

# **REACHING THE HARD TO REACH:**

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

## ***CASE STUDY***

### **The Jardín Azuayo Savings and Loan Cooperative, Ecuador: A Governance Model for Rural Outreach**

Prepared by the Rural Finance Network  
(Red Financiera Rural)

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

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## Abbreviations

COACs	<i>Cooperativas de Ahorro y Crédito</i>
DINACOOP	<i>Dirección Nacional de Cooperativas</i> , National Office for Cooperatives
JA	Jardín Azuayo Cooperative
INEC	INSTITUTO NACIONAL DE ESTADISTICA Y CENSOS
SBS	<i>Superintendencia de Banca y Seguros</i> , Superintendency of Banking and Insurance

# The Jardín Azuayo Savings and Loan Cooperative, Ecuador: A Governance Model for Rural Outreach<sup>1</sup>

## Executive Summary

One way for larger cooperatives to reach rural and remote areas is to provide urban-based services that can provide liquidity balancing and cross-subsidize smaller, costlier service points. The Jardín Azuayo Cooperative (JA) case presented here runs contrary to this logic. With twenty of its twenty-three offices in rural areas, this largely rural cooperative is considered to be a strong model of member participation and decentralized representative governance—one of the main reasons why its offices function well in rural areas. They have over 50,000 members in rural areas.

JA has managed to achieve these efficiencies through scale. It is financially sustainable with low portfolio at risk and high operating efficiency permitting expansion. JA's approach is unique for the focus on both financial and social/community. Significant resources are dedicated to member education to support member participation and to ensure that the cooperative's activities enhance local development.

The case demonstrates a reversal in the trend of rural siphoning (taking savings from rural areas to finance urban lending) common in Ecuador and elsewhere. Financial management of Jardín Azuayo enables it to transfer surplus resources from offices that have a positive balance from deposits gathered toward offices that have a deficit but that need resources for lending. This has improved JA's image and trust among members in remote areas. Members report a strong sense of ownership because of the community. Equally important to them is the range of competitive products available including various loan and savings services but also money transfers and more recently, electronic banking.

The governance structure is decentralized to make use of local councils. These local councils feed into the institutional governance system permitting rural members who would otherwise not have access to participate effectively. In fact, this structure has dramatically increased participation. Trust and ownership by members is high, as demonstrated by member testimonies and a strong growth in savings by members. While this model is financially sustainable with low portfolio at risk and high operating efficiency, women comprise less than half of the borrowers. The member base does represent the poor and not the absolute poor. Could this model of rural outreach extend deeper without losing its viability?

The case also provides interesting lessons for policy and regulation. Jardín Azuayo is a self-financed cooperative that has successfully moved from a system of self-regulation to prudential supervision by the Superintendency of Banking and Insurance (SBS). It has done so through strong information and reporting systems, standardization and built internal capacity.

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<sup>1</sup> Rural Finance Network- Roberto Garcés with Iván González (CECCA) and Juan Carlos Urgilés (Jardín Azuayo)

## Context and Case Selection

### ***National Context: Lending is Concentrated in Large Cities***

In Ecuador, 63% of the population lives in urban areas. More critically, 60% of the rural population is poor (extreme poverty line monthly income is US\$39.08 per person), which encourages migration to the country's main cities or abroad. Migration increased after the financial crisis of 1998-99, when the country went through a difficult stage politically, socially and financially. Several banks closed, deposits were frozen, and public protest forced a president to step down. Following a sharp devaluation of the Ecuadorian *sucre*, the US dollar became the national currency. Many people were left jobless. As a result, more than 500,000 Ecuadorians migrated to other countries. From an economic standpoint, this reduced the unemployment rate, eased the pressure from popular discontent, and stimulated a significant flow of economic resources in the form of remittances.

Most of these migrants moved to the United States, Spain and Italy. These three countries account for 98% of all remittances that arrive in the country through formal channels. Remittances sent to Ecuador in 2006 amounted to nearly US\$3 billion, a 19% increase over 2005 and a continuation of the upward trend registered since 2001 (Banco Central del Ecuador, 2007). This trend is a result of new migratory patterns (no longer migration from just the southern part of the country) and the devaluation of the US dollar against the euro.

The increase in petroleum export revenues in recent years, along with the remittances from emigrants and other income, has created so much liquidity in the system that the money deposited by private banks abroad is practically equal to the value of remittances. Despite this financial bonanza, however, the country's productive system is in poor condition.

### ***A Growing Cooperative Savings & Loan Sector Without Clear Regulatory Systems***

In Ecuador, regulated entities fall under the control and supervision of the Superintendency of Banking and Insurance (*Superintendencia de Banca y Seguros*, SBS). This category currently includes 17 banks, 37 savings and loan cooperatives (including Jardín Azuayo), 5 mutual savings associations and 12 financial societies. After the bank crisis, the financial system suffered from a poor image. The cooperative savings and loan system, which had no problems during the crisis, was in a stronger position. People began to work more actively with cooperatives, which responded and became stronger still.

According to the SBS and data from December 2006, the cooperative sector's share of GDP is growing. Of the 37 supervised savings and loan cooperatives, 20 have a normal risk rating, 10 have a moderate risk rating, 7 have potential risk and none is classified as unsatisfactory. The banking system also represents a growing segment of GDP, but its growth rate is more moderate than that of the cooperatives. Seventeen banks have normal risk, 1 shows moderate risk and 2 have potential risk. This data indicates that the national financial system is currently strong.

Among banks and mutual associations, the ratio of loans/deposit shows that not all resources are invested in credit. Considering that investment in the capital market in the country is minimal, this means that the resources gathered in the country are not necessarily invested internally.

**Figure 1: Ecuador's Financial System**

Type of Entity	Gathered	% Gathered	Placed	% Placed	Ratio Placed/ Gathered
Banks	9,246,940	87%	6,830,721	81%	74%
Financial Societies	307,526	3%	673,742	8%	219%
Cooperatives	672,985	6%	761,855	9%	113%
Mutual Associations	377,480	4%	217,348	3%	58%
Financial System	10,604,931	100%	8,483,666	100%	80%

It is difficult to determine the size of Ecuador's microfinance sector accurately because precise figures are not available for unregulated institutions. Nevertheless, The Rural Finance Network has come closest with an estimate. The microfinance sector yielded a total loan portfolio of US\$841 million as of December 2005. These figures were based on its own network of 39 rural institutions, 58 regulated entities under SBS and various networks representing 81 cooperatives and 55 associations.

Data provided by Banco Central del Ecuador (2007) records an overall decline in annual lending growth for institutions subject to SBS control. This decline has been most visible in microenterprise, housing and consumer lending, while the commercial portfolio has remained constant. Figure 2 shows the concentration of lending by type of financial institution and line of credit. According to the portfolio balance as of February 28, 2007, banks account for 96% of the system's commercial lending, and they play a key role in the consumer sector, with a market share of 71% of loans, and and 74% for housing. Savings and loan cooperatives work mainly with sectors that lack access to or confidence in the banking sector. The greatest demand among these customers is for microcredit and consumer credit, which are the most significant lending areas for regulated savings and loan cooperatives. In Ecuador, a microbusiness is usually defined as a business with up to US\$20,000 in assets and up to 10 personnel. Cooperatives play an important role in microcredit within the financial system, providing 41.5% of total funds for these products.

There are more than 400 unregulated cooperatives, according to 2004 data from DINACOOOP. Possible alternative supervision systems have been proposed, but no consensus has yet been reached among those involved.

**Figure 2: Loan Balance as of February 28, 2007 (million US\$)**

Loan Balance as of February 28, 2007 (million USD)					
	Banks	Financial Soc.	Mutual Assns.	Cooperatives	Total
Commercial	3408.80	90.05	34.95	9.36	3543.16
Consumer	1999.29	498.32	28.60	288.99	2815.20
Housing	806.60	17.14	157.65	102.86	1084.25
Microcredit	463.28	23.42	0.20	345.01	831.91
Total	6677.97	628.93	221.40	746.22	8274.52
Market Share					
Commercial	96.2%	2.5%	1.0%	0.3%	100.0%
Consumer	71.0%	17.7%	1.0%	10.3%	100.0%
Housing	74.4%	1.6%	14.5%	9.5%	100.0%
Microcredit	55.7%	2.8%	0.0%	41.5%	100.0%
Total	80.7%	7.6%	2.7%	9.0%	100.0%

Banco Central del Ecuador (2007)

The rural finance sector is quite organized and is coordinated under the Rural Finance Network. This network supports 46 rural finance organizations, both regulated and non-regulated. They have developed a financial monitoring system using internationally recognized benchmarks and provide support to non-regulated members (under the SBS) in a system of self-regulation. According to data from the Rural Finance Network as of December 2006, the scope of the rural finance sector is as follows:

**Figure 3: Regulated and Unregulated Institutions**

	<b>Institutions Regulated by SBS</b>	<b>Unregulated Institutions Within the Rural Finance Network</b>
Deposits (millions US\$)	10.604	126
Loans (millions US\$)	8.483	178
Overdue portfolio (millions US\$)	406	7
Rate of loans overdue as % total gross portfolio	4.79%	3.9%

Note: RFR has regulated and non-regulated members. Only non-regulated member data is provided (30 institutions)

Regulation is still complicated for savings and loan cooperatives because there is no specific law governing them. They fall under and report to the Ministry of Social Welfare (*Ministerio de Bienestar Social*), specifically the National Office for Cooperatives (*Dirección Nacional de Cooperativas*, DINACOOOP). However, following a resolution issued on July 27, 2006 by the Banking Board (*Junta Bancaria*), active savings and loan cooperatives with assets exceeding US\$10 million fall under the supervision of the SBS. For new entities, this classification is based on equity size, which must be equal to or greater than US\$788,682. These resolutions, issued without the backing of a specific law, create a dual system of control and supervision between DINACOOOP and the SBS.

While DINACOOOP's control and supervision are fairly relaxed, SBS requirements are strict, and in some cases inappropriate for these types of entities. For a cooperative to move to SBS control implies costs related to staffing requirements, the formation of committees, auditing, information that must be compiled and submitted, acquisition of equipment and software to meet requirements, and an adjustment period that distracts from regular operations. What most affects these entities, however, is the lack of understanding among the SBS, DINACOOOP and the cooperative system itself. This has also led to delays in creating appropriate legislation for savings and loan cooperatives.

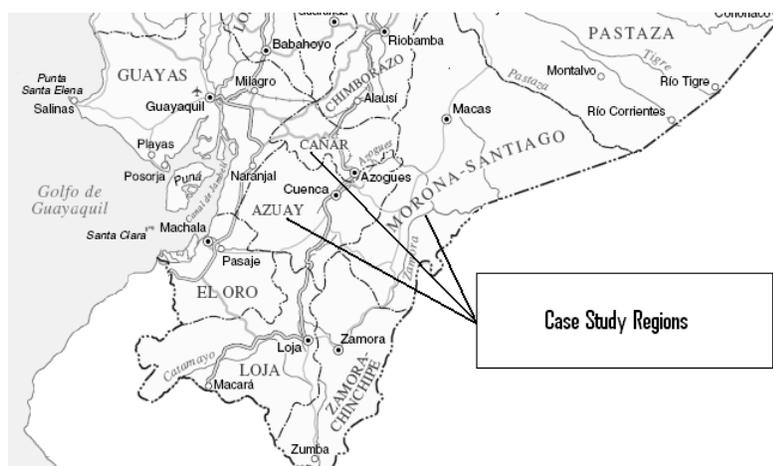
### **Local Context**

The case of Jardín Azuayo and its rural outreach is unique in Ecuador and has relevance for other parts of Latin America. All other savings and loan cooperatives that have reached an appreciable level of operations currently tend to follow the lead of banks, redirecting the scant resources available in rural areas (which they consider high-risk areas) toward cities. Small cooperatives located in areas where Jardín Azuayo has offices cannot compete with it, because Jardín Azuayo's technical support and oversight enables it to meet the needs of members in remote areas on a larger scale.

The Jardín Azuayo Savings and Loan Cooperative came into being as a result of the reconstruction of areas affected by the Josefina disaster in 1993 which caused widespread flooding, especially around the city of Paute. JA was officially recognized on May 27, 1996, by Ministry of Social Welfare Agreement 0836. It was established to contribute to the development of the southern region of Ecuador, offering low-cost services to improve residents' living conditions. Since January 2007, it has been subject to supervision and regulation by the SBS. In 2006, it obtained an AAA- rating.

Jardín Azuayo’s work has a dual thrust: The economic and financial side enables it to increase deposit gathering and lending; the social and organizational side creates opportunities to encourage member participation, develops cooperative education programs and fosters the development of a base of members, not just customers.

**Figure 4: Jardín Azuayo’s Area of Influence**



Adapted from UN Map No. 3878, Ecuador, 2004.

The fact that Jardín Azuayo has established such a position in the region in such a short time is a testament to its system of organization and operation. JA operates as a network that collects local financial resources and reinvests them in the local community, a policy that runs counter to that of the conventional financial system. The network model allows for a redistribution of income among offices with no need for a central point for gathering and distribution.

**Regional Characteristics**

The Jardín Azuayo Cooperative’s area of influence consists mainly of the provinces of Azuay, Cañar and Morona Santiago. In Cañar and Morona Santiago, most of the population is rural; in Azuay there is a relative balance between urban and rural populations. The region is not homogenous. Ecuador’s main political jurisdiction is the province; each province is divided into cantons and each canton has a capital city. Each province has its own unique characteristics and livelihood activities. Morona Santiago would be considered the most rural with the lowest population density.

**Figure 5: Characteristics of Region**

Province	Population Density	Geographical Characteristics	Livelihood Activities
Azuay	67.32 h/km <sup>2</sup>	48% rural Páramo zone	Agriculture (29%): flowers, corn, cereals, vegetables, fruits, cattle; Manufacturing (21%); Service (20%); Commerce (11%); Construction (9.2%); Transport (3.4%)
Cañar	60.32 h/km <sup>2</sup>	63% rural Páramo zone	Agriculture (48.9%): wheat, barley, coffee, vegetables, potatoes, rice, sugar cane, cattle; Manufacturing (16%); Service (14%); Construction (6.6%); Commerce (5.8%)
Morona Santiago	6.12 h/km <sup>2</sup>	66% rural Tropical zone	Agriculture (59.2%): yucca, sweet potato, corn, plantain, forestry naranjilla, cattle; Services (20.5%); Commerce (4.9%); Construction (4.8%); Manufacturing (4.5%)

Atlas Universal del Ecuador, IGM – 2005; Censo 2001, elaborated by Juan Carlos Urgilés (2006)

The regional financial system’s resources come from four sources: Remittances, wages, commerce and agriculture. More than 20,000 people (or 2% of the region’s population) have emigrated from the region in the past three years. At least 60 % of them financed their trips by resorting to private

money lenders who handle at least US\$60 million a year. According to the INEC, 35% of the region's work force is wage earning (Azuay 38%, Cañar 30%, M. Santiago 30%). The same source indicates that 8 % of the population works in commerce, with an average monthly income of US\$469. Although the technological characteristics of agriculture in the region result in lower income, more than 34% of the population works in agriculture.

### ***Regional Financial Structure***

The regional financial structure, which is regulated by the Financial Institutions Law of 1994 and the reform of 1995, has the same characteristics as the national financial structure. It is a concentrated system (four banks account for 60% of assets), with high spreads (averaging 48-55%), and is oriented toward urban customers. Since the crisis, the financial system has been overly liquid (SBS, 2005). Certain banks have high interest rates (60-80% effective rate) that compared against the passive rate of 4-5% nominal provide a high value like this.

In the regional system, these characteristics are combined with the extraction of money (deposits) to be invested (placed) outside the region. This, combined with emigration, makes the regions net exporters of labour and capital. For example, according to information from the SBS, in the southern part of the country banks gather about US\$295 million in deposits to be placed outside the region where they were gathered. It can be assumed that much of this money comes from remittances sent home by emigrants. Meanwhile, some savings and loan cooperatives, mainly in provincial capitals, are following the banks' example, extracting local money and placing it outside the region, although to a lesser degree than in the rest of the financial system.

Despite the financial system's strong position, access to formal financial services is fairly limited in rural areas, especially in the most remote areas. The institutions operating in those areas are mainly small savings and loans institutions (credit unions), communal banks (which operate only with the support of their members or an organization), savings and loan cooperatives and NGOs (non-profit, non-governmental organizations). This limitation is mainly due to people's limited financial education, which makes it difficult to meet administrative demands and guarantee requirements (people usually do not have land titles), as well as the limited presence of banks in these places. Most services accessed are informal such as money lenders, relatives, providers, etc.

The cooperative system operates in rural areas and has expanded into urban zones. Savings and loan cooperatives have become increasingly professional and have been growing steadily. The success of some savings and loan cooperatives has led groups of people in rural areas to form their own financing mechanisms. Many begin as small savings and loans or closed cooperatives (providing services only to their members), without legal recognition. As they grow, they become more formal, finally obtaining a license to operate as an open cooperative able to provide services to non-members.

### ***The Offices Studied and Characteristics of the Population in these Remote Areas***

Most savings and loan cooperatives, which are considered large in the local context, mainly serve urban sectors. The Jardín Azuayo Cooperative has continued to focus on remote rural parts of the area it serves, and it has created a governance system that is unique in the country, fostering participation by local residents throughout the areas where it operates, including the most remote. Its financial management policy allows it to distribute its liquidity among the regions where it operates, according to their needs. This is an example of how a cooperative can provide financial services in remote rural areas without undermining control or the effectiveness of its operations.

Jardín Azuayo currently has 23 offices in the provinces of Azuay, Cañar, Loja, El Oro and Morona Santiago. Five were selected for the study, based on their geographic distance, the number of members and poverty indicators in the cantons where they operate. The offices are: Paute, Nabón, Sigsig, Cañar and Limón, each named after the canton in which they are based.

According to the 2001 INEC Census, the selected cantons had a population of 138,831 people in an area of 5,474 km<sup>2</sup>. Cuenca is the largest city in Jardín Azuayo's area of operation. While all of the selected cantons have large rural areas, the population density is not necessarily low, although it is lower than in the major cities.

**Figure 6: Population, Area and Density of the Areas of Influence for Rural Offices Compared to the Major City (Cuenca)**

Cantons	Local Population	Distance from Cuenca (km)	Area (km <sup>2</sup> )	Population Density/km <sup>2</sup>	Defining characteristics
Paute	24,877	42	266,40	93	Poor; indigenous; far from interprovincial roads
Nabón	16,074	90	626,30	25	Poor; far from interprovincial roads
Sigsig	27,141	70	661,80	41	Poor; far from interprovincial roads
Cañar	59,153	90	1,818,60	32	Indigenous; poor
Limón	11,586	100	2,101,40	5	Amazon basin
Cuenca	450,000	0	3,316,64	135	Nearest Major city

INEC, 2001 Census - SIISE

### **Methodology**

Cases selected had to be a member-owned model providing significant remote outreach in the local context. See Appendix C for research definitions and general case methodology. Two weeks of field research were conducted on five of Jardín Azuayo's rural offices. Outreach was measured in terms of Schreiner's (1998) six aspects: Breadth, depth, cost, worth, length, scope. Analysis was conducted at two levels. To determine outreach potential, breadth of outreach data were gathered for all of the cooperative's rural offices. The other measures of outreach were examined with the sample rural offices.

Five canton assemblies (one per office), five focus group discussions (one per each office), and mapping exercises were held to get member perspectives on worth/demand of alternative financial services and ownership. Key informant interviews were held with key staff, regulators and policy-makers. The researchers also reviewed each office's strategic plan, minutes of meetings of the boards of directors, the cooperative positioning study done by a consultant in March 2006, the study by cooperative manager Juan Carlos Urgilés, and national indicators.

### **Member-Owned Institution Remote Outreach**

The Jardín Azuayo Cooperative has grown steadily in recent years, based on data gathered by the Rural Finance Network between December 2003 and December 2006. In that time, the cooperative has grown from 13,115 to 21,320 active loan customers. Similarly, the number of active savers has increased from 25,241 to 52,047. The average savings balance per customer has increased by 83% during that period, and the cooperative has increased its number of offices from 15 to 23.

**Figure 7: Growth of Jardín Azuayo Cooperative (2003-2006)**

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006
Active borrowers	13,115	17,775	18,906	21,320
Growth of active borrowers	45.53%	35.53%	6.36%	12.77%
Average loan balance	1,209	1,376	1,933	2,666
Active savers	25,241	36,356	44,587	52,047
Growth of active savers	36.94%	44.04%	22.64%	16.73%
Average savings balance	410	486	571	752
No. service points	15	19	22	22

Jardín Azuayo MIS (May 18, 2007)

Figure 8 shows portfolio data as of December, 2006, for the sample of remote offices studied compared to the nearest urban centre and the average for the cooperative overall.

**Figure 8: Portfolio and Outreach Data for Sample Rural Offices, Jardín Azuayo**

Office	Total Savings \$US	No. Members & Savers	Avr.	Total Gross Loan Portfolio \$US	No. Loans	Avr.	Loans Overdue % Outstanding Portfolio
Paute	9,411,317	8,395	1121	6,941,319	2,369	2930	1.48%
Cañar	7,179,492	7,983	899	5,641,520	1,857	3038	1.36%
Sigsig	7,113,910	5,605	1269	5,452,165	1,982	2751	1.48%
Nabón	2,673,308	3,890	687	4,109,314	1,318	3118	.64%
Limón	2,542,584	3,022	841	2,875,603	833	3452	.24%
Total Sample	26,510,611	29,260	906	25,019,921	8,359	2993	
Cuenca*	7,041,537	9,022	780	3,381,577	1,511	2238	3.74%
TOTAL COOP	59,543,556	80,378	740	60,103,585	21,894	2745	2.12%

\*Nearest urban centre

The remote offices showed stronger outreach in terms of savings and loan portfolios given their relative size, and fared better, in many cases, than the nearest urban centre. They showed strong performance in the size of savings and loans portfolios and the overdue loans as a percentage of the portfolio. The cooperative attributes its growth and performance, in part, to the cooperative's governance style. This will be explained in more detail later.

### ***Breadth of Outreach of Jardín Azuayo Cooperative Rural Offices***

Figure 9 shows the situation in of each of the cooperative's offices as of February 2007. The offices selected for the study are highlighted. The cooperative distributes its resources so as to benefit the offices that gather fewer resources, which is the opposite of what most savings and loan cooperatives and banks do.

All offices except those in Cuenca, La Troncal and Azogues are considered to be in rural areas, demonstrating the cooperative's commitment to focus on serving rural zones. The rural outreach of Jardín Azuayo totals 61,131 members (76%) with a loan portfolio of US\$50,416,688 (84%) and a total savings amount of US\$48,677,331 (82%).

Figure 9: Breadth of Outreach of Jardín Azuayo Cooperative Offices

OFFICES	No. Members	Members as % of Total	SAVINGS	% of Total	No. of Loans	% of Total	Value of Loans	% of Total	Delinquency
Cuenca	9.922	12,3%	7.041.537	11,8%	1.511	6,9%	3.381.577	5,6%	3,74
Gualaceo	9.080	11,3%	6.517.222	10,9%	2.244	10,2%	6.272.255	10,4%	2,7
Paute	8.395	10,4%	9.411.317	15,8%	2.369	10,8%	6.941.319	11,5%	1,48
Cañar	7.983	9,9%	7.179.492	12,1%	1.857	8,5%	5.641.520	9,4%	1,36
Troncal	5.670	7,1%	1.545.997	2,6%	1.702	7,8%	3.526.695	5,9%	5,53
Sigsig	5.605	7,0%	7.113.910	11,9%	1.982	9,1%	5.452.165	9,1%	1,48
Nabón	3.890	4,8%	2.673.308	4,5%	1.318	6,0%	4.109.314	6,8%	0,64
Sta Isabel	3.882	4,8%	2.561.133	4,3%	1.078	4,9%	3.424.261	5,7%	2,54
Macas	3.703	4,6%	1.578.002	2,7%	789	3,6%	2.165.879	3,6%	1,17
Azogues	3.655	4,5%	2.278.691	3,8%	929	4,2%	2.778.625	4,6%	2,38
Limón	3.022	3,8%	2.542.584	4,3%	833	3,8%	2.875.603	4,8%	0,24
Sucua	2.705	3,4%	1.498.147	2,5%	853	3,9%	2.420.587	4,0%	0,96
Pucará	2.426	3,0%	2.228.004	3,7%	604	2,8%	1.796.502	3,0%	1,22
Mendez	1.835	2,3%	974.459	1,6%	842	3,8%	2.389.644	4,0%	1,32
Oña	1.818	2,3%	551.042	0,9%	506	2,3%	974.889	1,6%	11,96
El Valle	1.346	1,7%	682.096	1,1%	583	2,7%	1.146.017	1,9%	1,2
Saraguro	1.328	1,7%	200.143	0,3%	417	1,9%	519.279	0,9%	14,79
Ricaurte	1.092	1,4%	430.571	0,7%	318	1,5%	764.559	1,3%	0,93
Suscal	953	1,2%	818.780	1,4%	368	1,7%	908.851	1,5%	1,05
Tambo	595	0,7%	790.674	1,3%	149	0,7%	498.872	0,8%	0,03
San Fernando	588	0,7%	288.442	0,5%	291	1,3%	818.764	1,4%	1,19
Chordeleg	543	0,7%	375.606	0,6%	195	0,9%	546.766	0,9%	0,2
Palmas	342	0,4%	262.399	0,4%	156	0,7%	749.642	1,2%	0,11
<b>TOTAL</b>	<b>80.378</b>	<b>100%</b>	<b>59.543.556</b>	<b>100%</b>	<b>21.894</b>	<b>100,0%</b>	<b>60.103.585</b>	<b>100,0%</b>	<b>2,12</b>

The cooperative offices began operating in these cantons in 1996 and currently have a large membership (Figure 10). The members represent between 14-35% of the population in the areas where the offices operate.

According to INEC, the average family in the region consists of 5 members, which means the cooperative affects 146,300 people. When compared to the total number of canton inhabitants (138,831 people according to INEC), that means that at least one member of each family in the selected cantons is a member of the Jardín Azuayo Cooperative. In other words, 21% of the population belongs to the cooperative, demonstrating the scope of the cooperative's outreach in its area of influence.

Figure 10: Cooperative's Local Outreach

Office	Date Established	Number of Members (April 1, 2007)	Members as % of Canton Residents
Paute	1996	8,522	34.26%
Sigsig	1997	5,681	20.93%
Nabón	1998	3,952	24.58%
Cañar	1998	8,027	13.57%
Limón	2002	3,078	26.57%
<b>TOTAL</b>		<b>29,260</b>	

Treasurer's report, May 2005; Prepared by: Juan Carlos Urgilés

### ***Depth of Service in the Cooperative's Offices***

INEC reports that 76% of the population in the five selected cantons is poor, compared to a national average of 52.8%, and 37% live in extreme poverty. Nabón is the canton with the highest poverty rate (88%), and Limón has the lowest rate (61%). A significant percentage of the population of those cantons lacks access to basic services, as Figure 11 shows. The city of Cuenca is included for comparison.

**Figure 11: Unsatisfied Basic Needs**

<b>Canton</b>	<b>Illiteracy</b>	<b>Water Hookup</b>	<b>Drainage</b>	<b>Electricity</b>	<b>Bathroom in Home</b>	<b>Sewer</b>
Paute	24.20	22.81	14.51	67.83	15.96	45.84
Nabón	33.00	14.74	7.13	17.79	7.74	27.55
Sigsig	28.00	16.74	13.75	62.50	12.14	27.79
Cañar	13.00	24.79	16.60	49.46	17.47	39.48
Limón	20.10	84.20	33.90	39.40	24.60	25.50
Cuenca	3.80	89.00	75.60	96.10	98.00	60.00
Average for cantons studied	23.66	32.66	17.18	47.39	15.58	33.23

INEC

A study done for the cooperative in March 2006 found that its members' average income was US\$477 a month, placing the institution above the extreme poverty line, measured by the monthly basic family consumption (\$455.29), but still below the poverty line (\$921). The cooperative's work in mitigating poverty is still weak, as it has not managed to establish a structure for serving the families living in the greatest poverty.

Services to poor families and those with an income above the poverty line that live in the five cantons are provided through the transfer of financial resources from economic centres to marginal areas. This establishes relative equilibrium between older and newer offices, as well as between those that gather deposits and those where there is a demand for loans and for solidarity credit for groups such as the Women's Network of Paute.

The cooperative's social profile is reflected in the members' sources of income. About 70% are small entrepreneurs or wage earners. Family incomes mainly go to purchase food (39%) and pay debts (39%). Large debts are incurred for emigration.

Perhaps the only disappointing aspect of depth of outreach is the extent to which women are reached. Figures were only available for borrowers, 36% of whom were women. While the figures for savers are likely to be higher, women are still under-represented.

### ***Length: Sustainability of the Cooperative and its Offices***

Jardín Azuayo's growth is not concentrated in its main offices or urban areas. Services are provided equally in all offices. Only when a new office first opens are liquidity funds transferred to it at no cost. Subsequent funds are shifted from the offices that gather the most resources toward those needing resources, at a financial cost of 8% per annum. This model encourages the coordinator of each office to emphasize deposit gathering in his or her region and avoid costs of transferring resources from other offices.

All offices have grown steadily since 2004, largely due to the cooperative’s governance model and its management of institutional liquidity in its area of operation. An analysis of the mismatch of funds in each office shows how the offices have moved from a “negative” situation (lending more than they mobilize) to a “positive” situation (mobilizing more than they lend). All offices except Nabón have improved in this regard.

All offices have also shown a profit in recent years, despite the cooperative’s policy of lowering commissions and interest rates on loans, which dropped from 15.7% to 11% between 2003 and 2006. Interest rates on savings are around 4-5%.

**Figure 12: Financial Performance of Jardín Azuayo**

	<b>Dec. 2006</b>	<b>Dec. 2005</b>	<b>Dec. 2004</b>
Operational Sustainability	104.3%	103.5%	110.2%
Financial Sustainability	100.6%	97.3%	107.3%
Yield	11.4%	12.8%	14.7%
Return on Assets	.15%	.13%	1.24%
Return on Equity	.98%	.70%	6.68%
Portfolio at Risk > 30 days	4.81%	11.21%	8.92%

Three people—a coordinator, a loan officer and a teller—work in each office. Operational efficiency rate is similar from office to office (except the Limón office, which has 1.3% operational efficiency as % average loan portfolio). There is no difference in salaries and wages from office to office except in the case of coordinators, whose salary is based on the office’s portfolio size, although the difference is minimal (a maximum of US\$200).

One key point in the offices’ operational efficiency in comparison to the cooperative as a whole is that the local committees represent no cost to them or to the cooperative. Local residents volunteer their time for tasks such as the analyses done by loan commissions. This is an advantage from a financial and operational standpoint, both in terms of the work methodology and the cooperative’s style of governance, as it lowers cost, speeds up the process and ensures that loans are granted, since people know the applicants in each area.

**Figure 13: Operational Cost Ratios and Staff Productivity**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Operational expense as % average total assets	3.60%	3.93%	3.55%
Productivity per field staff	888	900	936

The organization of local loan commissions and the current model of neighbourhood or parish commissions contribute to a low delinquency rate, as the members of the commissions know the members who are applying for loans. As a result, the highest portfolio at risk rate is 5.20%. The cooperative has a rate of overdue loans and portfolio at risk higher than the study offices. This demonstrates the rate of control exercised by the local governance structures in the remote zones.

Liquidity management is another important aspect of financial performance. The study offices demonstrate surplus liquidity that is provided for other offices.

**Figure 14: Offices with Surpluses and Offices where Surpluses are Placed**

Canton	Surplus	Canton	Loans
01 Paute	2,388.03	01 Nabón	1,040.25
02 Sigsig	1,833.32	02 Santa. Isabel	675.62
03 Gualaceo	497.55	03 Oña	878.62
04 Pucará	722.15	04 Azogues	312.66
05 Cuenca	3,870.40	05 Sucúa	742.42
06 Cañar	1,650.10	06 Limón	399.08
07 El Tambo	317.91	07 Méndez	1,147.77
		08 Macas	368.68
		09 La Troncal	1,779.79
		10 San Fernando	525.63
		11 Suscal	87.26
		12 Ricaurte	351.83
		13 El Valle	451.91
		14 Chordeleg	70.60
		15 Palmas	303.09
<b>TOTAL SURPLUS</b>	<b>11,279.46</b>	<b>TOTAL LOANED</b>	<b>9,135.21</b>

Source: Treasurer of the cooperative, Dec. 2006

Figure 14 shows how surpluses in the cooperative's area of influence are reinvested in areas that gather fewer resources. The difference between surplus deposit gathering and placement, according to policy approved by the general assembly of delegates, is invested in cooperative education. In this case, US\$2,144 was invested in Jardín Azuayo's training courses in 2006.

### ***Scope: Cooperative Products and Services Compared to Those of Other Providers***

This section reviews the services offered by financial institutions in the region. Jardín Azuayo offers fewer services than banks and mutual associations, but more than other cooperatives. For more explanation of loan products for JA see Appendix B.

Paute office has the most competition with presence of every type of financial institution. Cañar is also in a competitive area, but there are no regulated cooperatives. Nabón has no other source of finance and Limón only a state bank. There are other small savings and loan cooperatives operating in the area with costs slightly higher than those of Jardín Azuayo, but they lack the financial capacity to meet the needs of the segment served by JA. The amounts offered are much smaller and do not meet the needs of the local population. Other sources of credit in remote areas include relatives and money lenders. In the case of relatives, access to a loan depends on other people's willingness and ability to lend. If the factor leading to the need for the loan affects the entire family, that is not an option. Money lenders are present in all communities. They offer instant credit (this is the main reason of their permanency), but their costs are extremely high, with interest rates that can easily reach 10% a month, not counting the pressure this creates on families, which sometimes results in violence.

**Figure 15: Products and Services Offered by Financial Institutions in the Region**

Presence in office areas	Distance (km)	Loan Products	Savings Products	Additional Services	Notes
Commercial Banks (small offices in Paute and Cañar)	4	Loans (13.83% annual nominal interest plus 2.5-5% one time flat fee on principal); collateral required	Passbook savings; demand and term deposits which pay 4.5% in demand savings and up to 8.5% in fix term deposits (360 days)	Utilities payment; automatic tellers; debit cards; credit cards; internet banking; foreign exchange; foreign wire transfers; loan endorsements	
State Banks	3	Loans (interest rates lower than market rate; commission to cover expenses)	Savings books	Credit	Lengthy process
Financial Societies (Regulated)	1	Loans (Interest rates higher than the banks)	NO	Debit cards	
Mutual Associations	1	Loans (long-term; only for construction, house purchase)	Passbook savings; term deposits	Foreign wire transfers	
Small Cooperatives (COACs)	5	Loans (Small loan amounts 10% - 20% forced savings; interest rate equal too or higher than banks)	Passbook savings; term deposits		
Moneylenders		Loans (10% nominal per month)			Violence used
Jardín Azuayo		Working capital, emergency, housing loans (10-13% annual nominal interest rate); Term: 10 mo. – 3 yrs. Housing Loans- 10 yrs.	Passbook savings (4.5% annual interest); term deposits (from 6.5% - 30 days up to 8.5% - 360 days)	Foreign wire transfers; payment of utilities and taxes; loan endorsement; member education; cellular transfers and verification	Regular loans available in groups or individual rates can be higher without savings.

Source: Field research

JA is also located in areas that are not served by banks or mutual associations, placing it in an important position among local financial institutions. Figure 16 shows the influence of other institutions in the region. This is limited in the case of private banks, which are actually small offices that serve wealthier people in the areas, generally merchants who need certain banking services, such as chequing accounts, that they cannot obtain from cooperatives. The amounts handled by these people are significantly greater than those handled by most people in the area.

**Figure 16: Participation of other Financial Entities in the Communities of Jardín Azuayo**

	Private banks	State banks	Regulated cooperatives (COACs)	Unregulated cooperatives
Paute	2	1	1	1
Limón	0	1	0	0
Nabón	0	0	0	0
Cañar	2	1	0	3
Sigsig	0	0	0	1

The most highly developed services offered by JA through its offices are saving and lending. Savings can be passbook style or for fixed terms, with options of 30, 60 or 90 days or more, with higher interest rates for longer terms. Loan options include ordinary loans for individuals or groups, without savings for individuals or groups, emergency loans, housing or development loans, and special loans for education or health care.

Loan conditions for JA's members are better than those offered by other financial entities (loans at 11% per annum). Banks in the area charge the highest conventional rate for loans (13.83% as of December 2006), plus a commission that can range from 2.5% to 5%, usually a one-time flat commission based on the payable amount. The most difficult thing for people in remote rural areas, however, is not the cost, but access which includes distance, involving transportation and meal expenses and the cost of leaving their productive activities for the time required to do the paperwork, and difficulty in meeting the financial institutions' requirements (real guarantees). The time it takes to apply for and process a loan at a bank is excessive for the needs of small business owners or in the emergency situations that often lead to loan requests.

Members also benefit from being part of a larger cooperative through the many additional services offered. To address distance and security concerns for fund transfers, particularly in remote areas, there are various forms of transfer and cashless services available. The cooperative has agreements with other institutions to allow non-members (clients of other financial institutions) to receive remittances at teller windows at its various offices. This is an important service in the region, since the cooperative has offices in places where other financial institutions and transfer services have no facilities. As of December 2006, JA had received US\$105,520 in income from remittances, roughly half what had been earned in other investments and 2% of overall income. As noted above, as with savings gathered in rural areas, remittances are also redistributed in the same areas.

There is no charge for receiving money for JA members. Other services offered for no fee include bill and local tax payments, cashier cheques for large withdrawals, and money transfers to other financial institutions through any JA office. Only cheque cashing is charged minimally. Solidarity vouchers are offered in remote offices.

As of 2007, services have also begun in cellular plans and transfers. JA is part of a broader network of cooperatives. Therefore, through the cellular plans members have access to 180 offices and 17 cooperatives. Services include money transfers between members, balance verification and loan payments. Importantly, an alliance with a private company "Porta" will mean the installation of antennas throughout the countryside where there is not currently service. Though these services are too new to determine impact, these services would otherwise be impossible to access in rural areas as a decentralized non-networked financial institution.

As additional services, the cooperative offers what it calls the "Paradise Fund," consisting of US\$200 to assist families of members who have died, as well as loan insurance to cover up to US\$3,000 of remaining payments for deceased. Also new in 2007, the government, through the cooperative, provides a subsidy or benefit of US\$35 per month per person for those below the extreme poverty line. In this way, the wide network of cooperative offices provides an important distribution mechanism for social security through the government.

Beyond financial services, JA also provides ongoing training for its directors and members in partnership with a university. These include continuing education plans in collaboration with the university for its members, directors and employees.

***Worth: The Value Members Place on JA’s Services and their Membership***

Jardín Azuayo’s growth is not due to publicity campaigns, in which the cooperative has invested nothing, but to individual members inviting others to join. JA’s main office in Cuenca and its rural offices have no large signs or neon lights. Upon arriving in a community, one merely has to ask where the cooperative is.

JA has created an entire network of volunteers who work enthusiastically to help it grow. Periodic “internships” enable directors of one office to visit other offices or other cooperatives that have successful approaches. Each group of agencies has community outreach workers who assist the directors and organize educational, sporting and social events and exchanges of products and handcrafts.

Although it does not have a direct impact on the eradication of extreme poverty, JA’s presence builds confidence among the residents in the communities studied. This is the main factor in its growth and the reason why they choose JA over other service providers. Cooperative members in the offices studied identified the following factors for building trust in the institution:

**Figure 17: Factors that Members Identified as Important for Building Trust**

Office	
Paute	<ul style="list-style-type: none"> <li>• The institution’s growth</li> </ul>
Nabón	<ul style="list-style-type: none"> <li>• Assistance to support families and enable their children to study</li> </ul>
Sigsig	<ul style="list-style-type: none"> <li>• Speed of loan processing</li> </ul>
Cañar	<ul style="list-style-type: none"> <li>• Trust and security for savers</li> </ul>
Limón	<ul style="list-style-type: none"> <li>• Timely loans</li> <li>• Good treatment of customers and efficient service</li> <li>• Possibility of making transfers</li> </ul>

Source: Field survey

**What Has Enabled This Member-Owned Institution to Achieve Remote Outreach?**

Jardín Azuayo works not only in the financial and economic sphere, but also in social areas and organization, encouraging member participation, developing cooperative education programs and fostering the idea that the cooperative is made up of members, not just customers.

***A Decentralized Model of Governance***

Jardín Azuayo’s structure is designed in a decentralized manner for maximum member participation that allows for active participation by members in all offices in every region of influence. Member participation in JA is much higher than is normally found in other cooperatives, because each office has its own directors, who serve on various committees, such as administration, oversight, social affairs and education. This allows local people to be represented among the directors, not just in general assemblies, and to take part in the cooperative’s everyday operations. This empowerment through cooperative management responsibilities extends to the neighbourhood or parish level,

where the administration and local loan commissions are elected. At this level, especially decisions on loan acceptance are taken, however members also participate with ideas that their representatives take to a higher level for consideration.

Jardín Azuayo has a General Assembly of Representatives elected in each office based on the number of members, as well as general office assemblies, local member assemblies, local committees, an Administrative Council and Manager. The local committees are made up of upstanding individuals who know the members of their communities and can help evaluate their solvency. See Appendix A1 for the Administrative Council Chart.

The local assemblies bring together residents of neighbourhoods or communities. The fact that they know each other allows for greater clarity in discussion and creates geographic bonds within the office, giving it identity. Those residents become members of the local commissions that support the office's administrative and lending functions including revision of loan requests and organization of social events.

As well the local assemblies provide delegates to the office's general assemblies, where issues are discussed and proposals made to the Administrative Council. These decisions include: Development of capacity building activities for the zone; liquidity management; improving the services offered by the cooperative.

The Administrative Council is comprised of the directors from the general assemblies, and the presidents of all the offices. This model enables a significant number of members to be involved in discussions, decentralizes loan-related matters and fosters a committed, stable foundation of community members who are able to interact with the institution.

Due to Jardín Azuayo's growth, the shift to become supervised by the SBS, and concerns of the local assemblies, members sought a new governance structure. In March 2006, a Decree was passed to define the functions of General Assembly according to democratic operations and norms issued by the SBS. Both internal and external governance was considered. Contrary to the normal practice of savings and credit cooperatives, General Assembly representatives are considered in discussions at neighbourhood and local office levels before passing to the General Assembly. The principal role of the Assembly is to assess financial and social performance of the cooperative and to plan for the coming period.

The Jardín Azuayo Cooperative's Administrative Council has five members elected from among the presidents and an advisory committee made up of the other presidents, which suggests and recommends actions, reducing the risk of concentrating decision making in a few hands. The Oversight Council, eliminated under current regulations, was replaced by an audit committee made up of one Council member and the external and internal auditors. The Loan Committee consists of the manager and two members elected by the Council. This committee sets lending policy and delegates' responsibilities to office and local committees.

In each office, the directors work alongside the cooperative staff, which includes a coordinator who is also loan officer, one or two tellers, and an outreach worker. Based on their location, the offices are divided into five zones, each of which has a zone coordinator. The zones are connected with the central coordinating body in the city of Cuenca, which is headed by the general manager, supported by a secretary and auditor; assistant managers for operations, process development, quality and new

products; investment, risk, acquisitions and cooperative education committees; and coordinators of operations, financial resources, computer resources and human resources.

### ***Cooperative Education and Member Participation***

Due to its decentralized structure, cooperative education is emphasized to ensure that there is knowledge, ability and desire to act—all are crucial for effective participation. A survey of cooperative members in 2006 showed that 78% of the respondents knew about aspects of cooperative operations, although the rate was much lower in the city of Cuenca. Focus groups held with members showed that they trust management, not only because of the quality of its services and its security, but because it is connected with the economic and social development of the cantons where it operates, improving living conditions in those areas by offering advantages over other financial institutions' services. As a result, one-third of the interviewees said they would not withdraw their savings if there were turnover in directors and top staff members.

Communication is done through ongoing information programs with the goal of reaching all members. These programs explain the cooperative's progress and discuss significant matters of local and national concern. The work of all the directors is voluntary and is backed by ongoing cooperative education.

A cooperative education project provides training for members based on member's own life circumstances. This is enhanced with discussions and visits to successful institutions, with the goal of constantly creating and re-creating concepts related to cooperatives. Members are able to express their needs through various channels: Parish assemblies, office assemblies, delegate assemblies, a web page, and meetings between members and staff.

Each office covers a canton and has staff members and directors. The staff consists of a coordinator, outreach worker, loan officer and teller. Directors form the administration, oversight, social affairs and education committees. The president of the office is a member of the Administrative Committees. The committees are elected in member assemblies held every six months. The cooperative also encourages participation by providing service incentives. For example, the length of term for loans is tied to the number of months' savings the member has. Those members that did not attend the last assembly are required to save an extra month.

To increase participation, and because of the cooperative's growth, this structure was modified in 2006 with the organization of neighbourhood or parish assemblies that elect the local administration and loan commissions. See Appendix A2 for Local Structure chart. They also elect the delegates to each office's assembly from among the members. Each office also elects delegates, based on the number of members, to the general assembly that will examine the administrative and financial reports.

Members form a parallel structure that complements the employee structure. The offices are grouped into five zones coordinated by a zone coordinator who is supported by the operational areas of financial resources, computer resources, human resources and operations. The zone activities and operational areas are coordinated by the cooperative manager, who is assisted by supportive units that handle secretarial tasks, internal auditing and material resources.

The manager, zone coordinators and coordinators of operational areas, along with the members of the Cooperative Education and Training Center of Southern Ecuador, make up the cooperative

education committee, which cuts across all areas of the institution. The cooperative education committee is in charge of implementing the cooperative education plan, which includes a diploma program in local development and cooperativism backed by the Salesian Polytechnic University (*Universidad Politécnica Salesiana*), workshops on roles and functions of directors and employees, strategic planning for the offices, coordination of assembly debate, systematic documentation of the cooperative's work, etc. Members of these committees are not paid for their participation.

### ***Direct Knowledge of the Customer***

Jardín Azuayo's methodology is based on the close relationship between the cooperative and its members. There is close contact daily among members, directors and workers or employees that allows for constant communication. That means not only understanding the local situation, but also being part of it, being committed to local development and making financial management a fundamental element in that process. This knowledge and commitment enables the institution to provide financial products that are appropriate for the members' economic and cultural conditions, ensuring friendly services with a human face, keeping in mind that the borrowers are the owners of the cooperative.

With this approach, it is more efficient to work directly in each locality, promoting education and a sense of commitment to the community, which ultimately results in a strong sense of belonging and community oversight.

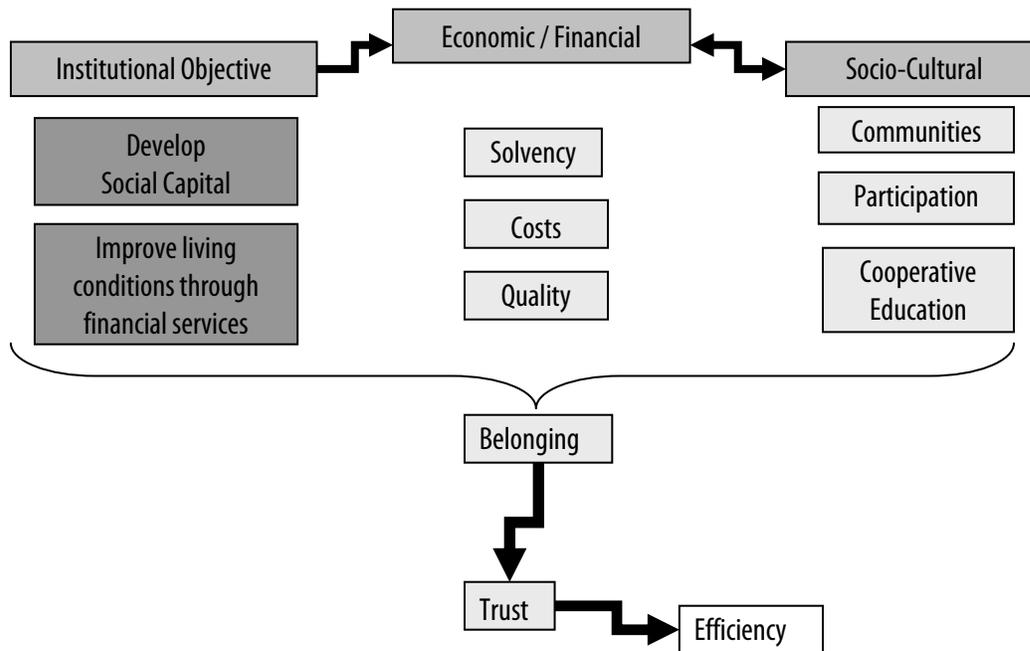
### ***Networks of Relationships are Monitored***

In the words of Tomás Villasante, just as communities exist only in the relationships among their inhabitants, the inhabitants' existence takes on meaning with the relationships they maintain with other people, forming networks of interpersonal relationships. In this context, individuals acquire identity and a sense of belonging, to "become somebody" who can make a difference. Everyone has a sense of belonging to something, which stems from family, community, religious, sporting, labour and other relationships that are woven into various networks or social fabrics and identities.

Knowing the members' networks of relationships is a crucial aspect of the cooperative's credit methodology, as it provides a more thorough understanding of the borrowers and the people with whom they relate. The formation of local boards of directors enhances the lending process and validates the policy of participation. A relationship chart is used to identify the networks of relationships that the member maintains in various spheres. The chart includes the member's references, which must be checked, and information that can be used to locate the member if he or she should move. The relationship chart makes it possible to determine who in the cooperative (staff, commission members or a well-known member) is familiar with one or more of the people related to the member, which helps verify the member's reliability.

Growth of Jardín Azuayo is largely due to word of mouth, not publicity or marketing. Over 83% of members heard about the cooperative from relatives and friends according to a 2004 survey of 1,736 members in 10 offices.

Figure 18: Governance Model



An important part of the governance model is the creation of local governance structures in each office focused on both operational and strategic or policy-oriented areas. Not only are there both financial aspects and social-community goals, their approach considers the two tied as illustrated in Figure 18.

These factors (Figure 18) guide the various aspects of Jardín Azuayo’s financial and social efforts. The aim is to combine the local social fabric knowledge with institutional operations, and ensure that members have a sense of ownership and oversight, in JA.

The governance structure has resulted in three basic accomplishments: Efficiency, low delinquency rate, and participation of members. Operating costs averaged about 3.6% from 2004 to 2006. The organization of local loan commissions and the current model of neighbourhood or parish commissions contribute to a low delinquency rate since the members of the commissions know the loan applicants. As a result, the highest portfolio at risk rate is 5.20%. Assemblies and cooperative education workshops are opportunities for participation that enable members to learn about the cooperative’s work and express their opinions. This results in a positive attitude toward the cooperative.

### ***Equitable Management of Liquidity Funds***

Jardín Azuayo’s governance structure forms a network of the decentralized offices and administrative councils. This allows for greater control over lending and management of JA’s liquidity, allowing mobilization of resources from offices with greater liquidity to those that need funds. For JA, the liquidity balancing function is not only to match surpluses and deficits in liquidity but to prevent siphoning of income out of rural areas, ensuring that it is invested locally. This process is managed and controlled through the main office in Cuenca, where the “financial resources coordination” area is located. The institution’s operating principle is enhancement of

financial equilibrium with compensatory practices among the offices through a single treasury that manages the flow of funds.

Along with this process, solidarity has made it possible to start up small offices by sharing the marginal costs between large and small offices until small and remote offices reach a degree of maturity, especially social maturity, which enables them to establish financial equilibrium.

### ***Supervision and Regulation***

One of the most important forms of control is the one that members exercise over the offices through the oversight committees in each of the 23 offices. This ensures satisfactory operation and control of lending and decision making.

From 2002, Jardín Azuayo was part of a Self-Regulation system through the management support of the Rural Financial Network. External controls of JA's management were provided through technical support by the Rural Finance Network, World Council of Credit Unions and Swisscontact, as well as benchmarking with cooperatives at national and international level. These external support services enabled the cooperative to graduate more easily to external supervision by the SBS in 2007. SBS requires external audits by international audit firms.

The fact that a financial organization is controlled by SBS demonstrates security for members to place savings securely in that institution. Nevertheless in Ecuador, this confidence was threatened by the financial crisis of 2000. On the other hand, people in the rural areas have less information on these financial structures and more on word of mouth. Word of mouth is still the best way to control what happens in the cooperative.

## **Conclusion**

The model used by the Jardín Azuayo Cooperative is based on two fundamental principles that sets it apart from other savings and loan cooperatives, enabling it to operate in remote areas, while maintaining appropriate control and management:

1. Decentralization of cooperative governance, enabling the members associated with each office to participate in decision making. This empowerment of members in running the institution extends to the neighbourhood or parish level, where local loan commissions and administrative commissions are elected.
2. Effective management of the offices' liquidity flows allows surplus from some regions to be transferred to those that have fewer resources and need more. As a result, members in more remote areas find that they have access to resources that were formerly beyond their reach because other financial institutions either did not have offices in their areas or lacked the necessary funds.

The open-mindedness of directors has allowed managers to establish partnerships with entities that have facilitated the cooperative's growth at key moments. JA's governance model is now considered an example of civic participation and operational control worthy of emulation.

The offices focus on enhancing control of financial assets to stimulate the local economy. This control avoids superfluous expenses: The cooperative does not advertise, and it ensures that its loans are secure because the members of the loan commission are familiar with local residents and know whether they are solvent. This enables the cooperative to offer solidarity loans for production to people who belong to groups of producers who can serve as guarantors among themselves.

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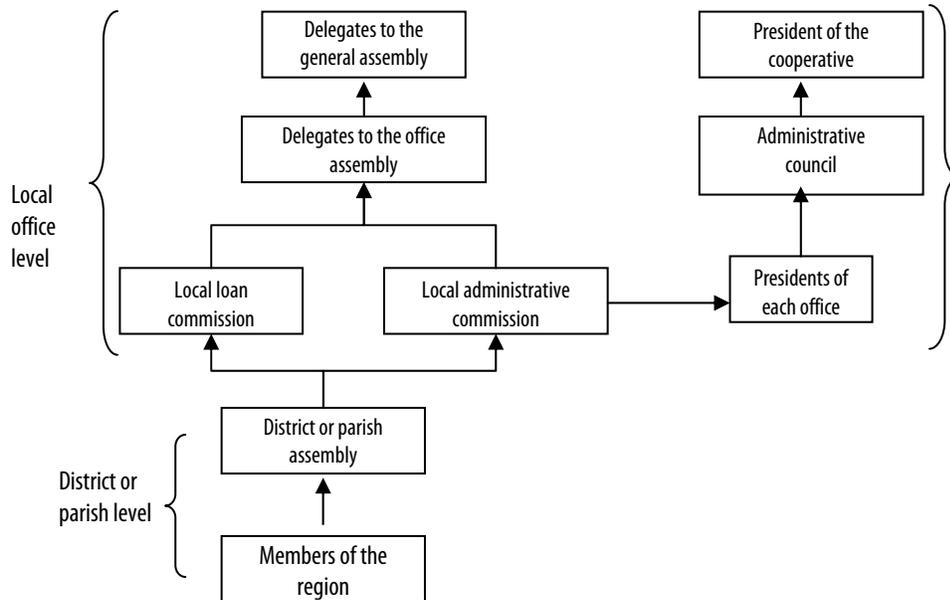
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## Links / Statistical Data

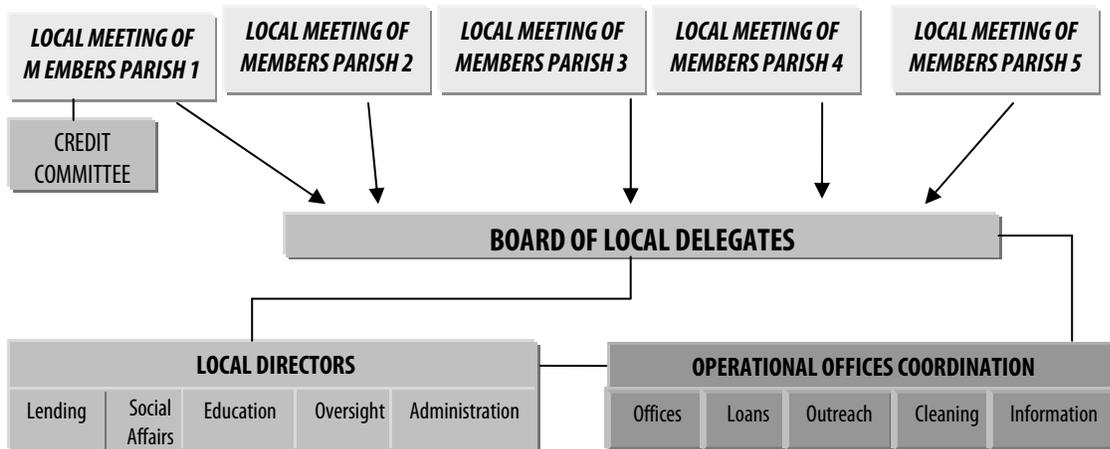
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## Appendix A: Organizational Charts

### Appendix A1: Administrative Council Chart



### Appendix A2: Local Structure



## Appendix B: Financial Products Offered (as of February 2006)

Loan Products	Ratio	Annual Nominal Rate	Maximum Amount	Maximum Term	Requirements
Ordinary working capital loans	1 <sup>st</sup> loan: 6 to 1 2 <sup>nd</sup> loan: 7 to 1 3 <sup>rd</sup> loan: 8 to 1	10% (group); 11% (individual)	3,000 (group); 10,000 (individual)	3 yrs. (group or individual)	
Emergency Loans	None	10%	500	10 months	1 Guarantor; 1 month as a member
Loans (without savings)	None	13%	10,000	3 years	
Housing	With savings (5 to 1); without savings - none	10%	20,000	10 years	
Loan insurance	Covers unpaid portion of loan up to \$3000				Cannot be from prior or terminal illness, alcohol. On-time payments.

For all loans more than US\$6,000, other than emergency loans, collateral is required. Under this amount, two personal guarantors are required.

Savings Products	Characteristics	Term	Restrictions /Requirements	Interest paid on savings
Current account	Voluntary; free use	None-flexible	No	4.5% annual
Fixed Term Savings	Voluntary; free use	To 30 days To 60 days To 150 days To 180 days To 360 days	Only at the end of the term	6.5% 6.75% 7% 7.75% 8% 8.5%
Programmed savings	Voluntary; free use	To five years Over five years	Fixed amount per member. Only withdrawal at end of term	8.5% 9%
Additional Products	Characteristics	Terms	Restrictions /Requirements	Total Funds Mobilized December 2006
Remittances	From exterior-migrants to families in Ecuador		No charge for service	\$US105, 520
Transfers to other banks			Only bank commission. No additional charge.	
Cooperative network transfers and cell plans	Security and access	Any member can use one of the 180 offices of 17 cooperatives (urban areas)		.25 for access to cellular plans. Additional costs borne by members. Program has just begun 2007.
Cellular phone transfers and balance verifications	Between members for security	.30 per transfer; .15 per verification		Program has just begun 2007.

## Appendix C: 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, 1-13.

## Appendix D: Key Financial Indicators for Jardín Azuayo Cooperative

<b>Key Indicators (US dollars and %) 2006</b>	
<b>Depth</b>	
Size of average savings balance as % GNI per capita	35%
Size of average loan balance as a % of GNI per capita	90%
Population density	39 persons per km <sup>2</sup>
Number of formal or semi-formal service providers in service area	14
% female clients	36%
<b>Length</b>	
Operational self-sufficiency	104.3%
Financial self-sufficiency	100.6%
Portfolio at risk > 30 days	4.81%
Total Operating Expenses/ Average Total Assets	4.35%
Average staff salary and benefits / GNI per capita	266%
<b>Breadth</b>	
Number of active borrowers	21,320
Number of active savers	52,047
Number of base-tier units	22 branches; 9 groups
<b>Cost</b>	
Effective interest rate on average loan size	57.7%
<b>Worth</b>	
Retention rate	116%
<b>Other</b>	
Growth in Total Assets	51%
Net Loans/Total Assets (fund utilization)	63%

\*\*\* self-reported and audited data