sample universe would be the district, sub-region or cluster of MOIs according to second-tier organizations, political boundaries or regulatory areas. Depending on size of MOI and sample, range could be a number of self-help groups to one SACCO or village association.

Case-Selection Criteria

- Remote in terms of households is proxied by one or more of the following:
 - Location of access points (decentralized and centralized level if receiving different services at each point).
 - Distance of access points to local centre and nearest road (nature of road), availability of transportation.
 - Depth of outreach (varies by context but broadly a factor of population density and infrastructure, poverty level, and other indicators of social exclusion).
- Member-owned (not managed externally; members involved in decision-making)
- Strong breadth of outreach relative to the context
- Informative in terms of one or more of our key research questions (governance and member-participation; external resources; regulation and supervision; type of MOI)
- Not so unique or idiosyncratic that it does not have lessons that can be applied to other contexts
- Relatively financially viable
- MOI is transparent, information is readily available or fairly easily collected and staff is willing to collaborate in collecting information.

Schreiner, M. (1998). Aspects of outreach: A framework for the discussion of the social benefits of microfinance. *Journal of International Development*, 14(5), 591-603.

Appendix B: Key Indicators Financials

Key Indicators (US dollars and %)	
	2006
Depth	
Size of average savings balance as % GNI per capita	15%
Size of average loan balance as a % of GNI per capita	35%
Population density	6 persons per km ²
Number of formal or semi-formal service providers in service area	11
% female clients	49.4%
Length	
Operational self-sufficiency	35.8%
Financial self-sufficiency	N/A
Portfolio at risk > 30 days	7.9%
Total Operating Expenses/ Average Total Assets	65.8%
Average staff salary and benefits / GNI per capita	66%
Breadth	
Number of active borrowers	1,386
Number of active savers	3,224
Number of base-tier units	1
Cost	
Effective interest rate on average loan size	14.7%
Worth	
Retention rate	90.4%
Other	
Growth in Total Assets	16%
Net Loans/Total Assets (fund utilization)	74%

** Self-reported and audited data