



Trip Report:

“The Structure and Performance of Rural Financial Markets and the Welfare of the Rural Poor”

Mexico: June 29 – July 9, 2004
By Steven Boucher

Overview

- Dates: June 29 – July 9, 2004
- Location:
 - June 29: Mexico City
 - June 30 – July 2: Oaxaca de Juarez, Capital of State of Oaxaca
 - July 3 – 4: Sierra Mixteca, Oaxaca
 - July 5 – 6: Sierra Sur, Oaxaca
- Participants:
 - UC Davis: Steve Boucher and Susan Materer
 - Colegio de México: Angeles Chavez

Trip Objectives

In addition to several minor goals, our two main objectives for this trip were:

- Gauge the feasibility of a geographically spread out sample in Oaxaca and Guanajuato:
Compared to Guanajuato, Oaxaca is a much more complicated region to carry out research on rural financial markets. There are several reasons: First, the landscape makes access more difficult. Several major mountain ranges divide the state of Oaxaca into various sub-regions. Outside of the central valley surrounding the capital, the road infrastructure is not well developed. The population is primarily rural, dispersed across more than 500 municipalities and 10,000 villages. Indeed, over half of all of Mexico’s municipalities are found in the state of Oaxaca. Second, the rural population is ethnically and linguistically diverse. There are 7 main indigenous languages spoken in Oaxaca and non-spanish monolingualism is common. Finally, the predominance of indigenous groups implies that much of the land in Oaxaca is managed by *comunidades* – or indigenous communities. Private land is the exception rather than the rule. Over 60% of the total land is in *comunidades*, another 25% is controlled by *ejidos*, while the remaining 15% is private. In both the academic literature and government policy, *ejidos* and private land have received the bulk of the attention while *comunidades* have been neglected. After this trip, we made two critical decisions:
 - *Given the research budget, it is not feasible to carry out surveys in both Guanajuato and Oaxaca.* The socio-economic and agricultural contexts are so different that we decided that we should focus on a single state, Oaxaca. Oaxaca was chosen over Guanajuato for three reasons:
 - First, Oaxaca is a better context to gauge the impacts of the new Ley de Ahorro y Credito Popular (LACP: June, 2001). This law seeks to formalize the diverse networks of popular, informal financial institutions by 2005. There is a wide diversity of these institutions operating in Oaxaca – with several

experiments ongoing in marginal rural areas which will be the focus of this research.

- Second, we have the potential to establish a quasi-experiment in Oaxaca. Virtually all of the informal financial institutions focus their efforts on rural towns – typically municipal capitals – in Oaxaca. This leaves households in small rural towns (the vast majority) unattended by financial institutions. One institution – Microbancos – has taken up the challenge to provide financial services to these smaller communities. During this trip we established a working relationship with the Microbancos and thus have the opportunity to select treatment and control communities.
 - Third, we have the potential to connect to a larger, ongoing survey based research project run by the Mexican government. In an effort to evaluate the impact of the LACP, BANSEFI (Banco de Ahorro Nacional y Servicios Financieros) and SAGARPA (Secretaria de Agricultura, Ganaderia, Pesca y Alimentacion) will undertake household – based survey research utilizing a panel strategy. The baseline survey is being applied now in several states excluding Oaxaca. We are beginning conversations with SAGARPA to explore the possibility of making our survey in Oaxaca compatible with theirs and thus increase geographic coverage with a similar methodology.
- *We will expand the population of interest to include all rural households – not just farm households.* In practice, this change in definition will have little impact as virtually all rural households in *comunidades* and *ejidos* in Oaxaca have access to some farm land. The change in definition reflects more of the conceptual recognition of the importance of non-farm sources of income within even the most marginalized rural communities. The importance of international and especially local migration to wage jobs as well as rural micro-enterprises was made clear during interviews with rural households on this trip.
- Explore potential sample frames in Oaxaca: As mentioned above, Oaxaca is geographically segmented into several regions. The Micro-bancos operate in three of the main regions: Sierra Mixteca, Sierra Mazateca, and the Sierra Sur. We visited two of the three regions on this trip and have a good idea about distances and time required for surveying. We did not have time to visit the third region – the Sierra Household on this trip. The tentative sampling idea is as follows:
 - First, within each of these three regions, identify *nucleos agrarios* that are in the area of operation of the microbancos (treatment) versus those that are not (control). A *nucleo agrario*, which is essentially a rural community, can take one of two forms: *Comunidad* (see above) or *ejido*. The universe of *nucleos agrarios* makes up what is known in Mexico as the land in the *Sector Social* – or the non-private land. The *sector social* accounts for just over 50% of all of Mexico’s land and over 80% of the land in Oaxaca.
 - Second, randomly select *nucleos agrarios* within both the treatment and control groups.
 - Third, randomly select households within the selected *nucleos*.

We acquired a list of all *nucleos agrarios* in the state of Oaxaca from the Registro Agrario Nacional (RAN). Once we select sample *nucleos*, we will work with the RAN on the household sample frame. The RAN manages updates lists of households – including their land areas - in each *nucleo* that has completed the PROCEDE (land regularization) process. As of our trip, approximately 60% of the *nucleos agrarios* in Oaxaca had completed the process. The remaining *nucleos* were either in process or were stalled because of conflicts with neighboring *nucleos*.

Trip Details

Part I. Arrival (6/29 – 6/30).

On Tuesday, June 29, Susan and I left Davis with the intention of arriving the same day in Oaxaca. Unfortunately, bad weather in Dallas forced us to spend the night in Mexico City. We finally arrived in Oaxaca late Wednesday morning.

Part II. Meetings with local, national and international agencies and financial institutions in Oaxaca (6/30 – 7/2).

On Wednesday afternoon we had a very productive meeting with Pierre Gaches and Sergio Corona - two members of the joint SAGARPA – DGRV team that is in charge of aiding informal rural financial institutions to incorporate themselves into the LACP. Pierre and Sergio described their program objectives and methodology. They have identified seven grass-roots institutions in Oaxaca that have experience in offering different financial services and that are interested in “formalizing” their operations in accordance with LACP. The SAGARPA – DGRV provides technical assistance and advice on institutional organization and strategic planning in order to both meet the rather costly regulatory requirements of the LACP and – most importantly – so that the institutions can become fully self-sufficient. The seven institutions include: 1. Red de microbancos Kaxa Taon; 2. Red de Microbancos UCEPCO; 3. Micro-credit program for coffee growers (CEPCO); 4. Espacios Alternativos (group lending to women); 5. Comité de la PYME – a farm organization in the isthmus area; 6. UCIRI – an indigenous coffee exporter association; and 7. Campesinos en Camino – another peasant association in the isthmus.

Sergio and Pierre provided us contacts with all seven of the groups and helped us arrange field visits to one of the institutions of greatest interest to us – the Microbancos. These institutions – modeled after village banks such as Banco Sol in Bolivia and Financiera Calpia in El Salvador - were jointly created by AMUCSS (the Mexican Association of Credit Unions of the Social Sector) and CEPCO (the Oaxacan Coffee Growers Association) in 1999. The objective was to create a self-sufficient and sustainable financial institution that serves rural households in marginal areas – a population essentially ignored by all formal and informal financial institutions.

On Thursday morning we went to the State office of INEGI (National Institute of Statistics and Geographic Information) to acquire detailed maps of the municipalities we were scheduled to visit and to explore the census information that was available that could potentially help with the sample frame. Rather surprisingly, we received outstanding attention by Sandra Guzmán of INEGI – which, at least in the state of Oaxaca, has clearly made a concerted effort to become a user-friendly institution. Sandra explained in detail the types of maps that were available. The most useful maps are at the 1:50,000 scale – of which there are 125 in Oaxaca. These maps, which cost about \$6 each, identify roads and all *localidades* (the most disaggregated census unit) from the 2000 census. Since in most cases a *nucleo agrario* corresponds to a *localidad*, these maps are very useful for identifying communities in the sample frame and judging distances and time for the survey process. Unfortunately, only 85 of the 125 map segments have been updated with the 2000 census information. These 85 cover two out of the three regions we are anticipating working in. A second map of interest are the Mapas Distritales (District Maps) – which also have excellent detail on road infrastructure. INEGI also has available digital maps with various layers of GIS data. These maps are called Mapas Vectoriales and are much more expensive. Finally, another potentially useful map are the Aerial Photo maps – which are at a scale of 1:20,000. These maps show greater detail, to the level of individual houses and structures as of the 2000 census. While these are more expensive (\$60 per map), they may be useful to identify sample households once we make the final selection of communities.

A separate line of products offered by INEGI is various data bases related to the 1990 and 2000 population censuses. We purchased what is called the “ITER”, which provides census information aggregated to each of the 10,000 *localidades* in Oaxaca. This data base will allow us to identify the population of rural communities for the survey – or those with less than 2,500 inhabitants.

On Thursday night we were joined by Antonio Yunez-Nauade, our Mexican co-PI who had driven down from Mexico City and by Rafael Reyes, professor of regional development at the Instituto Tecnológico de

Oaxaca. The objective of this meeting was to discuss logistical issues of carrying out the surveys in Oaxaca. Three points are worth mentioning. First, based on his extensive experience in Oaxaca, Rafael pointed out that it is very important to establish solid backing of the elected representatives in the indigenous *comunidades* in order to carry out household surveys. This will add additional time and financial costs to the survey and will force us to re-evaluate the sample size given the budget. Second, it is virtually impossible to carry out surveys in certain areas in late August and September due to heavy rains that make roads impassible. Third, we discussed the possibility of using local enumerators drawn from technical schools in each of the three sub-regions. While this would require greater emphasis on training, the benefit is that households – especially indigenous ones – would be more willing to provide detailed and sensitive information to local students than to outsiders. We will continue to evaluate this option.

On Friday we met with Yolanda Resendez – the general manager of UCEPCO (Credit Union of the Coffee Producers of Oaxaca). Yolanda described the rather complex organizational structure of both UCEPCO (the credit union) and CEPCO (the coffee producer organization). UCEPCO is one of the member institutions of AMUCSS (Mexican Credit Union Association of the Social Sector). In addition to having helped create the micro -bancos – which have now become independent from UCEPCO, it operates three credit union offices in Oaxaca, with the main one in the capital city. UCEPCO’s main clients are the 42 coffee growers associations which are united in CEPCO. Each association receives loans and then disburses them individually to their growers. CEPCO then markets the coffee through its marketing arm, repays the loan to UCEPCO and then returns any surplus to the individual growers. The loans are short term – usually less than 6 months and primarily used by growers to hire harvest labor. In addition to providing marketing services, CEPCO also provides technical assistance in switching from conventional to organic coffee and it also has several of its own micro -credit programs including an emergency credit line called “Banquito” which originated from the government program “Credito a la Palabra,” a line of credit from FONAES targeted to women, and an additional open line of credit from IDB. In sum, CEPCO and UCEPCO are two of the most important agricultural institutions in Oaxaca and play multiple and complex roles including intermediating between individual producers, national and international markets, the federal government and the international donor community. These institutions will certainly warrant additional attention throughout this research project.



(Susan and Angeles in interview with Yolanda Resendez, manager of UCEPCO, Oaxaca)

Part III. Field Visit #1: Micro-bancos in the Sierra Mixtepec (7/3 – 7/4)

On Saturday morning, we drove to the community of Santa Cruz Mixtepec – about 6 hours from Oaxaca in the municipality of San Juan Mixtepec in the Sierra Mixtepec region. We met with Marina Ramos López, the manager of the micro-banco Xu'u Nu'u Ndavi, which in the Mixteco language means “house of money.” This micro-banco was established in October of 2001 and operates in the 50 communities of the San Juan Mixtepec municipality. Currently there are 350 members with a mean loan size of approximately 10,000 pesos (\$950 US). One of the most important services the microbanco provides is the receipt and delivery of remittances. Migration to the U.S. is an extremely widespread phenomenon in the region of Oaxaca. The traditional means of receiving the remittances was for household members to travel to the central town of Tlaxiaco – a 4 hour walk from Santa Cruz. Instead, members of the micro-banco can receive their remittances directly in the office in Santa Cruz. An additional interesting feature of the micro-banco is that none of the loans are backed by physical collateral. A primary reason is that all land is communal so that mortgaging the farm or house is not possible. Instead, the microbanco relies on a combination of intensive ex-ante information collection and ex-post use of moral suasion. The ex-ante collection consists of loan officers traveling to each community and conducting interviews with neighbors and local officials regarding the “moral solvency” of the loan applicant. The ex-post strategy is quite interesting. The micro-banco relies on the local indigenous communities’ “usos y costumbres” – or traditional values and laws – to enforce repayment. The microbanco makes a large effort to establish itself as part of the local community. As such, it is regulated and protected by local laws and customs. If a borrower is delinquent on repayment, the microbanco takes the case to the local representatives who will devise a solution. This will force us to rethink the notion of “risk-rationing” in this context. Is it indeed a relative concept? Perhaps, if there are other forms of physical collateral that they can offer such as cars/trucks.

A crucial question for this research project – and indeed for the viability of the LACP – is the degree to which local laws and customs coincide with or conflict with the legal regulations implied by the LACP. For example, “uso y costumbres” may provide a delinquent borrower with a longer grace period than would the LACP.

On Saturday afternoon we returned to the hotel in the town of Tlaxiaco – a 2 hour drive from Santa Cruz. We were quite surprised at the number and variety of informal financial institutions, including at least 15 *cajas populares*, *cajas solidarias*, and cooperatives. In addition, there were 4 branches of commercial banks. Brief conversations with employees suggest that all of these institutions serve the urban areas and nearby surroundings of this highly commercial town but do not serve the more remote rural communities except via receiving remittances.

On Sunday we traveled south to the town of Santa Cruz Itundujia where we attended the inauguration of a micro-banco branch. In this small town there already exist two other informal credit cooperatives, so it will be interesting to see how the microbanco performs in terms of capturing market share. The primary competitive advantage the manager foresees is that the micro-banco sends its *promotores* (agents) out to the small satellite communities to offer services such as loan disbursement while the other institutions require the members to come to the institution.



(Gustavo Sanchez, center, at inauguration of new micro-banco branch in Santa Cruz Itundujia, Oaxaca)

During this visit, we also met with Gustavo Sanchez – who is the coordinator of the micro-bancos within AMUCCS. Gustavo is – in essence – the founder and caretaker of the micro-bancos and has been working with them since their inception in the late 1990’s. Gustavo was extremely helpful in providing background information about the microbancos, describing the overall philosophy and primary challenges, and in providing us with contacts among the microbancos. In particular, Gustavo helped set up our next field visit to the Sierra Sur. Gustavo will clearly be very important to the research design and we will look for ways to make the research useful to Gustavo and the microbancos. We returned to Oaxaca late Sunday night.

Part IV: Meetings in Oaxaca to Establish Sample Frame (7/5).

On Monday we met with representatives from two of the main institutions that manage and regulate land and land tenure in Mexico: CORETT and RAN.

On Monday morning we met with Sergio Zarate of CORETT (Commission for the Regularization of Land Tenure). The primary objective of CORETT is to convert residential land in the sector social (ejido and communal) to private land registered in the Registro Publico de la Propiedad (Public Land Registry). This office is important because it offers a means for rural households to gain private title over their residential land and, potentially, use that land as collateral. The mechanism is quite interesting. Formally, CORETT carries out an “expropriation” of the land from the *ejido* or community to the state and then re-sells the land back to the *ejidatarios* or *comuneros* at a nominal price that covers a small portion of the administrative costs. This process has not been well received by many communities, however, in part because of the use of the term “expropriation” which invokes mistrust and misunderstanding. CORETT, as a consequence, has been limited to working mainly with the ejidos surrounding the city of Oaxaca where there has been increasing pressure by outsiders – especially foreigners – to purchase residential land and build “country houses.”

In the afternoon we met with Mauricio Gijón, the main officer of the *Registro Agrario Nacional* (RAN) of the State of Oaxaca. This office is critical to the research project for two reasons. First, it houses the property registry of the social sector. It thus serves as the parallel institution to the Public Land Registry for the *nucleos agrarios* (i.e., *ejidos* and *comunidades*). Second, *Procede* is housed in and responds

primarily to the RAN. Procede is the government program in charge of carrying out the regularization of *ejidal* and community lands. To review briefly, *comunidades* and *ejidos* first had the option of either participating or not with Procede.¹ Then, conditional on participating, they had a number of additional options including: 1. Only demarcating the overall boundaries of the *nucleo agrario*; 2. Demarcating the overall boundary plus the internal boundaries of the three main areas within the *nucleo*: communal area, individually worked area, and residential area; and 3. Demarcating the individually worked plots and residential plots.

In the state of Oaxaca there are over 800 *nucleos agrarios*. As of July, 2004 approximately 55% have completed the regularization process of Procede. The goal is to complete the process for the rest of the *nucleos agrarios* by December 2005, when funding for Procede ends.

The Procede process is crucial for this research project because it both helps clarify the heterogeneous land tenure status throughout Mexico and, hopefully, will provide a sample frame. One of the steps in Procede's process is to register the list of all community members (*comuneros*) and *ejidatarios* and – if the *nucleo* has opted to demarcate individual parcels – the area owned by each member. These lists, if we can gain access to them, will serve as an ideal sample frame. We have made strides towards acquiring the lists. We met with Benjamin Valseca – the head of RAN's computer based archive system – later on Monday afternoon. Benjamin showed us the different forms in which data from Procede is stored and updated. He printed out, for example, the list of all the *ejidatarios* and the characteristics of the different parcels they operate for two different *ejidos*. We have requested – via a formal letter - access to these individual lists for the *nucleos* that we will select for sampling. Antonio and Susan will follow up with Mauricio Gijon to see if this is feasible. For now we'll keep our fingers crossed.

Part V. Field Visit #2: Formation of credit group in Sierra Sur (7/6 – 7/7).

On Tuesday we traveled to the municipality of Miahuatlan – in the Sierra Sur region. We met with Noemi Seguero – the manager of the micro-banco Lis Mii – and all of the staff. This micro-banco began operating in May of 2000. In contrast to the micro-banco in Santa Cruz Mixtepec, this microbanco uses primarily a group lending strategy. The loan officers travel to *comunidades* to promote the micro-banco via a community meeting. Interested individuals are then invited to follow up meetings where information in greater detail is offered. At that point, interested individuals are invited to form groups. Loan officers then return several days later to conduct a “verification” process. This process includes conducting door-to-door interviews with neighbors and community leaders regarding the “moral character” and economic stability of each group member. The next step is to conduct a detailed meeting with the prospective group in which the rights and responsibilities of the members are explained in detail. Finally, individual socio-economic studies to evaluate repayment capacity are carried out with each group member.

On Wednesday, we traveled to the community of El Yagalan – about 2 hours drive from Miahuatlan – to see first hand how this process occurs. A group of 7 people was being evaluated. We arrived at 9 in the morning, where the loan officers met with the entire group to explain the order of operations for the day. During the first two hours, the officers walked throughout the community talking to neighbors about the prospective group members. It was interesting to see that the community members were very open in responding to the inquiries. As per much of the economic literature (although perhaps contrary to my own intuition), these neighbors indeed had extremely detailed knowledge of the economic history and current situation of each member and they were willing to share that information. The next step was to

¹ While both *comunidades* and *ejidos* are part of the *sector social* in Mexico and are treated the same in terms of the PROCEDE process, there are important differences. First, while *ejidos* were formed via expropriation of *haciendas* in the post-revolution period, the *comunidades* date to the colonial period when the Spanish crown recognized indigenous communities via formal title. The post-revolutionary governments initiated a process of formally recognizing the *comunidades* – in most cases on the basis of colonial titles – via a presidential decree. *Comunidades* are also typically associated with indigenous groups. In Oaxaca this implies that there exist both a federal and state laws along with the “*usos y costumbres*” – or customary law of the indigenous groups.

unite the entire group and carry out the detailed orientation about rights, responsibilities, and contract terms. While the members were silent throughout most of the presentation, they asked many questions when liability rules were discussed.



(Finalizing loan amounts and the group's repayment schedule. El Yagan, Miahuatlan, Oaxaca)

While the members preferred to receive individual loans, they acknowledged the group liability, although it certainly appeared that they began to scrutinize each other in a bit of a different light after realizing that the other group members were responsible for repaying if any individual defaulted. The members have quite diversified income portfolios. Each member (including two married couples) have at least two income sources, including agriculture, handicrafts (basket weaving and wood carving), and migrant wage labor. One of the members migrates two weeks of each month to Mexico City to work in construction where he earns about \$200 per week. The final step was to agree upon the loan amount and repayment schedule. It was agreed that each member would receive 1,000 pesos (about \$95 US) to be repaid in 3 months. Conditional on repayment, the maximum loan amount would increase to 2,000 pesos in the second loan and up to 6,000 pesos by the 4th loan. The end of the process, at about 5 pm, was the most gratifying for us as we were all treated to a meal of wonderful *tamales*. We returned to Oaxaca late Wednesday night.

Part VI. Exit Meeting with DGRV in Oaxaca (7/8).

After jointly reviewing notes on Thursday morning, we spent the rest of the day attending a workshop at the Oaxaca office of the DGRV project. During this workshop, the seven groups working with DGRV presented their strategic plans for the next two years. This was a great opportunity for us to meet the leadership of these institutions which bring varying perspectives and experiences about rural financial markets in Oaxaca. We also spent a long time talking with Harald Speidel, the DGRV project director. Harald described the history and objectives of the projects and laid out the financial sector landscape including the multiple government institutions involved and the primary challenges he foresees for the currently informal financial institutions to meet the requirements of the LACP. Among the most important challenges will be achieving a minimum necessary scale of operations (both membership and capital levels), providing sufficient incentives to attract and keep qualified loan officers and administrators, and the continuing battle to break the "credit as subsidy" mentality.

List of contacts

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