PN-ABH-620

ECUADOR MICRO-ENTERPRISE SECTOR ASSESSMENT: Financial Markets and the Micro- and Small-scale Enterprise Sector

GEMINI Technical Report No. 9

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

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ECUADOR MICRO-ENTERPRISE SECTOR ASSESSMENT:

Financial Markets and the Micro- and Small-scale Enterprise Sector

by

Richard Meyer
John Porges
Martha Rose
Jean Gilson

March 1991

This work was supported by the U.S. Agency for International Development mission in Ecuador through a buy-in to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, contract number DHR-5448-Q-05-9081-00.

PREFACE

This study of Financial Markets and Small-scale Enterprises in Ecuador is one of four background studies sponsored by USAID as part of an assessment of the micro- and small-scale enterprise (MSE) sector in Ecuador. The overall purpose of the sector assessment has been to present a broad description of the nature and characteristics of the MSE sector as a basis for planning and designing future program interventions. Within this context, the Financial Markets study was intended to describe the major sources of funding for MSEs, identify major problems and constraints, and recommend appropriate and effective strategies to ensure the provision of increased levels of financial resources to the MSE sector, consistent with Mission macroeconomic policy guidelines and sound financial management practices. In specific, the Financial Markets study was to:

- Assess existing and potential credit demand in the sector, including the degree of coverage of sectoral credit needs through formal and informal sector mechanisms, and consider existing and planned international donor and Government of Ecuador programs;

- Identify major constraints to MSE access to credit and other financial resources, including credit worthiness, MSE attitudes and awareness, profitability of administering small-credit programs, financial institution liquidity, competition for funds, and others;

- Identify constraints to the graduation of MSE beneficiaries from project-supported credit programs to self-sustaining financial relationships with formal institutions;

- Describe the potential role of various institutions and providers of credit for MSE activities. Among the institutions that should be considered are: the formal banking system, credit unions, nongovernmental organizations (NGOs) and the informal credit sector. The study should evaluate each institution in terms of its current and potential role, strengths and weaknesses, major constraints, and ability to service the sector at a meaningful level;

- Identify alternatives for increasing the level of resources available to MSEs, including the use of guarantee funds, local savings mobilization, and external grants or loans;

- Assess the effectiveness and efficiency of the NGOs in processing and supervising credit programs, and the desirability of having the NGOs act as credit intermediaries (IFIs);

- Assess the financial viability of the Guarantee and Retroguarantee Corporations over the medium and long term, providing recommendations on actions to ensure their financial self-sustainability;

- Determine the necessity of supervising credit to adequately ensure repayment and to increase the benefits of credit in terms of MSE growth and expansion (comparing the costs and benefits of the nonsupervised credit union approach with the heavily supervised approach used by Carvajal and ACCION/AITEC;

- Analyze maintenance-of-value issues of credit portfolios in light of anticipated inflation rates and interest rate policies; and

- Analyze the effective annual costs of alternative credit mechanisms, and of minimum and probable interest rates required to support self-sustaining and recapitalizing programs.

The study team was composed of the following individuals:

Team Leader:	Richard Meyer, Ph.D. Department of Agricultural Economics and Rural Sociology The Ohio State University
Banking:	John M. Porges Independent Consultant National Cooperative Business Association
Credit Unions:	Martha Rose, MPPM Independent Consultant World Council of Credit Unions
Financial Analyst:	Jean M. Gilson Finance Specialist Development Alternatives, Inc.

The team was assisted by Eliana Pozo, Cecilia Vásquez, and Paulina Garzón of the staff of the Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC), an Ecuadorean NGO that provided personnel and administrative support to the project team.

Field research for the study was carried out between August 12 and September 8, 1990.

ACKNOWLEDGMENTS

This study would not have been possible without the assistance and collaboration of a large number of individuals and institutions in Ecuador. The team wishes to express its appreciation to the staff and officers of USAID/Ecuador for their insightful and helpful comments, critiques, and suggestions that were offered in numerous review sessions and early drafts of the report. In particular, we are indebted to Charles Costello, Mission Director; Robert Kramer, Deputy Mission Director; Derek Singer, General Development Officer; Mike Deal, Projects Officer; Maruska de Burbano, Enterprise Development Specialist; and Carmen Lopez, Project Assistant.

We also wish to thank the officers and staff of the Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC), an Ecuadorian nongovernmental organization and consulting firm that provided administrative and logistical support for this study through a USAID/Ecuador contract. Special thanks are due to Eliana Pozo, Paulina Garzón, and Cecilia Vásquez, who assisted in the research design, interviewing, and analysis of findings.

We are also grateful for the time and patience of those involved in micro- and small-scale enterprise (MSE) development in Ecuador who collaborated in the study. We wish to thank each and every one for the open and frank interviews, helpful suggestions, and valuable insights into the fascinating world of MSEs in Ecuador. Most important, we want to thank the entrepreneurs who shared their time and experience.

As in every study of this nature, however, the opinions, conclusions, and recommendations presented in this report are the sole responsibility of the authors, and should not be interpreted as representing the opinions or official positions of any of the institutions or individuals who have so graciously helped in this effort.

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MACROECONOMIC DEVELOPMENTS AND THE FINANCIAL SECTOR

A major problem affecting the performance of the Ecuadorian economy in the 1980s has been high and variable levels of inflation. Historically, Ecuador has not experienced great inflation. But beginning in the mid-1970s, inflation rates of 10 percent or more became common. In the 1980s, several negative developments caused inflation rates to rise even further. During the decade, they ranged from a low of 12 percent to a high of 86 percent per annum. The first inflation spike registered 53 percent in 1983, and the second reached 86 percent in 1988. Currently the annual inflation rate is around 50 percent with some hopeful signs of a downward trend.

The government has taken a number of steps to control inflation but the financial sector has been seriously affected. The financial deepening ratio (currency in circulation plus deposits divided by GNP) fell from 12.2 in 1987 to 10.9 in 1988, and finally to 8.5 in 1989. Likewise, the real value of bank credit fell 21 percent in 1988, and an additional 7 percent in 1989. The size of the financial sector essentially shrank by more than one-fourth in just two years.

The government has tried to deal with some of these problems through financial-sector reforms intended to strengthen financial institutions, to improve the efficiency of financial intermediation, and to encourage the development of capital markets. Interest rates have been freed, but a maximum spread of 15 percent has been set over a bank's reference rate (the simple average of the passbook savings rate and the 90-day Certificates of Deposit [CD] rate).

The failure of the financial sector to anticipate and adjust to high rates of inflation has had a great impact on bank deposits and savings. Deposit interest rates have been negative in real terms in recent years for passbook and savings deposits. The deregulation of rates on *polizas de acumulación* sparked a sharp increase in deposits in this instrument during the mid-1980s, but these deposits declined sharply in real terms in 1988-1989 when the real rates also turned negative. Therefore the ability of the financial system to provide loans has been sharply curtailed during the period of high inflation.

At the same time that the real supply of funds has been declining, the demand for loans has been increasing for at least two reasons. First, some firms have had difficulty in increasing prices and profits fast enough to self-finance their inflating costs of production. Second, the real interest rates on loans have also been negative on several occasions, stimulating the demand for funds for investment, speculation, and capital flight.

PRIVATE AND GOVERNMENT BANKS

The country's macroeconomic situation has had a considerable negative impact on the structure and performance of financial institutions. Some have been closed and others are rumored to be in a weakened condition. On average, the private banking system has been able to strengthen its capital/asset ratio in recent years, but the Banco Central de Ecuador (BCE) and the Banco Nacional de Fomento (BNF) lost a significant amount of their real capital in the 1986-1989 period. The liquidity of the BNF and the private banks has fallen considerably from 1981-1989.

The increased demand for loans coupled with the drastic shrinking of the supply of funds has meant that the banking system has faced difficulty in servicing all its clients. In this highly competitive situation, two outcomes can be expected. The first is a tendency for banks to serve their larger, richer, well-established customers first, before trying to meet the demands of smaller, poorer, new customers. The second is an increased demand by large firms to acquire some ownership in and a seat on the board of directors of a bank as a means to improve access to credit.

To increase its support for priority sectors, the government has created a variety of special credit lines and programs designed to encourage and assist the banking sector to allocate loans to specified types of borrowers or loan purposes. Many of these are funded wholly or in part by international agencies. One of the 21 BCE rediscount funds is specifically designed for micro- and small-scale enterprise lending. The Fondo de la Pequeña Industria y Artesania (FOPINAR) fund managed by the Corporación Financiera Nacional (CFN) and funded by the World Bank is the largest single program.

Although these programs may have made an important contribution to the firms lucky enough to gain access to the loans, they have not had a lasting impact on the sector. The BNF, the government's primary support to small enterprise and the largest user of FOPINAR funds (45 percent), has not expanded its portfolio of small-enterprise lending over time. In real terms, BNF small-enterprise lending (which includes loans to small farmers) has consistently ranged from S/.650 million to S/.1.0 billion per year from 1981-1989. Only four banks — Pacifico, Pichincha, La Previsora, and Filanbanco — have utilized 27 percent of the FOPINAR funds, and another 31 institutions have used another 27 percent. In spite of these funds and government-mandated quotas for small loans, the real value of bank loans made in amounts of S/.500,000 and less fell from 8 percent of total bank loans in 1987 to 5 percent in 1989.

To shore up its commitment to small-scale lending in the face of this decline, the government created the Corporación Nacional de Apoyo a las Unidades Populares Económicos (CONAUPE) in 1989 with a fund of approximately $7 million for micro-enterprise lending. The Inter-American Development Bank (IDB) has pledged $30 million in support of the program, but the terms and conditions of the program have not yet been successfully negotiated.

The basic problem with these special initiatives is that there are no strong incentives for banks to participate and make the desired loans. The authorized spread for micro-enterprise lending with own funds is 15 percent. This level may not be adequate to compensate banks for the high costs and possible risks of making small loans. But the incentives are even less for sponsored programs. The authorized spread for FOPINAR loans is only 6 percent, and an even lower 5 percent for loans rediscounted with the BCE. The lack of incentives helps explain the allegation that many small loans are made to relatives of large firms that guarantee repayment and reduce transaction costs for the banks.

It is not surprising that only five banks have shown much interest in making micro- and small-scale enterprise loans. The Banco del Pacifico is the largest bank in the country and in the last 12 years has committed itself to service marginal clientele. It's current portfolio has about 15 percent small loans of which 30 percent are reported to be for micro-enterprises. The Banco del Pichincha is an active user of the FOPINAR line and the A.I.D. micro-enterprise line through CFN. The average size FOPINAR loan through La Previsora is a relatively large S/.10 million, but it also participates in a CFN micro-enterprise line and lends S/.10 million of its own resources to the Fundación Eugenio Espejo for its micro-enterprise program. The Banco Popular does not do direct micro-enterprise lending but created and funded the Popular Foundation, patterned after the Columbian Fundación Carvajal, to meets its small-loan commitment. The Banco Continental is not currently doing micro-enterprise lending, but is reported to be willing to do so with an international agency, but not through a government agency.

The standard complaint of the banks is that micro-enterprise loans are not profitable, and government programs such as CONAUPE are too complex and bureaucratic to compensate for the costs and risks of making and recovering small loans. Some of the relationships that banks have built for on-lending through foundations are a partial solution to these problems. The foundations can absorb part of the bank's transaction costs and can closely monitor the borrowers in order to maintain high loan recovery. But many new foundations have been created in recent years, apparently with the hope of getting access to government and donor funds through programs such as CONAUPE. Banks report some high delinquency and default rates for loans made through some of these new foundations.

CREDIT UNIONS

Credit unions have a potentially strong comparative advantage in providing financial services to micro- and small-scale enterprises. Their aim is to help people help themselves, they are accustomed to dealing with a lower income clientele, a large share of their members are self-employed, and their offices and branches are often located in poorer neighborhoods and smaller towns where many of these enterprises are located. No solid statistics exist about credit union members but a total Ecuadorian National Federation of Credit Unions (FECOAC) membership of about 1.2 million may translate into 372,000 to 500,000 self-employed credit union members. If 30-40 percent of the open bond credit union total loan portfolio has been lent to businesses, they have received some S/.9-12.4 billion in fairly small loans. Therefore, credit unions appear to be a significant source of finance for small enterprises. A detailed study of credit union members is required to determine the characteristics of borrowers and loan purposes.

The chief problem with credit unions is that many are facing severe financial stress. FECOAC statistics suggest there are 929 legally incorporated credit unions in the country, but almost half (440) are inactive or have been liquidated. About 105 open bond credit unions are now inspected by the

Superintendencia de Bancos. Just 11 of these credit unions hold 72 percent of the total system assets, and the largest one with 34 percent of the total assets is currently under the receivership of the Superintendencia. These 100 plus open bond credit unions have experienced a 52 percent erosion in real assets from 1985-1990, while liabilities declined 47 percent, and their capital dropped 68 percent. Member share certificates have declined an even larger 75 percent.

Credit unions are plagued with several problems — poor management, occasional fraud, poor image, and a difficulty in abandoning a cheap deposits-cheap loans philosophy in the face of high inflation. Nominal rates paid on savings accounts vary from 8-26 percent in the 16 credit unions surveyed. Fixed-term deposits earn a higher rate of 12-49 percent. Nominal loan rates vary from 18-49 percent, but given the fact that 20-50 percent of the loan must be left in a savings account, the effective nominal lending rates climb to 20-62 percent. Therefore all savers in a credit union are experiencing a loss of purchasing power in their deposits at the current levels of inflation, and there are reports of disintermediation as members withdraw savings to earn higher rates in banks. Borrowers are subsidized with negative real interest rate loans and there are scattered reports of the receipts of credit union loans being deposited in banks to earn the higher rate of return. The excess demand for loans coupled with the shrinking real deposit base means that there is considerable rationing of the members who get loans and the amounts they receive.

An important credit union reform movement exists, which gives some hope in an otherwise bleak situation. Some of the more dynamic credit unions are carefully evaluating member desires, are trying to provide useful services, and are developing more realistic pricing structures. For example, one credit union that experienced a decline in real assets of 30 percent in 1988 and 12 percent in 1989 turned things around enough so that real assets actually grew by 6 percent in the first half of 1990. If other credit unions can find ways to follow this example, the credit union system may be able to become a more dynamic source of micro- and small-scale enterprise lending. The difficulty that many face in making the necessary changes should not be minimized however.

INFORMAL FINANCE

Informal finance sources play an important role in financing small-scale enterprises and the survey results may underestimate total informal loans. About one-third of the surveyed firms reported receiving informal loans during the year. The total informal debt outstanding is about twice as much as the formal debt for the surveyed enterprises that participated in micro-enterprise programs. The survey results show that supplier credit and moneylender loans used to purchase inputs and raw materials represent about 45 percent of total outstanding debt for the surveyed enterprises. Around 40 percent of the value of machines purchased was financed by informal sources. Moneylenders were reported to be the most important source of informal loans during the past year, but few interviewees admitted to owing them money at the present time. Some entrepreneurs report receiving advance payments for products contracted by store owners and intermediaries (*comerciantes*), but many then serve as informal lenders because they wait several weeks after delivery to receive final payment.

The average balance of loans outstanding for informal loans is often larger than the balance of formal loans, but a larger proportion of the sampled entrepreneurs borrow from formal sources so the distribution of informal debt is more concentrated than formal debt. It is hard to generate good information about interest rates. Much informal credit is interest free. Supplier credit may cost the equivalent of 5-20 percent of the cash purchase price. A few moneylender loans are reported at an annual percentage rate of several hundred percent. Informal loans tend to be made for a shorter term than formal loans, but require fewer guarantees and probably cost the borrower much less in transaction costs. It appears that formal loans are a substitute for informal loans for many entrepreneurs, but many others borrow large amounts simultaneously from both sources.

Female entrepreneurs tend to borrow from informal sources about as frequently as males. The amounts borrowed for both tend to increase with the size of the business, but age, education, and previous business experience of the entrepreneur were not clearly correlated with loan size. Metalworking, food, large shops, textile and leather goods enterprises, in that order, tend to borrow the most informal credit, whereas repair, agriculture, barber and beauty, and artisan enterprises borrow the least.

Compared to the situation in many other countries, there is surprisingly little evidence to demonstrate that savings groups or rotating savings and credit associations are important informal methods to mobilize savings or make loans. Likewise, pawnshops (*monte de piedad*) of the Instituto Ecuadoriano de Seguro Social make too few loans to be a significant element in small-scale enterprise lending.

Some entrepreneurs report greater difficulty in getting informal loans today compared to five years ago, and the credit terms are getting tighter. This is a logical outcome of the reduction in volume and increase in interest rates for formal credit that has occurred during the past few years. Formal sources are linked to informal sources. Large firms and factories borrow from formal sources, and sell their products on time to wholesalers and retailers, who in turn grant credit to the final consumers. Credit constraints for the large firms at the top of this system logically trickle down in the form of tighter conditions for small firms at the bottom.

CONCLUSIONS

The prospects are not good at this time for increasing the supply of formal financial services for micro- and small-scale enterprises through the banking system. The disequilibrium that exists in the supply and demand for bank loans at current interest rates creates a situation in which small, poor entrepreneurs with little or no previous banking experience are crowded out by larger, richer enterprises with a proven track record of borrowing and repaying loans. In this situation, special credit lines and programs for small enterprises are simply palliatives. They do not resolve the basic problems of declining bank liquidity, low and inflexible real interest rates, and lack of information and skills that constrain bank lending to this sector. Bringing down inflation and correcting these problems must be the first priority if the banking system is to realize its full potential for lending to these enterprises. Without adequate incentives, banks may be induced to lend government or donor funds, but they are not likely to aggressively seek small entrepreneurs as customers nor use a large amount of their own funds for lending to them.

The system that has been developed in Ecuador for small-scale lending involves a complex structure of national and international agencies, government and private banks, credit unions, and foundations and associations. It involves a large amount of financial layering in which funds for on-lending flow through an institutional maze that involves delays, bureaucracy, and high costs before they reach the borrowers. This system must be simplified and streamlined if a large number of enterprises are ever going to be served.

Some of the foundations appear to provide a useful service in linking small enterprises with banks. They prepare loan documents and assist with loan recovery so that bank transaction costs are reduced. But many of the new foundations do not effectively perform these services and appear to have been created largely to gain access to government and donor funds. There is no clear strategy regarding the appropriate role for these foundations, or how to fund them. More flexibility in interest rates would permit banks to charge borrowers enough to cover both bank and foundation operating costs. Alternatively, banks could cover their costs through interest charges while the government supports the training and technical assistance expenses of foundations as part of the social costs of assisting small entrepreneurs. For either alternative, a weeding-out process is required so that only those foundations with effective programs will be supported. Donor funds will likely make a greater impact if spent on the overall design of a cost-effective system rather than simply making a small addition to the funds available for small-enterprise lending.

Credit unions could play an important part in a general strategy to support small enterprises, but at the moment most are too weak and beset with problems to reach their full potential. It appears that many of the troubled credit unions and their federations have not yet arrived at a consensus about their problems and possible solutions so that outside assistance to them could be very productive. But those individual credit unions that are on the road to recovery and reform could greatly benefit from it, and could serve as good examples for the rest of the system.

Informal finance makes an important, but largely unrecognized, contribution to small enterprises. Yet no one in Ecuador seems to be considering how the vast network of factories, traders, input suppliers, and machinery dealers could be used to reach small entrepreneurs with financial services. Some attention is required to the question of how formal finance enters this network, what constraints affect its smooth operation, and how increasing formal finance for large firms may increase the supply and improve the terms of informal finance for small firms. Improving informal finance may be a more cost-effective way to reach small, dispersed entrepreneurs than trying to do so through formal finance.

Finally, little attention is being paid to how to improve the creditworthiness of potential small enterprise borrowers and the need to shape financial services to their needs. There is a considerable emphasis in Ecuador on training for small-scale entrepreneurs. An important component of such training should be information about how financial institutions operate, the type of information they need, and the importance of developing a relationship with a lender through savings in order to obtain loans. Surprisingly, the majority of the firms interviewed already have savings and checking accounts in banks. Therefore, they are beginning to develop a banking relationship and are indirectly providing banks with information about how they manage their financial affairs. Furthermore, most entrepreneurs report that availability of funds is more important to them than the level-of-interest rates.

They are willing to pay higher rates for good service. Most foundations, and even the banks and credit unions, treat small-enterprise loans as discrete events with a cycle of loan disbursement followed by repayment. But the entrepreneurs have more complex patterns of cash-flow management than implied by these term loans. They need the flexibility of borrowing and repaying frequently over the year. Both the banks and borrowers need to reduce the transaction costs associated with making many discrete loans. As banks and credit unions develop favorable experience with small-scale borrowers, they need to move some of the them into the more efficient process of lending through overdrafts and lines of credit.

CHAPTER ONE

FINANCIAL POLICIES, COMMERCIAL BANKING, AND CREDIT FOR SMALL ENTERPRISES

by
John M. Porges
Independent Consultant
National Cooperative Business Association
and
Jean M. Gilson
Development Alternatives, Inc.

ECONOMIC BACKGROUND

Inflation is the largest threat to Ecuador's financial system and economy. Beginning in the mid-1970s, inflation rates of 10 percent were not uncommon in Ecuador. With the onset of the debt crisis, inflation rates exceeding 20 percent became standard. Recent years have seen inflation rates above 50 percent. With passbook savings and lending rates often below inflation, returns to savers and lenders are negative in real terms. Moreover, negative real interest rates lead to inefficient allocation of credit and discourage savings.

Part of the reason behind inflationary pressure is a change in the pace of Ecuador's economic growth over the last two decades. Favorable petroleum and commodity prices coupled with sustained increases in foreign borrowing led to exceptional growth in real per capita income, in the decade from the early 1970s to the early 1980s. Inflation rates of 10 percent were tolerable between 1974 and 1981, as cumulative real per capita income growth totalled 24 percent. By 1982, inflation rates of 20 percent or more and negative real per capita income growth warned of economic distress.

In response, the government undertook policy reforms aimed at: 1) restructuring the economy through increased reliance on free-market resource allocation, 2) restoring the competitiveness of agricultural tradeables, 3) restricting the role of the state in the economy, 4) reducing the pressure for additional foreign borrowing and domestic money creation, 5) enforcing public-sector budgetary discipline, and 6) mobilizing domestic savings for investment. The government freed interest rates in an effort to discourage capital flight, but simultaneously imposed a maximum spread (15 percent) over the reference savings rate — the average of the passbook savings rate and the 90-day Certificates of Deposit (CD) rate. Because banks regard inflation as temporary, interest rates on deposits remain well below inflation.

In December 1987, the World Bank issued a financial-sector adjustment loan to the Febres-Cordero government. As a condition of the loan, the Government of Ecuador (GOE) agreed to take steps to strengthen financial institutions, improve the efficiency of financial intermediation, and encourage the development of capital markets. The Borja government has negotiated two stand-by agreements with the International Monetary Fund (IMF). While the government has consistently exceeded the agreements' monetary targets, it has had to run large deficits.

The Borja administration's program designed to stabilize prices has not been successful. The government's goal of reducing inflation to 25 percent by December 1990 will likely not be met; cumulative inflation for the first six months of 1990 reached 29 percent.[1]

Through an extremely tight monetary policy, the Borja government has reduced the fiscal deficit, which declined from 9.6 percent of GDP in 1988 to 2.2 percent in 1989. The government projects a deficit of 1.8 percent by the end of 1990. Restriction of credit has supported the deficit reduction program and restrained the growth of the money supply. The Central Bank of Ecuador (BCE) credit to the central government has declined from S/.463 billion to S/.367 billion.[2] Credit from the consolidated financial system (BCE, commercial banks, and the Banco Nacional de Fomento [BNF]) has also been squeezed.[3]

As a result of credit constraints, banks have concentrated their limited liquidity on larger or preferred customers. Facing tight credit and set interest rate ceilings, credit institutions target larger firms with correspondingly lower administrative costs per loan. Micro- and small-scale entrepreneurs have little choice but to rely on informal financial markets, suppliers' credit, or family and friends. Until the government controls the forces driving inflation and normalizes inflation and real interest rates, the micro- and small-scale entrepreneurs' predicament will persist.

TABLE 1

NOMINAL AND REAL VALUE OF BANK CREDIT
(1981-1989)
(in millions of sucres)

Year	Nominal*	Real**	Percent Change
1981	113,143	78,904	-
1982	140,022	78,483	-0.5
1983	227,560	83,662	6.6
1984	266,895	78,452	-6.2
1985	376,722	89,038	13.5
1986	494,778	91,830	3.1
1987	705,220	98,798	7.6
1988	1,031,159	77,788	-21.3
1989	1,482,899	72,524	-6.8

* Includes private banks, BNF, and Central Bank direct credit.
** Deflated by the Consumer Price Index for Urban Areas.

SOURCE: Central Bank

[1] Curtis E. Youngblood and Hugo H. Ramos, *Ecuador's Financial System and Macroeconomic Policy: Implications for Stabilization and Growth*, pp. 1-8.

[2] This chapter uses an exchange rate of 860 sucres (S/.860) per US $1.

[3] Youngblood, p. 10.

TRENDS AND PROBLEMS OF THE FINANCIAL SYSTEM

Ecuador's financial system consists of both public and private entities. The three public sector banks include: BNF, the Ecuadorian Housing Bank, and the Development Bank of Ecuador (BEDE). The public development finance corporation, Corporación Financiera Nacional (CFN), provides long-term finance for industry, exports, and handicrafts and for small industry through the Fondo de la Pequeña Industria y Artesania (FOPINAR). The private financial system supports 32 commercial banks, 12 development banks, 11 savings and loan associations, 26 finance companies, 123 cooperative savings institutions, and 4 credit card companies.[4] A variety of guarantee arrangements, especially the Retroguarantee Fund and provincial Credit Guarantee Corporations, exist to promote small-enterprise lending by the banks.

The focal point of this financial structure is the BCE. BCE obtains funding from four major sources: government budget allocations, foreign loans, contributions of Ecuadorian private banks and other financial organizations, and sale of bonds in the national capital markets.[5]

Available financial resources dwindled in the 1980s. Simultaneously, public sector financing needs increased. Consequently, BCE squeezed credit to the private sector by 43 percent in real terms. The credit squeeze led banks to concentrate their business with established, larger customers and take less interest in new or smaller borrowers. A decline in financial deepening (defined as the money supply divided by GNP), highlights this contraction.

This report focuses on the roles of the BCE, BNF (as the largest user of FOPINAR funds), CFN, and the private commercial banks in responding to the growing needs of the micro- and small-scale entrepreneur. In particular, interviews with 12 of the largest commercial banks led to the identification of five banks interested in pursuing micro-enterprise programs. They include: Banco del Pacifico, Banco del Pichincha, La Previsora, Banco Popular, and Banco Continental.

TABLE 2

FINANCIAL DEEPENING (1981-1989)
(in millions of sucres)

Year	Money Supply* (1)	GNP (2)	Percent (1)/(2)*100
1981	50,048	348,662	14.4
1982	60,167	415,715	14.5
1983	78,450	560,271	14.0
1984	111,529	812,629	13.7
1985	137,846	1,109,940	12.4
1986	166,000	1,333,232	12.0
1987	219,575	1,794,501	12.2
1988	337,667	3,104,339**	10.9
1989	466,307	5,464,613**	8.5

* Currency in circulation plus deposits
** Provisional

SOURCE: Central Bank

[4] U.S. Agency for International Development, *A.I.D. Microenterprise Stock-Taking: Ecuador Field Assessments*, p.2.

[5] Morris D. Whitaker, et al, *Agriculture and Economic Survival: The Role of Agriculture in Ecuador's Economic Development*, p. 277.

Prior to analyzing individual institutions, it is important to examine various constraints in the current system which either prevent the banks from doing more or provide a disincentive to do more. Such constraints include:

- Low levels of liquidity;
- Decapitalization of financial institutions;
- Subsidized credit/negative real interest rates;
- Disequilibrium in credit markets;
- Transaction costs; and
- Reserve requirements.

Liquidity

Liquidity in the financial system has declined markedly in the 1980s. The ability of liquid assets to cover deposits has decreased from 35.6 percent in 1981 to 23.19 percent in 1989 in the case of BNF, and from 47.2 percent to 39.2 percent in the case of the private banks. As liquidity deteriorates, banks become increasingly risk averse and reduce credit availability. Because banks tend to view micro-enterprise lending as risky, they are less likely to lend at that level, and more likely to lend to larger, less-risky, more-stable firms.

TABLE 3

LIQUIDITY IN THE BANKING SYSTEM
(in millions of sucres)

	BNF			Private Banks		
Year	Liquid Assets	Total Deposits	Percent	Liquid Assets	Total Deposits	Percent
1981	2254	6332	35.6	20275	42994	47.2
1982	1157	6220	18.6	23305	52523	44.4
1983	2124	8263	25.7	33573	71240	47.1
1984	1900	10726	17.7	43456	107888	40.3
1985	2700	15158	17.8	56144	142471	39.4
1986	4976	21174	23.5	67220	176763	38.0
1987	12884	26530	48.6	95661	254041	37.7
1988	6240	30599	20.4	146430	381624	38.4
1989	9755	42199	23.1	213664	545641	39.2

SOURCE: Superintendencia de Bancos and own calculations.

Decapitalization

The practice of offering loans at negative real rates of interest eventually decapitalizes financial intermediaries. If the interest rate on loans is less than inflation, repayments of principal and interest will be worth less than the original loans received by borrowers. Subsidized interest rates further contribute to decapitalization by encouraging borrowers to default on or postpone loan payments.[6]

[6] *Ibid.*, pp. 290-291.

The downward trend in the capital/asset ratio for both BCE and BNF indicates that capital growth is not keeping pace with asset growth. The real change in capital shows a severe loss of capital due to prolonged inflation. The private banks perform better in this area.

Decapitalization necessitates increased reliance on outside sources. As long as these sources continue to support banks like BNF through infusions of capital, the effects of decapitalization can be delayed. If these sources (such as BCE, the government, and foreign donors) cease to provide capital, banks will start to fail.

TABLE 4

BCE CAPITALIZATION
(in millions of sucres)

	1985	1986	1987	1988	1989
Capital	3298	3462	4015	4943	3143
Assets	634351	718811	824068	2356737	2585261
Capital/Assets	0.5%	0.5%	0.5%	0.2%	0.1%
Nominal Change in capital		5.0%	16.0%	23.1%	-36.4%
Inflation Rate	28.0%	23.0%	30.0%	57.0%	55.0%
Real Change in capital		-18.0%	-14.0%	-33.9%	-91.4%

SOURCE: Superintendencia de Bancos and own calculations.

TABLE 5

BNF CAPITALIZATION
(in millions of sucres)

	1985	1986	1987	1988	1989
Capital	14751	15326	15918	13936	17282
Assets	63991	95956	132802	190479	282285
Capital/Assets	23.1%	16.0%	12.0%	7.3%	6.1%
Nominal Change in capital		3.9%	3.9%	-12.5%	24.0%
Inflation Rate	28.0%	23.0%	30.0%	57.0%	55.0%
Real Change in capital		-19.1%	-26.1%	-69.5%	-31.0%

SOURCE: Superintendencia de Bancos and own calculations.

TABLE 6

PRIVATE BANK SYSTEM CAPITALIZATION
(in millions of sucres)

	1985	1986	1987	1988	1989
Capital	20489	30270	40630	69726	107890
Assets	357531	437555	573160	767123	1095306
Capital/Assets	5.7%	6.9%	7.1%	9.1%	9.9%
Nominal Change in capital		47.7%	34.2%	71.6%	54.7%
Inflation Rate	28.0%	23.0%	30.0%	57.0%	55.0%
Real Change in capital		24.7%	4.2%	14.6%	-0.3%

SOURCE: Superintendencia de Bancos and own calculations.

Subsidized Interest Rates

As mentioned, a policy of subsidized interest rates tends to benefit the large, well-to-do borrowers who already have good access to credit. Such credit extension often is directed to unproductive purposes, such as financial instruments where a quick profit can be made.

Subsidized rates can lead to a decline in investment. Below-market lending rates mean below-market savings rates. Depositors have little incentive to save at negative real rates of interest. As a result, deposits, which would normally be used to finance loans and, subsequently, productive investment, cannot be generated in such an environment. Negative rates of interest are most dramatic on passbook deposits, followed by savings deposits (90+ days), and CDs (360+ days).

Disequilibrium in Credit Markets

Credit market equilibrium requires equal demand for and supply of loans. If BNF or similar financial institutions offer credit at below-market rates of interest, the demand for loans exceeds the supply. Because interest rates no longer serve to allocate loans, nonmarket

TABLE 7

NOMINAL AND REAL INTEREST RATES ON LOANS
(1980-1989)

Year	Inflation Rate* (%)	Interest Rate** (%)	Real Interest Rate*** (%)
1980	12	11	-1
1981	17	13	-4
1982	24	13	-11
1983	53	15	-38
1984	25	17	-8
1985	24	19	-5
1986	27	21	-6
1987	33	23	-10
1988	86	27	-59
1989	54	36	-18

* Average annual inflation rate per the Consumer Price Index for urban areas.
** Average interest rate charged on BNF loans.
*** Nominal interest rate minus inflation.

SOURCE: Central Bank

methods must be used to distribute credit among borrowers. As a result, political patronage and other influences often dictate that those with the most power will be granted loans, rather than those who can use the funds most productively.[7]

TABLE 8

REAL INTEREST RATES ON DEPOSITS IN PRIVATE BANKS
(1986-1989)

Year	Passbook Savings		Savings Deposits		Certificates of Deposit	
	Nominal	Real	Nominal	Real	Nominal	Real
1986*	22.4	-4.6	24.8	-2.2	31.3	4.3
1987	21.4	-11.6	32.0	-1.0	34.3	1.3
1988	26.0	-60.0	35.2	-50.8	39.6	-46.2
1989	28.0	-26.0	39.5	-14.5	43.6	-10.4

SOURCE: Central Bank

By increasing the transaction costs of obtaining loans, BNF and private banks help equate the supply of loans to the demand for loans at below-market interest rates.

Transaction Costs

The allocation of loan funds under conditions of excess demand often increases transaction costs. Such costs, leading to reduced loan profitability and reduced demand for loans include: increases in required loan collateral, increases in the number of visits a borrower must make to the bank before receiving loan proceeds, increases in loan documentation requirements, reductions in the amount available for specific loans, delays in receiving the loan funds, and reductions in loan term.[8]

High transaction costs for the bank translate to low spreads. Since authorized spreads on micro-enterprise lending are low, the banks have little incentive to lend to micro-entrepreneurs.

Because a large component of transaction costs are often fixed costs, which decrease per sucre borrowed as loan size increases, they represent more of a disincentive to small borrowers than to large borrowers. Therefore, high transaction costs often result in the small borrower being crowded out of the credit market.

TABLE 9

AUTHORIZED SPREADS FOR
MICROENTERPRISE LENDING
(1990)

Type of Loan	Spread
Commercial bank own funds	15%
FOPINAR	6%
Central Bank rediscount	5%

SOURCE: Central Bank and interviews with commercial banks.

Reserve Requirements

Reserve requirements are currently 32 percent on demand deposits, 6 percent on CDs up to one year (none thereafter), and 6 percent on savings accounts. The 32 percent reserve must be deposited in cash in the BCE with no interest paid. As a result of these extremely high reserve requirements (imposed in an effort to control the money supply), banks' supply

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[7]Whitaker, pp. 286-287.

[8]*Ibid.*, p. 287.

of credit is limited to 68 percent of checking account deposits. For a sector such as micro-enterprise that already has difficulty obtaining credit, these reserve requirements pose another disincentive for lending. In addition, administrative costs of these deposits are high.

SPECIAL CREDIT LINES AND PROGRAMS FOR SMALL ENTERPRISE LENDING

The preponderance of disincentives to micro- and small-scale enterprise lending has necessitated the establishment of special funds. These credit lines attempt to compensate for market disequilibrium that would otherwise reduce or eliminate commercial bank interest in such lending.

Fondos Financieros

There are 21 BCE rediscount funds provided for priority sectors, one of them being micro- and small-scale enterprise loans for working capital and fixed investment. Funds received from the World Bank, the Inter-American Development Bank (IDB), A.I.D., Corporación Andina de Fomento (CAF), and the GOE carry a maximum interest rate to clients of 39 percent. The banks' cost of funds vary from 40-49 percent per annum depending on the mix of funds. Loans for priority purposes are discountable by banks at the BCE discount window when it is open. The micro-enterprise fund designates one-year working capital loans for up to S/.875,000, and two-year capital investment loans for up to S/.3.5 million.

As banks receive the 39 percent interest, 34 percent is forwarded to the BCE and 5 percent is retained by the banks. Banks may charge an additional 2 percent per annum commission on loans made in excess of one year. The funds provided for small enterprises have declined from a high of S/.2.8 billion in 1984 to S/.1.2 billion in 1988 in current prices.[9]

In February 1990, the BCE created a special S/.4 billion fund for micro-enterprise lending through the Corporación Nacional de Apoyo a las Unidades Populares Económicas (CONAUPE) program (see below). This fund is scheduled to operate for three years. BCE data revealed that from March-August, the fund granted S/.1.5 billion in loans, all of which were provided by private banks.

FOPINAR

FOPINAR, a GOE development fund established in 1980, is owned and managed by CFN and has been the most important fund in size for micro- and small-scale enterprise lending. Funded mainly by the World Bank in three loan phases, the GOE and a small amount from a Dutch fund (F.M.O), it has received over $132 million including reflows. The banks feel this is the best of the small-

[9] Eliana Pozo, *Líneas de Financiamiento para la Micro y Pequeña Industria*, p. 3.

enterprise programs. A fourth phase or loan of $50 million is expected to be received in September 1990 from the World Bank. The maximum size loan to any one borrower has been S/.21 million (approximately $25,000) and is expected to be raised to the equivalent of $85,000 (approximately S/.73 million) in the near future.[10]

The loans are made to micro- and small-scale enterprises with less than S/.25 million in net fixed assets, excluding land and buildings. The new fourth phase loan will raise the maximum size of fixed asset investment to the equivalent of $200,000 (or approximately S/.172 million). Currently, loans are either for working capital for three years (six-months grace period) or for fixed investment for up to 10 years (three-years grace period). FOPINAR lends 90 percent and the bank provides 10 percent of the loan. The client has to finance part (usually 10 percent or more) of the project.[11]

Interest rates charged to the small borrower are based on the average rate paid on 90-day CDs over the previous 30 days plus a 4 percent spread allowed for the banks making the loan. An additional 2 percent per annum commission is charged by the banks for loans over one year. The present rate charged to the borrower is about 52-53 percent and is readjustable. Arrears on loans have been under 3 percent; losses are not indicated but banks claim they are negligible.

To date, over 7,000 subloans have been made reaching over 5,000 beneficiaries. In prior project agreements signed with 24 commercial banks, 11 development finance companies and BNF, only 5 institutions have used more than 5 percent of FOPINAR's resources individually. BNF has been the most active using 45 percent of the fund's resources and financing about 5,000 operations (76 percent of the total).

TABLE 10

ALLOCATION OF BNF CREDIT TO SMALL ENTERPRISE
(in millions of sucres)

Year	Nominal Value	Real Value (1980 base)	% Real Change
1981	887	771	-
1982	883	659	-14.6
1983	1414	714	8.4
1984	2458	945	32.4
1985	3421	1027	8.7
1986	3111	759	-26.1
1987	5539	1043	37.5
1988	5609	675	-35.3
1989	10521	814	20.6

SOURCE: BNF and own calculations.

Only four private banks have used more than 5 percent of the fund's resources: Banco del Pacífico, 8.5 percent; Banco del Pichincha, 7.5 percent; Banco La Previsora, 6.7 percent; and Filanbanco, 5.1 percent. The other financial institutions used 1-3 percent of FOPINAR's resources. The four commercial banks mentioned above used 27 percent of the total and the other 31 institutions together used 27.2 percent of the fund.

Figure 1 depicts the distribution of FOPINAR funds by BNF and the five banks most interested in pursuing micro-enterprise programs. BNF's focus differs from that of private banks, particularly with respect to the size of the borrower and loan. The BNF has concentrated on small-scale lending with an average loan size of $7,300 while banks and development institutions have loaned mainly to

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[10]The World Bank, *Staff Appraisal Report, Ecuador: Fourth Small Scale Enterprise Project*, p. 17.

[11]*Ibid.*

small industries with an average loan size of $25,000. It has been suggested that many of these small business borrowers were actually existing clients or relatives of existing clients of the banks. Moreover, BNF has the infrastructure to reach the micro-enterprises in remote areas of the country as well as in the cities and the mission to do so.

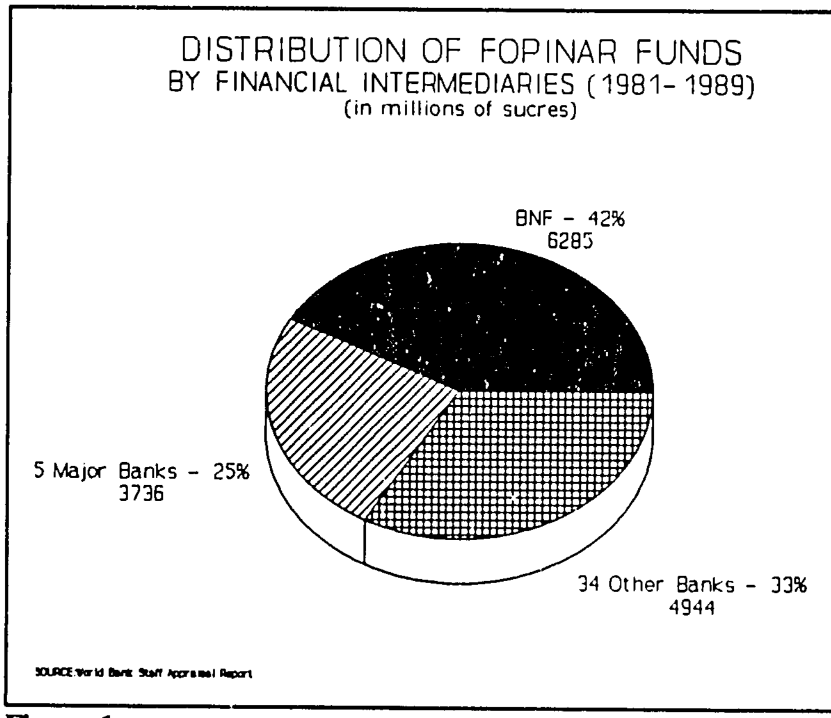

Figure 1

CONAUPE

CONAUPE was established by the GOE in November 1989. The BCE provided approximately $7 million for micro-enterprise lending. The IDB pledged $30 million to the program but the funds have not been received as of early September 1990. CONAUPE is so new that banks only started to lend under this program in March of this year. Even so, they find it cumbersome and frustrating. Credit is extended to micro-entrepreneurs for machinery purchases for up to two years or for working capital for one year. The respective maximum amounts per loan are S/.3.5 million and S/.875,000. Eligibility for loans is measured by a maximum of S/.1.7 million invested in fixed assets per worker, and a maximum of eight workers.

Borrowers are selected and qualified by seven public and private foundations: FUNDEC, FUNDAR, SEME, BOLIVAR, CORPECO, QUITO, and FAMILIA PARA EL FUTURO. The latter are funded by CONAUPE and prepare the credit applications and financial information for the banks every three months and do training and follow-up contact with the client. Borrowers are charged an interest rate of 39 percent per annum plus a 2 percent one-time fee which goes to CONAUPE. Banks can charge a commission of 2 percent per annum for loans over one year. Banks feel these loans are not profitable as they earn only 5 percent by discounting the paper with CFN and an additional 2 percent per annum for loans over one year in length.

Corporación Andina de Fomento

CAF is the development organization of the Andean countries. CAF contributed $10 million for a line of credit administered by the BNF and the GOE advanced $4.4 million. This line of credit is available to small entrepreneurs and artisans for fixed asset investment and purchase of raw materials. The maximum size of eligible small businesses is S/.100 million in fixed assets excluding land and building. This amount was S/.20 million prior to May 1990. The maximum amount of any one loan is S/.8 million with a maximum fixed-interest rate charged to the customer of 47.5 percent. Loan terms are up to seven years with a two-year grace period. CAF requires guarantees of at least 125 percent of the amount of the loan. The CAF line finances up to 80 percent of the project and the client finances the remaining 20 percent.

Most of the banks interviewed for this study reported that they did not use the CAF line because they felt the loans were too small and not profitable.

SMALL-SCALE LENDING IN THE PRIVATE BANKING SYSTEM

Only one bank of 12 interviewed (Banco del Pacifico) had a positive policy regarding micro-enterprise lending. One of the banks, Banco Popular, set up a foundation of its own to do its future micro-enterprise lending. Not surprisingly, both of these banks consider it to be unprofitable business and will participate in programs only as a social mission. Clearly, bank policy is to lend to existing clients who maintain large accounts and whom they know well or to affiliates of larger organizations that increase profitability due to collateral benefits.

Providing incentives to private banks to participate in micro-enterprise lending initiatives becomes increasingly important as the economic environment continues to impose disincentives. This system should certainly be tapped, however, as its distribution capabilities and potential are tremendous.

Volume and Distribution of Lending

The distribution of the public and private financial system's portfolio for 1987-1989 was as follows:

TABLE 11

LOAN DISTRIBUTION BY SIZE OF LOAN
(billions of sucres)

	1987			1988			1989		
Size of Loan	Nominal	Real	%	Nominal	Real	%	Nominal	Real	%
Up to 100,000	8.8	1.2	1	7.5	0.6	1	6.5	0.3	1
100,001- 500,000	49.5	7.0	8	47.9	3.6	5	55.2	2.7	4
500,000- 1,000,000	41.8	5.9	7	66.2	5.0	8	72.2	3.5	6
1,000,001- 5,000,000	144.3	20.2	23	162.2	12.2	19	216.0	10.6	17
5,000,001-10,000,000	90.9	12.7	15	117.7	8.9	13	129.0	6.3	10
10,000,001-50,000,000	203.3	28.5	33	308.9	23.3	35	456.1	22.3	35
Over 50,000,000	79.1	11.1	13	163.3	12.3	19	350.9	17.2	27
TOTAL	617.7	86.6	100	873.7	65.9	100	1286.0	62.9	100

SOURCE: Superintendencia de Bancos and own calculations.

Terms and Conditions of Lending

Business loans are normally for six months renewable for all size categories (large, medium, and small) as they are funded by 90-150 day CDs. Interest rate maximums are regulated. The latest reform of April 1989 established a 15 percent spread over the arithmetical average of each bank's 90-day CD rate and its savings account rate. Interest rates on loans currently are 52-53 percent per annum to which must be added commissions and compensating balances. The interest rates payable on CDs and savings accounts are unregulated.

Micro-enterprise Lending

Banks which showed a special interest in micro-enterprise lending and could do more in the future include: Banco del Pacífico, Banco del Pichincha, La Previsora, Banco Popular, and Banco Continental. As Table 12 reflects, the influence of these five institutions is substantial. With the proper incentives, they could have a great impact on micro-enterprise.

Banco del Pacífico, the largest bank in the country, deserves special mention. Not only does it feel it has a special mission to finance the micro-entrepreneur and the marginal client both in the large cities and in the interior, but it has been doing so for 12 years. The bank's statutes require it to do this to further the economic development of the country. The bank is organized to do this lending by having a micro-enterprise lending department in both its headquarters and branches. It employs 50 promoters who seek out the marginal client in the poorest sections of the cities and towns. The promoters train the entrepreneurs, encourage them to become clients, and make frequent follow-up visits.

TABLE 12

COMPARISON OF THE PRIVATE BANKING SYSTEM, 6/30/90
(in millions of sucres)

Bank	Assets		Deposits		Equity		Income		Loans	
	Amount	%	Amount	%	Amount	%	Amount*	%	Amount	%
Pacífico	173814	14	126180	16	11937	11	1770	13	83657	15
Pichincha	138531	11	102861	13	11110	10	1259	9	64794	12
Popular	117972	10	69486	9	9718	9	1420	10	46661	8
Previsora	73576	6	49635	6	6086	5	833	6	38376	7
Continental	73029	6	48713	6	7304	7	24	0	34327	6
Subtotal	576922	47	396875	50	46155	42	5306	38	267815	48
Other Banks	650043	53	395247	50	64573	58	8635	62	294798	52
TOTAL	1226965	100	792122	100	110728	100	13941	100	562613	100

* first six months of 1990

SOURCE: Central Bank

Although Pacífico's loss experience is negligible, the micro-enterprise loans are not profitable. As of June 30, 1990 its total loan portfolio amounted to about S/.84 billion of which 14.5 percent were small loans and within which 30 percent were micro-enterprise loans. In comparison to Pacífico, other banks lend about 10 percent of their portfolio to small business, mainly to existing customers.

Banco del Pichincha, one of the most active users of the FOPINAR line, is an active user of the S/.50 million USAID/Ecuador line for micro-enterprise through CFN. These loans are made in six provinces: Esmeraldas, Manta, Puerto Viejo, Santo Domingo, Quevedo and Cuenca, but not in Quito or Guayaquil. The bank claims it earns money on this activity due to a better spread. It is one of the few banks that works with the Corporaciones de Crédito formed by associations of micro-entrepreneurs and operates in the provinces.

La Previsora, another of the more active users of the FOPINAR program, also feels it should be active in micro-enterprise lending, although it reported that such lending is not profitable. Its average size FOPINAR loan is S/.10 million, much smaller than the S/.25 million average loan size for banks in the program. La Previsora lends S/.20 million of its own resources to the Fundación Eugenio Espejo (FEE) which it claims functions very well. The FEE also has A.I.D. financing. In the provinces La Previsora uses a S/.10 million revolving line of CFN in its offices in Manta and Ambato for micro-enterprise lending.

La Previsora does not lend to unfamiliar micro-entrepreneurs, but prefers to attract small depositors and lend to them when they have established themselves with the bank. Of its total loan portfolio of S/.38 billion about 13 percent (approximately S/.5.0 billion) is lent to small enterprises.

Although **Banco Popular** does not do micro-enterprise lending, it believes it has a social obligation to do so. Two years ago the Fundación Carvajal visited Fundación Popular for this purpose and gave the bank S/.100 million as an operating budget for 1990. With the help of the Fundación Carvajal, Popular has trained some 800 micro-entrepreneurs in the Fundación Popular and expects to have trained some 1,200 in six-week sessions by year end. They have had a 25 percent drop-out rate in training. The trainees each pay S/.30,000 for the course. Banco Popular subsidizes the remainder of the cost of training in the amount of S/.70,000.

Banco Popular expects to satisfy the legal requirements of lending 10 percent of its commercial loan portfolio to small enterprise as soon as the Fundación Popular is prepared to do so.

The bank does not expect to break even initially in this project as it will lend funds to its foundation at 39 percent per annum and the foundation will charge the commercial rate of 54 percent per annum. The bank has hired promoters to select and do frequent follow-up with the micro-entrepreneur. The foundation expects that eventually some will graduate to medium-scale businesses and become good clients of the bank. This is the only economic benefit that will accrue to Banco Popular. To date the bank has loaned S/.80 million of its own resources to micro-enterprises and hopes to reach S/.500 million when the foundation is ready in the near future.

While the Banco Popular is not seeking assistance, it presently has a need for technicians skilled in analyzing the needs of the micro-entrepreneur.

Banco Continental does not do any micro-enterprise lending and recognizes that it is not organized to do so. Like other banks, it feels it has a social responsibility to make such loans and is willing to work with an entity such as USAID/Ecuador to set up a foundation. Alternatively, it would be willing to work with an existing foundation, such as Fundación Guayaquil or the Fundación Eugenio Espejo in Guayaquil. Banco Continental would do this on the basis of direct financing from an international agency and technical assistance — not through a government agency. It is willing to share the risk, and feels the losses will be negligible. While the bank would not expect to make any money on this type of operation, it would insist that it not lose money.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Current interest rate spreads discourage banks from using their own resources to make small loans and to participate in other programs that were designed to encourage them to lend to small businesses. The most important source of lending to small-scale enterprises in the country is FOPINAR, owned and managed by the Corporación Financiera Nacional. It is funded primarily by three World Bank loans, totaling nearly $132 million. This line dwarfs the two other major facilities for small-enterprise lending — CONAUPE, with $7 million, and CAF, with $14.4 million — but the CFN loans are made almost exclusively to medium-sized and larger small enterprises.

The major lender to micro-enterprise in the country is the BNF, which has loaned 45 percent of the FOPINAR fund, with loans averaging $7,300. Most of these loans were for agricultural production, not small-enterprise activities. Four private commercial banks together loaned 27.2 percent of the resources of FOPINAR. They are Pacífico, Pichincha, La Previsora, and Filanbanco. Each used between 5 and 9 percent of the fund's resources. The remaining 20 banks and 11 development finance institutions who signed agreements with CFN loaned the remainder, amounting to a total of 27.8 percent. Each used between 1 and 3 percent of the FOPINAR resources. Since the average size of the commercial bank loans was about $25,000 under FOPINAR financing, loans went mostly to small business rather than to micro-enterprise.

Establishing a cut-off point between micro-enterprise lending and small-business lending pose problems for participating banks. The CONAUPE program established S/.875,000 as the maximum loan amount for working capital loans and S/.3.5 million for capital investment. The majority of the banks interviewed, however, do not intend to use the CONAUPE program, not only due to loan size and resulting unprofitability of loans, but also because it is cumbersome. If S/.3.5 million is the maximum for micro-enterprise lending, probably no more than 5 of the 12 banks interviewed will be interested as a social mission, and these will prefer to work through private foundations.

With only one exception, the commercial banks claimed micro-enterprise and small business loans were not profitable, as their spreads under the program were only 5 percent per annum with an additional 2 percent per annum for loans over one year. Since they estimated total costs as 3 percent, they considered their participation in small lending, both with their own resources and under loan programs, a social mission and a civic duty. As a result. small business lending was limited in most cases to the 10 percent of their commercial portfolio required by law. This included very little micro-enterprise lending. Moreover, banks loaned primarily to existing clients (usually affiliates or relatives of important business groups and large companies).

With the exception of Banco del Pacífico and Banco del Pichincha, which are organized to do micro-enterprise lending, and Banco Popular, which established a foundation a year ago to train and do micro-enterprise lending, we cannot expect the commercial banks to be interested in this type of activity under the present system unless outside guarantees and training are available and they can at least break even on these loans. Under these conditions, Previsora and Continental would probably participate as well.

Recommendations

Banks should be encouraged to establish foundations such as Banco Popular's Fundación Popular in order to select clients for micro-enterprise lending, give them training, prepare credit applications, and make micro-enterprise loans with proper and frequent follow-up. Technical assistance to foundations in the training of micro-entrepreneurs would be beneficial.

Banks, such as Banco del Pacífico, with micro-enterprise lending departments would benefit from technical assistance to and training of interior town branch office personnel micro-enterprise lending procedures.

Starting in 1983, groups of micro-entrepreneurs formed Corporaciones de Crédito in interior towns to guarantee their bank loans. Five of these, reputedly in financial distress, have formed an umbrella corporation, Corporación Mayor de Crédito (Corporación de Retrocrédito) under the guidance of the Central Bank, CFN, and some private banks, to guarantee the small Corporaciones de Crédito. The latter could be rehabilitated with technical assistance in administration and financial management to ensure their functioning. Thus private sector guarantee corporations could become operative instead of dependent on government support. These guarantee corporations would help micro-entrepreneurs obtain bank credit that currently is not available to them because they cannot supply required bank guarantees.

To encourage agricultural and industrial exports by small producers, an export credit guarantee window could be set up in the CFN to guarantee commercial banks whose small clients wish to draw against or discount letters of credit issued in their favor by importers' bank. While USAID/Ecuador has given a line of S/.50 million to CFN, it is very small in comparison to the needs. Also, the credit guarantee window needs to be staffed by people well versed in foreign trade and the underlying instruments.

Financially sound foundations could be encouraged to establish credit guarantee windows to guarantee bank loans to micro-entrepreneurs who cannot offer such guarantees.

Banks indicated a definite preference to work with funding and technical assistance without involving the government as an intermediary. Such assistance might be furnished directly to the commercial banks or through private foundations.

CHAPTER TWO

CREDIT UNIONS AND SMALL-SCALE ENTERPRISE DEVELOPMENT IN ECUADOR

by
Martha Rose
Organizational and Business Consultant
World Council of Credit Unions

INTRODUCTION

This chapter analyzes the current and potential role of credit unions (CUs) in financing micro-enterprise activities in Ecuador. It documents the strengths and weaknesses of the Ecuadorian credit union system, and provides recommendations for supporting micro-enterprise development through CUs.

According to Superintendencia de Bancos statistics, CUs represent almost 6 percent of the total financial assets in the country, with over S/.30 billion in savings ($35.8 million).[1] The Ecuadorian National Federation of Credit Unions (FECOAC), the national credit union membership organization, estimates that at even higher amounts, with 120 open and closed CUs reporting savings in 1989 at over S/.52 billion ($61.4 million).[2]

The total loan portfolio ranges from a minimum of S/.31 billion to as high as FECOAC's estimate of S/.53 billion. Based on conservative estimates, a minimum of 30 percent of these outstanding loans is in the form of small loans to micro- and small-scale enterprises. This represents a range of S/.9.3 billion to S/.15.9 billion ($10.9 million to $18.8 million), a substantial amount of money. If the amount of business loans in the system is estimated at a higher percentage (which is very likely given the data generated in the study) over 50 percent of the capital in the system (or a total of $18.2 million to $31.2 million) is invested in small-business loans.

This capital has all been generated through member savings, without outside subsidies or injections of capital. It represents the capital accumulation of the estimated 677,000 to 1.2 million people who belong to CUs. These individuals represent a predominantly lower- to lower-middle class constituency.

CUs are involved in business lending because their members are engaged in small-scale enterprises and are borrowing for that purpose. CUs have the ability to continue reaching this population, at

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[1]This chapter uses an exchange rate of US $1 = S/.850.

[2]All statistics in this section were drawn from the Superintendencia de Bancos, *Memoria 1989*, or FECOAC, *Estadistica General*, 1989.

significantly less cost than most other program alternatives. Organizationally, their strength is in making smaller loans to many people. Given their low delinquency rates, the CUs have a comparative advantage relative to other financial institutions in serving small, developing businesses. With the organization of the Cooperativas de Ahorros y Créditos de la Pequeña Empresa (CACPES) throughout the country, the ability to focus on the needs of small enterprises will increase.

However, there are critical issues that need to be addressed if the credit union movement is to move to a healthier state of existence. It cannot continue to serve members under the current set of operating objectives.

BASIC CREDIT UNION CONCEPTS

Definition of a Credit Union

CUs are cooperative financial organizations that are owned and operated by their members on a not-for-profit basis.[3] Committed to democratic principles, CUs pool the financial resources of members to make loans and provide other related services, thereby increasing the economic and social well-being of members.[4]

As part of a national and international cooperative system, CUs adhere to the operating principles of democratic structure, member services, and social goals for CUs as set forth by the World Council of Credit Unions (WOCCU).

History of Movement in Ecuador

The cooperative movement in Ecuador has had three important periods. The origins of the movement began in the last century, where, especially in Quito and Guayaquil, mutual support and artisan organizations were created. The second period began in 1937, with the first official Cooperative Law. The third period was initiated in the 1960s with two government laws: Agrarian Reform (1964), and a new Cooperative Law (1966).[5]

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[3]Referred to in Spanish as *cooperativas de ahorro y crédito* (CACs).

[4]J. Peter Marion, *Building Successful Financial Systems: The Role of Credit Unions in Financial Sector Development*, pp. 1-2.

[5]Giuseppina Da Ros, "El Cooperativismo de Ahorro y Credito en El Ecuador," *El Cooperativismo en El Ecuador, La Experiencia de las Cooperativas de Ahorro y Credito, Recopilación de Textos 1982-1988*, 1988, p. 143.

FECOAC, the national membership organization was started in 1963, with the participation of 22 member cooperatives and the financing of USAID/Ecuador. It continued to grow and expand rapidly for the next 10 years, with membership in 1972 reaching 270 CUs (72 percent of the total). Substantial financial assistance was provided by USAID through the Credit Union National Association (CUNA) until 1974. At this time, FECOAC began to suffer serious financial problems, could not become self-supporting through membership dues, and was finally put under state intervention in 1978.[6]

In 1980, FECOAC was reorganized through the support of the Confederation of Latin American Credit Unions (COLAC). Membership levels included 398 affiliates.[7] Since that time, membership levels and affiliated cooperatives have continued to rise. However, the organization has continued to have problems. In 1990, in the course of this study, the manager and assistant manager suddenly resigned, and a reorganization plan has been put before the membership.

In 1985, all **open bond** CUs operating at that time were put under the Superintendencia de Bancos. It was estimated that they numbered about 130. Some have since been liquidated, leaving 105 currently supervised, active CUs. According to FECOAC statistics, there was a total of 929 legally incorporated CUs in 1989, with 440 (or 47 percent) liquidated or inactive. Of the remaining 489 organizations, 463 (95 percent) are affiliated with FECOAC.[8]

Structure

CUs are organized around a **common bond** of membership. This acts as a unifying social force for the members, as well as defining the potential market of the credit union. Common bonds are of two types: closed bond and open bond. **Closed bond** CUs usually limit membership to persons with a shared affiliation, membership, or employment situation. Examples of these within Ecuador include unions, teachers, architects, and other professions who have organized cooperatives to meet their financial and professional needs. **Open bond** CUs do not have restrictions on membership, and are open to all residents of a given community. They closely parallel the community development CUs of the United States, which are committed to economic development within low-income areas.[9]

This chapter focuses mainly on open bond CUs for the following reasons:

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[6]FOCAC, *El Cooperativismo en el Ecuador, la Experiencia de las Cooperativas de Ahorro y Credito 1982-1988*, p. 74. See also Da Ros.

[7]FECOAC, *Estadistica General del Desarrollos del Movimiento Cooperativo Ahorro y Credito del Ecuador 1963-1989.*

[8]*Ibid.*

[9]J. Peter Marion, *Building Successful Financial Systems: The Role of Credit Unions in Financial Sector Development*, p.3.

- The only statistics available are from FECOAC and the Superintendencia de Bancos that currently monitor open bond CUs. FECOAC statistics only provide information on the overall movement, without separation between open and closed bond CUs;

- No formal statistics were available on closed bond CUs. They are currently under the authority of the Ministerio de Bienestar Social, and are not as closely monitored as the open bond CUs; and

- The study has attempted to document "unknown" services to micro- and small-scale enterprises in the informal sector. The fields of membership of closed bond CUs have a strict definition of membership, most of whom comprise the formal sector. In terms of business lending, all members could qualify (as in the case of taxi drivers or the new CACPES, which specifically serve the membership of the Cámaras de Pequeña Industria and are now being formed as closed bond given recent interpretations of the credit union law regarding new cooperative formations).

Future studies should take a more in-depth look at closed bond cooperatives to better understand and analyze their services, management, and financial situations.

Key Characteristics of Credit Unions

CUs are unique institutions, set apart from other financial intermediaries, within both the formal and informal sectors. As the social service agencies of the banking world, their mission is to help their members help themselves. By putting people first, their objectives are not just a marketing strategy, but basic financial and operational objectives.

Given the democratic values within the movement, CUs are structured to maintain lines of communication between membership, staff, and management. Since CUs are membership organizations, each member is entitled to vote at an annual general assembly held to discuss important issues and to select representatives for the various committees and boards.

As with other nonprofit organizations, CUs need to operate economically, using the spread generated between savings and loan rates as the funding for their services and operations. In Ecuador, this spread is fixed by government regulation to not more than 17 points, therefore necessitating careful management to successfully cover all expenses. To keep costs low and reinforce their community service values, numerous members volunteer their time to serve in unpaid leadership positions.

Leadership is another area where CUs play an important role. Members are encouraged to become involved in organizational committees, where they can learn new skills in management, finance, and organizational development. They also gain confidence and presentation abilities that are critical to personal achievement and growth. There are very few opportunities for self-employed people to gain this very direct knowledge and experience about organizations larger than their own.

Role of Credit Unions in the Development Process

Financial sector development involves the creation of institutions in communities outside the traditional systems for a variety of historical reasons. The goal of creating an institution is based on the objectives of generating a capital base that can be used for the benefit of individuals as well as the entire community.

Once the community credit union based on local initiative and investment is created, continued institutional support and a structure is needed from a national and regional level. These national and regional institutions are able to mobilize and manage an expanded share of the nation's financial resources, while representing the interests of individual CUs.[10]

CUs are based on financial self-reliance. Capital is generated from member savings, not outside grants and donations. This low-cost method of development also speaks to the very self-help philosophy of CUs.[11]

As institutions that fill the gap between formal financial intermediaries and the informal money lenders, CUs take on characteristics from both modern financial institutions and informal community structures. They are available to provide financial services to those people who have not been able to access the formal market and have had to rely on the vagaries of the informal sector.

For many developing businesses, CUs offer a true alternative for capital access, as well as other formal sector resources. They allow people to move from outside the system to an institution that is structured to provide both services and know-how. This access to the system is as important as the access to capital, for it allows the entrepreneur to learn a different way of operating in an environment that is supportive and noncritical of cultural values.

Public Sector Relationships

Since 1985, the open bond cooperatives have been under the supervision of the Superintendencia de Bancos. This relationship involves regular monitoring and audits, although to date, audits have only been done in a small portion of CUs. The Superintendencia de Bancos' General Director of Cooperatives expresses the organizational goals of eventually auditing each credit union biannually.

According to survey interviews, the relationships between individual CUs and the Superintendencia vary tremendously. Some cooperatives are quite positive about the auditing work and overall monitoring and regulation of the system, feeling it gives the public a sense of security, confidence and trust. Others expressed the opinion that there was now more bureaucracy, and there were reservations about the ability of the government to truly understand CUs.

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[10]*Ibid.*, p. 8.

[11]*Ibid.*, p. 10.

Closed bond CUs are under the supervision of the Ministerio de Bienestar Social. There are no statistics available that would be useful to this study since this relationship does not involve any type of fiscal supervision or monitoring.

Member Incomes and Occupation

While there are no formal statistics an credit union members within the Ecuadorian credit union system, it is possible to look at individual CUs, several of whom maintain statistics on the occupations of their membership. There were two sources of information available to this study: information compiled by FECOAC from 120 of their members in 1989, and a recent evaluation of member occupations done by the credit union San Francisco de Ambato. The FECOAC numbers reflect both open and closed bond credit union membership.

The FECOAC statistics in Table 1 show a high rate of self-employment, as reflected in the 35 percent of the membership who work in commerce. If the 6 percent working as artisans are included, this would raise the level of micro- and small-scale businesses to 41 percent of the total membership. It is also possible that a portion of the 6 percent of the industrial group should also be added to the statistic.

TABLE 1

FECOAC 1989 MEMBERSHIP STATISTICS

Sector	Members	Percent
Commerce	432,250	35
Agriculture	213,600	17
Housewives	185,100	15
Handicrafts	94,500	8
Cattle Raising	78,950	6
Manufacturing	77,310	6
Professionals	24,000	2
Other	129,290	11
TOTAL	1,235,000	100

Source: FECOAC.

In the small sample taken of members of San Francisco de Ambato to better understand the demographics of its constituency, 34 members provided the following data:

The data in Table 2 show that 26 percent of the members worked in commerce and an additional 5 percent worked as tailors. This 31 percent reflects the primary occupation stated and does not take into account the agriculturally based members who often participate in local markets to sell their products and the industrial professions, many of whom are self-employed.

No statistics are available regarding member income. The minimum wage applicable to employees would only apply to less than 8 percent of the people from the FECOAC breakdown who appear to be working in organizations. In the San Francisco study, 30 percent of the people are employed (laborers, 3 percent; miners, 3 percent; teachers, 9 percent; and employees, 15 percent). The stated occupations imply people of lower economic means. The only people who would make above a low-middle class living would be the professionals who appear in the FECOAC study, many of whom may belong to closed bond CUs.

Also, when the statistics gathered in the survey are reviewed, the average savings/member ranges from S/.11,000 to S/.132,000 ($13 to $155). The average value of loans ranges from S/.40,000 to

S/.637,000 ($47 to $749).[12] Although there are credit union policies which discourage large savings and establish maximum loan amounts, these statistics would still imply a population with extremely limited income.

TABLE 2

SAN FRANCISCO DE AMBATO
MEMBERSHIP DISTRIBUTION

	Percent
Commerce	26
Agriculture	15
Employee	15
Housewife	12
Tailor	5
Construction	3
Student	6
Teacher	9
Miner	3
Laborer	3
Not Specified	3

Source: INSERFINSA.

Scale of Operations

Of the 489 active CUs known to FECOAC, 105 are currently listed by the Superintendencia de Bancos as reporting to them, all of which are open bond.[13]

The data in Table 3 show that 78 percent of the credit union members live in the sierra region, with 43 percent living in Pinchincha Province. Considering the assets of these CUs, Pinchincha Province has over half of the total assets of the system (53 percent), whereas the sierra region controls close to 80 percent of system assets.

These data reflect several observations about the Ecuadorian system including:

- Quito, the capital of the country and largest city in the country, is included in the statistics for Pinchincha Province;
- High membership in a province reflects the presence of a major city where one or more CUs have been established and is still operating (Pinchincha-Quito, Tungurahua-Ambato, Ibarra-Tulcán);
- The liquidation in the recent years of numerous CUs within the coastal region; and
- The cultural and philosophical differences between the sierra and the coastal population.

It is important to look at the individual organizations that contribute to the statistics compiled by the Superintendencia de Bancos. An analysis of the 11 largest CUs (by membership and assets) shows that they have 66 percent of the system's total membership and 72 percent of the total assets. Among these 11 organizations the average membership is 40,892 people, with average assets/member at S/.66,000 ($78). However, if San Francisco de Asis, the largest credit union, is removed from these statistics, then the concentration diminishes for the 10 largest CUs to 40 percent of the total membership, an average of 26,906 people per organization and 37 percent of the total assets, or an average of S/.57,560 ($68) per member.

The majority of Ecuadorian CUs are quite small, and differ substantially from the 11 largest. An average membership figure for the entire system of 105 CUs reporting to the Superintendencia de Bancos is 6,448 with average assets per institution at S/.394 million ($464,000), or S/.61,151 ($72)

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[12]See Annex 4 to this chapter for Credit Union Survey results.

[13] FECOAC, *Estadistica Cooperativa — Diciembre 31, 1989.*

TABLE 3

1989 ECUADORIAN CREDIT UNION SYSTEM STATISTICS
IN THOUSANDS OF SUCRES

PROVINCE	# MEMBERS	% TOTAL	TOTAL ASSETS	% T.AST	TOTAL LIABILITIES	% T LIAB	TOTAL CAPITAL	% T CAP
Carchi	36,003	5.3%	2,540,533	6.1%	1,915,058	5.6%	625,475	9.0%
Imbabura	32,895	4.9%	1,219,906	2.9%	1,086,363	3.2%	133,542	1.9%
Pinchincha	287,826	42.5%	21,730,909	52.5%	18,614,011	54.0%	3,116,898	45.0%
Cotopaxi	3,478	0.5%	212,847	0.5%	170,083	0.5%	42,763	0.6%
Tungurahua	133,825	19.8%	5,452,093	13.2%	4,491,494	13.0%	960,599	13.9%
Bolivar	11,708	1.7%	653,487	1.6%	585,647	1.7%	67,840	1.0%
Chimborazo	10,866	1.6%	330,074	0.8%	223,663	0.6%	106,410	1.5%
Canar	382	0.1%	15,916	0.0%	14,149	0.0%	1,767	0.0%
Azuay	1,635	0.2%	146,956	0.4%	126,506	0.4%	20,450	0.3%
Loja	5,781	0.9%	457,177	1.1%	356,501	1.0%	100,676	1.5%
TOTAL SIERRA	524,399	77.5%	32,759,898	79.1%	27,583,475	80.0%	5,176,420	74.7%
Esmeraldas	858	0.1%	25,316	0.1%	20,105	0.1%	5,211	0.1%
Manabi	74,950	11.1%	5,872,584	14.2%	4,754,231	13.8%	1,118,353	16.1%
Los Rios	8,730	1.3%	271,775	0.7%	214,505	0.6%	57,271	0.8%
Guayas	59,523	8.8%	1,726,385	4.2%	1,321,188	3.8%	405,197	5.8%
El Oro	8,043	1.2%	721,655	1.7%	568,551	1.6%	153,104	2.2%
TOTAL COAST	152,104	22.5%	8,617,715	20.8%	6,878,580	20.0%	1,739,136	25.1%
Napo				0.0%		0.0%		0.0%
Morona Santiago	504	0.1%	21,757	0.1%	9,966	0.0%	11,791	0.2%
TOTAL ORIENT	504	0.1%	21,757	0.1%	9,966	0.0%	11,791	0.2%
TOTAL OPEN BOND CUs (a)	677,007	100%	41,399,370	100%	34,472,021	100%	6,927,347	100%
FECOAC STATISITICS (b)	1,235,000	100%	90,380,674	100%	53,133,434	100%	17,844,364	100%

Source: (a) Superintendencia de Bancos
(b) FECOAC General Statistics

per member. However, if the 11 largest CUs are removed, and just the remaining 94 CUs are analyzed, the numbers drop substantially to an average of 2,417 members per credit union and an average amount of S/.124.5 million ($146,500) per organization and S/.51,526 ($61) per member.

From FECOAC, we obtain even higher estimates of the capital base of CUs. In 1989, they had 453 affiliates, of which 120 provided statistics. Approximately 85 are open bond CUs, they show a total membership base of over 1.2 million people, or an average of 10,292 per organization. The total assets for FECOAC reporting organizations is S/.90.4 billion ($1.1 billion), or an average of S/.73,283 ($86) per member.

We were unable to obtain further breakdown of the FECOAC statistics. There is a complex census currently being undertaken by CONCAF, a German foundation, which should provide more accurate and complete data at the end of 1990. However, based on this dual set of statistics, it would be fair to assume that the numbers from the Superintendencia de Bancos are probably quite conservative.

TABLE 4

ELEVEN LARGEST CREDIT UNIONS
ASSETS OVER 1,000,000,000 SUCRES

CREDIT UNION	PROV	# MEMBERS	% TOT SYSTM	TOTAL ASSETS (000) sucre	% ASS SYSTM
San Francisco de Asis	Pichincha	180,734	27%	14,204,764	34%
15 de Abril	Manabi	24,601	4%	3,617,948	9%
Oscus	Tungurahua	49,850	7%	2,379,705	6%
Sagrario	Tungurahua	42,970	6%	1,613,173	4%
8 de Septiembre	Pichincha	25,214	4%	1,276,480	3%
San Francisco (Ambato)	Tungurahua	31,602	5%	1,138,974	3%
Atuntaqui	Imbabura	28,367	4%	1,118,639	3%
23 de Julio	Pichincha	13,544	2%	1,113,866	3%
Andalucia	Pichincha	14,083	2%	1,084,206	3%
Chone	Manabi	22,874	3%	1,073,171	3%
Tulcan	Carchi	15,976	2%	1,072,162	3%
TOTAL 11 CREDIT UNIONS		449,815	66%	29,693,089	72%
TOTAL OPEN BOND CUs		677,007	100%	41,399,370	100%

Source: Superintendencia de Bancos, "Memoria 1989"

These data would put the estimated asset base of Ecuadorian CUs in a range of S/.41.4 billion to S/.90.4 billion ($48.7 million to $1.1 billion).[14] However, these numbers include fixed assets that have not been valued consistently. If the savings in the system, which are based on actual cash figures, are estimated the range then becomes S/.31 billion from the Superintendencia, and S/.52.3 billion from FECOAC ($36.5 million to $61.5 million).

Ecuadorian Credit Union Institutional System

FECOAC

FECOAC, as the national membership organization, provides services to both open and closed bond CUs. These services include political presentation, technical assistance, and annual financial audits. Supported by membership dues, fees for services provided, and some monies from CONCAF, they currently employ about 45 people.

A new organizational structure has been proposed for the organization. It would change the structure into a holding company, with each of the main services becoming a separate organization. These divisions would include: auditing, education, technical assistance, a central finance facility (*caja central*), insurance, as well as others that may be necessary.

[14] *Ibid.*

TABLE 5

COOPERATIVAS DE AHORRO Y CREDITO ABIERTAS--NATIONAL STATISTICS
(000) SUCRES

	12/31/85	12/31/86	12/31/87	12/31/88	12/31/89	% CHG 85-86	% CHG 86-87	% CHG 87-88	% CHG 88-89	CHANGE 85-89	CHNGE 85-89
TOTAL ASSETS	17,937,178	22,060,628	28,312,822	35,798,163	41,399,370	23.0%	28.3%	26.4%	15.6%	23,462,192	131%
TOTAL LIABILITIES	13,469,961	16,598,678	21,892,535	27,898,187	34,472,021	23.2%	31.9%	27.4%	23.6%	21,002,060	156%
SOCIAL CAPITAL	4,467,217	5,461,950	6,[illegible]20,287	7,899,972	6,927,349	22.3%	17.5%	23.0%	-12.3%	2,460,132	55%
# ACTIVE MEMBERS				675,491	677,000						
# CUs IN STATISTICS		112-18-130	122	118	105						
# CUs OFFICES				225	175						
CUs IN LIQUIDATION PR			4	2	11						

Source: Superintendencia de Barcos, "Memoria 1985, 1986, 1987, 1988, 1989"

COLAC

FECOAC is a member organization of COLAC, the regional confederation based in Panama. It provides wholesale lending, investment, and operational support services to affiliates. Education and technical assistance services are offered by a subsidiary organization, FECOLAC.

COLAC is currently involved in several programs in Ecuador, including several credit lines to FECOAC, and several joint projects with WOCCU including a low-cost housing project and a year-long planning and technical assistance project with FECOAC and selected member CUs.

TRENDS IN THE ECUADORIAN CREDIT UNION MOVEMENT

Demographics

Organizations

Official government statistics in 1989 account for 175 credit union offices, including 106 main offices and 69 branch locations.[15] This has declined from previous years due to the liquidation of various CUs. In particular, one credit union liquidated in 1986 had 46 offices. Different from banks, branch offices tend to be located in small towns (*cantons*), and may be the only financial institution in a given community. CUs also may have their offices in sections of town which are more accessible to the lower classes.

Many poor and working-class families can only afford to live on the outskirts of the major cities. San Francisco de Asis has a branch office in the bus station in Quito. La Dolorosa has it's main office in Durán, a poor community on the outskirts of Guayaquil; Andalucía, Cotocollao and 8 de Septiembre are all located on the outskirts of Quito.

Credit Union Members

Most people join a credit union to either save money, or take out a loan. CUs encourage savings, and make it an obligatory requirement in order to obtain a loan. In the 16 CUs surveyed for the study, the average value of savings per member ranged from S/.9,000 to S/.132,000 ($14 to $235). There was no way to obtain more precise information to understand the concentration of savings accounts. However, if the value of savings per loan is averaged, the range changes to S/.27,000 to S/.730,000 ($42 to $1,123). This is with a range of members with loans in each credit union of 9-70 percent, showing how very different credit union policies are among the surveyed group. Some CUs

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[15]Superintendencia de Bancos, *Memoria 1989*, p. 594.

are giving large loans to very few people. Others, are making smaller loans to a larger amount of their members.

The average loan sizes among the surveyed group varied from to S/.40,000 to S/.637,000 ($61 to $980). The sample average was S/.166,000 ($286) to 26 percent of the membership, with an average of S/.180,000 ($290) in savings. Thus, there is slightly more money in savings per loan for the system on average. However, this statistic doesn't account for the requirement of most CUs that a minimum of 30 percent of all loans remain in a member's savings account for the duration of the loan. It also doesn't recognize the large variations among CUs, some of whom are able to generate large savings accounts from members without making loans to them.

Financial Situation

There have been numerous changes in the Ecuadorian credit union system between 1985 and 1990. The data available for analysis, taken from official government records, reflects the information gathered from the 134 open bond CUs in their system, of which 18-29 have been liquidated or not certified between 1985 to 1989. This study was unable to obtain verification of discrepancies in official documents provided or an actual count of the number of organizations sending annual data for these statistics.[16] However, the overall trends are not misrepresented by this situation.

It is important to remember that the capital within the Ecuadorian credit union system has been generated through internal savings of members. There have been no infusions of outside funds to bolster the system, other than to provide operating support for FECOAC. Therefore, the current decapitalization of CUs due to inflation and mismanagement represents a real loss of savings by individuals. The trends show quite clearly that in nominal terms there has been an overall growth in assets, liabilities, and equity for the national system between 1985 to 1989. However, when these numbers are adjusted for inflation a different pattern emerges. Since 1985, there has been a true decline in the real value of all assets, liabilities and equity. This has become more significant since 1988 when the annual inflation rate was 86 percent.

In analyzing the data in Table 6, it is important to look at:

- Total assets, and the line items reflecting loans and investments;
- Total liabilities and the entry for savings deposits;
- Overall equity in the system, as well as share deposits within the organizations; and
- Cash vs. noncash items, including reserves and noncurrent fixed assets.

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[16]Superintendencia de Bancos, *Memoria 1985, 1986, 1987, 1988, 1989.*

TABLE 6

COOPERATIVAS DE AHORRO Y CREDITO ABIERTAS - NATIONAL STATISTICS
(000) SUCRES
ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	12/31/85	12/31/86	12/31/87	12/31/88	12/31/89
TOTAL ACTIVO	17,937,178	17,935,470	17,706,580	14,259,773	10,708,408
TOTAL PASIVO	13,469,961	13,494,860	13,691,391	11,112,912	8,916,572
CAPITAL SOCIAL	4,467,217	4,440,610	4,015,189	3,146,860	1,791,836
INFLATION RATE	BASE YR	27%	33%	86%	54%
INFLATION FACTOR		1.273	1.687	3.132	4.830

Total Assets, Loans, Investments, and Fixed Assets

Within the system, total real assets have declined by 52 percent from 1985-1989, reflecting the inflationary environment of the country. This is in spite of the fact that they have risen from S/.18.0 billion to S/.41.4 billion, or 131 percent in nominal sucres.

The biggest change in assets has been the way that CUs handle investments. In nominal sucres, this has risen 408 percent, about three times more than other asset categories. It is also the only category to show positive growth when adjusted for inflation from 1985-1989. This fact reflects the strategy of numerous CUs to make deposits which can earn market rates of return in other parts of the financial system, significantly more than could be earned through loans to members given current interest rate policies (see next section on interest rate structure). This shift of policy reduces organizational liquidity and decreases the amount of cash available for other investments including member loans.

Analyzing the ratio of investments and fixed assets to total assets also confirms this trend. In 1985 investments represented 3 percent of total assets as opposed to the 6 percent in 1989. In the same years fixed assets have remained constant at a little more than 15 percent of total assets.

Total Liabilities and Savings Deposits

Savings deposits declined 53 percent adjusted for inflation during 1985-1989, comparable to the decline of 47 percent for total liabilities for the same period. This reflects the overall pattern of the system and the inflation rates, with significantly greater declines during 1987-1989 than from 1985-1987.

Overall System Equity and Share Deposits

Within the open bond credit union system, overall equity has declined 68 percent since 1985 when an adjustment is made for inflation. This trend is even greater for member share certificates, which declined 75 percent in the same period. From 1988-1989, member share certificates reflect a decline of almost double any other item on the balance sheet. There are some possible hypothesis for this decline. Although overall membership is up in the system as a whole, there have been organizational liquidations. Since individual credit union policies vary on the amount of share certificates required, CUs with higher requirements could be the ones not being included in the statistics. Membership requirements vary by institution. Most CUs request members to purchase shares. These share certificates could also reflect the decline in overall value of individual CUs, which may adjust the value of member equity yearly according to their financial situation.

Cash vs. Noncash Items, Including Reserves and Noncurrent Fixed Assets

Categories which reflect actual cash items in the system, particularly the value of savings and loans, are experiencing greater declines than the noncash items including fixed assets, and reserves. These differences between cash and noncash items reflect the ability of individual CUs to reevaluate their fixed assets such as property and buildings they may own. Traditionally, fixed assets reflect actual cost, which can be very different than the current assessed values. In analyzing the balance sheets of individual CUs (see Annex 3), it appears that several organizations have increased the valuation of their fixed assets since 1987, which would explain why fixed assets only declined 13 percent and 8 percent between year 1987-1988 and 1988-1989, compared to overall asset declines of 32 percent and 25 percent.

When adjusted for inflation, reserves also declined only 1 percent overall during 1985-1989. This could reflect a reevaluation or the influence of the Superintendencia de Bancos and/or other credit union policies and controls that set higher reserves to compensate for the economic situation of the country CUs.

Alternatives to the Current Problems Within the Credit Union Movement

Overall, the Ecuadorian credit union system is in decline. This situation has several causes, including:

- Economic situation of the country;
- Interest rate structure;
- Loan terms, amount and allocation;
- Operational costs and financial management;
- Increased delinquency and fraud;
- Inadequate resources including technical assistance and training opportunities in management, finance, marketing, and economics;
- Government policies;

- Historically weak national organization currently undergoing reorganization;
- Impaired public confidence and image; and
- Lack of a central liquidity fund.

All of these issues are contributing to the overall problem, and need to be addressed.

Economic Situation of the Country

On the macroeconomic level, the most important issue facing Ecuadorian CUs is the ability of the GOE to control inflation. In the current environment, the challenge of managing any institution is greatly increased given the financial pressures. CUs, many of whom are currently operating at below market rates, are being hard hit as decapitalization intensifies. Although their asset base in increasing, they are losing ground in real terms due to inflation. There is a need for the cooperatives to work with the government and all sectors of the economy in bringing about a change in the economic environment. There is also a need for credit union policies to adapt to the current reality.

With inflation, all organizations and individuals need larger sums of money just to keep the same purchasing power. Overall, the CUs are not keeping up, except for a few organizations that have just recently enacted new policies and strategies which appear to be resulting in positive growth in 1990 in spite of inflation (see section on Leadership Models below).

Interest Rate Structure

Credit union interest rates have historically been set below the market. Only recently have several organizations instituted major reevaluations of their interest rate policies to begin to adjust rates nearer the market levels.

This issue of interest rates has several repercussions. If people are not receiving a market rate of interest for their savings, they will look for other alternatives. These alternatives include saving money in local banks or foreign accounts where they will receive a market rate of return, or purchasing fixed assets, which should hold their value better over time.

As shown in Annex 4, the CU survey had a range of interest paid on basic savings accounts was from 8 percent at La Dolorosa to 26 percent at San Francisco de Asis and two of the CUs in Tulcán. The range in basic loan rates was from 18 percent at Cotocollao and La Dolorosa to 49 percent in Babahoyo at 23 de noviembre. These rates were all below the 54 percent inflation rate in 1989.

To compensate for the very low savings rates, nine of the surveyed CUs had established fixed-term accounts allowing people to get a higher rate of return if their money remains deposited for the agreed-upon term. In this case, these monies are not available to use as counterbalancing loan deposits. In the CUs that have established these accounts, the response has been good. In one credit union, Carchi in Tulcán, 42 percent of its savings are in fixed-term accounts; the CACPE in Quito offers interest rates of 26 percent for fixed-term deposits, and has 28 percent of total savings in this type of account.

CUs need to adjust their interest rates to reflect market conditions. Within the field of business development, a common belief is that it is more important for people to have access to credit, than to obtain subsidized rates. Currently, the savers in the organization are providing a subsidy to the borrowers. If rates are close to market rates, savers will benefit, and people will only want loans if there is a true economic incentive. Current policies encourage the borrowing of money, if only to take advantage of the arbitrage opportunity of depositing borrowed credit union monies in a bank where they can then make a profit on the spread.

Loan Terms, Amount, and Allocation

All CUs have a requirement that a member show consistent savings during the three month period before applying. To receive a loan, one-third of the requested loan will remain as a compensating balance for the life-of-the-loan term, and this must already have been saved at least one month before the loan is requested. However, given interest rate structures, most people who save at a credit union expect to be able to obtain a loan in order to compensate for the low rate of return on their accounts. This causes a liquidity problem since more people desire loans than the system is capable of handling. CUs with liquidity problems often have a waiting list for loans. In one case, the waiting time was rumored to be 10 years, although this particular example also involved fraud on the part of the credit union manager and associates.

The maximum loan amounts ranged from S/.300,000 to S/.1.0 million ($349 to $1,163) in the organizations surveyed. One organization had a maximum of S/.9.0 million, but few loans of that size have been given. Terms range from six months to five years, influenced by the size of the loan and individual CU policy.

The maximum loan amount is not adequate to meet the needs of many self-employed people given the rise of prices with inflation; therefore people continue to search for additional capital just to stay even. They also need long repayment periods, but this becomes a major problem for the credit union given the current interest rate structure. The longer the loan term, which is always a fixed interest rate, the more decapitalization since the loan rate cannot be raised until a new loan is made.

The current structure provides no incentives to repay a loan before it is absolutely due. No one would repay a below-market rate loan early. The arbitrage opportunity is too obvious. Any member without a loan is providing a subsidy to those who have borrowed money. CUs need to keep expanding just to stay even, yet they are losing money in reality based on their policies.

The policies need to reflect the reality of the country and the expectations of members. Demand for loans would be more realistic if market rates were set for both savers and borrowers. Allocation issues would change as people adjusted to the new costs of capital, and with education and marketing, could lead to increased liquidity as more people were willing to save at CUs.

Operational Costs and Financial Management

This issue is the core of the daily balancing act required of cooperative managers. These organizations are social purpose business ventures, and they require that attention be paid both to their profitability as well as their mission of delivering social good. This added complexity and dual set of goals often mean that the achievement of social good may be to the detriment of the organizational earnings and profits.

Decisions are made regularly that impact on the long-term financial health of the organizations. These range from the allocation of credit union assets to the standard and negotiated increases to keep up with inflation. All of these impact on the services provided to members, as well as the stability of the organizations. Numerous CUs are making fewer loans and investing funds in banks to get higher rates of return. Although this provides much-needed operating capital, it means there are less monies available for member loans.

With an inflationary economy, credit union operational costs have increased. Although no analysis was done of individual credit union services and operations, at a minimum salaries have risen as a requirement of government regulations that are indexed to inflation. Credit union managers expressed concern about the increased burden of providing member services, and negotiating new contracts with service providers.

Increased Delinquency and Fraud

Most CUs in Ecuador do not report an entire loan as delinquent, only the value that is past due at the time financial statements are prepared. Traditionally, Ecuadorian CUs have had low delinquency rates and have not had to write off loans given the high moral and social commitment to repay even over a period of many years. However, several CUs mentioned increased delinquency due to the worsening of the economy.

There have also been several highly publicized cases of fraud and mismanagement. This has included the country's largest credit union, San Francisco de Asis, as well as several organizations in Guayaquil. However, with the intervention of the Superintendencia de Bancos and the liquidation of various of these poorly managed organizations, the worst appears to be over for the open bond CUs. However, as with all financial systems, when people see an opportunity for personal gain, often they take advantage of the situation, to the detriment of the system.

Inadequate Resources

Given the democratic control in CUs, the process required to change any policy tends to be slow. Member education is both time consuming and costly. With an inflationary economy, there is not the luxury of a slow learning curve, to teach the basics of macroeconomics, financial management and economic development basics to a constituency that lacks advanced education.

The welfare of the organization needs to be put ahead of the individual borrower whose objective is to get the most available capital at the lowest cost. Individuals need to gain organizational and management education to understand this dilemma.

Many CUs are not computerized. They do not have access to accurate numbers on a regular basis. Even among those that are computerized, there needs to be more education on how to use the statistics that are generated and to devise strategies to improve the financial situation of individual organizations.

Government Policies

The government has two sets of standards for CUs. Some treat them as banks, as the alternative financial institution that they are. To effectively compete, CUs need to be able to offer some of the more lucrative services to which they are currently prohibited (see Conclusions and Recommendations section at end of this chapter).

To have access to BCE funds (and GOE programs and capital), CUs need to be certified. Open bond CUs regulated by the Superintendencia de Bancos have been evaluated preliminarily, and there is a list stating which ones can participate in a select housing program. However, there currently is a stalemate in this process.

There needs to be discussion between the government and the CUs as to the effects of current regulations. Strategies need to be developed to address the problem areas, strengthening the lines of communication.

Historically Weak National Organization

FECOAC is in the midst of assessing its current services and designed a new organization structure to address the perceived weaknesses. These is much discontent among members about the current status, and hopefully the new changes will enable the organization to move forward and provide the leadership needed by the movement.

FECOAC needs to represent the interests of all Ecuadorian CUs, including open and closed bond, urban and rural, large and small. Although there are different needs according to the organizational stage of growth, membership, and overall goals, FECOAC should represent these organizations on the national level, while providing the support necessary for the improved stability, health, and growth of the system.

Impaired Public Confidence and Image

The general public has seen much negative press in the recent years given the problems within the industry. Unfortunately, this negative publicity has not been counterbalanced by the many instances of positive work being done by cooperatives.

Many people have much higher expectations of CUs than of traditional financial institutions. They expect that given the philosophy of the cooperative movement, it should be able to be everything to everybody, meeting the needs of all people. This cannot happen, and the movement needs to define who it can serve, how services will be given, and how they will be paid for. This needs to be communicated to the general public, and the institutions should be held accountable for their actions.

With the Superintendencia de Bancos regulating the open bond CUs, this should help restore credibility and public confidence. Hopefully, there will also be the resources available for the cooperatives to implement the necessary reforms.

Lack of Central Liquidity Fund

There is a need to for CUs to have access to additional capital, while investing certain funds short term at market rates. Currently, the banks are benefitting from short-term credit union investments, without returning any services other than interest on deposits. In the reorganization plan currently being proposed by FECOAC, a *caja central* would allow for this internal capital transfer.

Analysis of the Reform Movement

Currently within the country there are numerous individuals working in a variety of ways to bring about change and growth in the credit union movement. This has taken the form of effecting change in existing CUs, creating new cooperatives with reforms in place, and working to reorganize the national membership organization, FECOAC.

Leadership Models

There is much change and development at **San Francisco de Ambato** under the direction of a new manager and with the support of the Ecuadorian representative to COLAC. Recent efforts have included: a membership survey, the development of new policies for loans and interest rates, revised credit union hours, and a cost/benefit analysis of member services under review at the time of the study. Since enacting these changes, it is one of four CUs in the survey that showed real growth in 1990. Although San Francisco de Ambato doesn't have the highest interest rates of organizations in the survey sample, it has been able to grow in spite of inflation.

Another credit union undergoing major change is **San Francisco de Asís**, the largest credit union in the system. The tremendous problems experienced by the cooperative necessitated intervention by the Superintendencia de Bancos. However, the current management is in the process of completely revising the organization, with new financial controls, organizational reporting relationships, and policies.[17] Although there were no data available to document the changes, numerous loans are now being made to the membership. Previously, given the mismanagement and fraud, it was rumored that a loan applicant needed to wait 10 years to obtain money. Legal action is also being taken against the fraudulent individuals who caused financial damage and negative publicity to the institution and it's members.

The **CACPES** organizations represent a new type of institution specifically geared to meet the needs of small enterprises. Developed through the Cámara de Pequeña Industria, a commerce association found in most urban areas throughout the country, the CACPES seek to provide financing

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[17]As of November 19, 1990, San Francisco de Asís was officially liquidated by the Superintendencia de Bancos.

and other cooperative arrangements to their members. These organizations can offer mentoring, and informal expertise, while providing the capital critical to success.

Currently there are seven CACPES, with another 10 in development. CONCAF, funded through DGRV, the German credit union organization, is providing funding and technical assistance to these efforts.

The CACPE in Quito has developed a computerized financial reporting and monitoring system, which they hope to make available to other CACPEs.

In both the areas of **Tulcán** and **Ambato**, where several large, well-organized CUs exist, there have been some initiatives to develop joint services. In Tulcán, the CUs already meet periodically to discuss common issues, interest rates, and service coordination. Additional arrangements could be encouraged if individual cooperatives could realize potential benefits from these kinds of arrangement.

Supervision, Auditing, and Statistics

Previous to 1985, FECOAC provided tabulations of open and closed CUs as part of its services. Since 1985, when the open bond CUs came under the authority of the Superintendencia de Bancos, there have been separate tabulations of overall credit union statistics. However, there are inconsistencies in these figures, and they are not of value within the movement. Individual CUs need to be able to understand the national situation, and their rank within the system. The Superintendencia de Bancos, to be effective, needs to establish standards, and work with CUs so they can comply with standards. Communication needs to be both educational and informative.

External auditing within CUs has been handled in a variety of ways. FECOAC provides a fee for service, while there are numerous independent auditors available. The Superintendencia de Bancos has been unable to reach numerous CUs to perform their audit, which should be complimentary to the independent external audit. CONCAF has stated that this is an area they will be working in, within the new auditing subsidiary of FECOAC. They hope to establish regional offices throughout the country that will have adequate staffing to provide training and knowledge while performing an annual review.

MICRO- AND SMALL-SCALE ENTERPRISE LENDING BY CREDIT UNIONS

Membership

Credit union members have traditionally been self-employed people who were looking for ways to obtain services and financing for their activities. As Ecuador has become more urbanized, the agricultural base of members has shifted to a more urban population, many of whom earn their living through micro- and small-scale business ventures.

If we use the membership statistics provided by FECOAC and San Francisco de Ambato, 30-40 percent of overall credit union membership would represent micro- and small-scale enterprises, with loans corresponding to that figure as well. Using Superintendencia de Bancos statistics, the CU system has 677,000 members (see Table 10), while FECOAC estimates a total of 1.24 million members. Assuming 30-40% of these own small enterprises, approximately 203,000 to 271,000 credit union members have small businesses. Using FECOAC totals, these numbers could be as high as 372,000 to 500,000 small business members.

Credit Union Loan Portfolio

Credit union managers felt that loans to these micro- and small-scale enterprises represented a larger figure than their overall membership numbers. The manager of 8 de Septiembre in Quito stated that although businesses made up 28 percent of the membership, they made up 60 percent of the loans, since their capital needs were greater than the rest of the membership. La Dolorosa, outside of Guayaquil, voiced the same opinion.

The average loan size, according to the statistics in the survey for all organizations visited, was S/.166,000 ($195), with a range of S/.40,000 to S/.637,000 ($47 to $749). With a minimum range of 30-40 percent of the open bond credit union S/.31 billion loan portfolio going for businesses, S/.9 billion to S/.12.4 billion are being lent nationally ($11 to $15 million).[18]

These figures do not reflect the numerous loans made by CUs for personal use, which may also be going toward the cash flow of a business given the inevitable intermingling of funds between family and business use. (See Survey in Annex 4.)

Loan Structure, Application, and Evaluation Process

CUs make loans only to members, which requires an application and the opening of a savings account. None of the CUs surveyed would make loans to an applicant before three months had elapsed, during which time a member was expected to accumulate in savings the minimum amount required as the countervailing balance for a loan. No one could get a loan who had not had the minimum balance in an account for at least one month prior to the loan application.

Although there were variations among CUs, most required from 20-33 percent of the loan amount to remain in a savings account earning interest until the loan was paid. In the case of short-term emergency loans, several CUs required a balance of 100 percent of the loan amount. For loans that involved collateral of land or machinery, balance requirements varied from 10-33 percent; however these loans were not as common among the CUs surveyed as were as the basic unsecured or production loans. Production loans were generally in use for both agricultural and commercial businesses, with credit terms related to the particular industry cycle.

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[18]Superintendencia de Bancos, *Memoria 1989*, p. 622.

All CUs surveyed required at least one, and sometimes two, guarantors, with policies regarding guarantor credit union membership varying among organizations. Given the current law requiring the spouse to sign whenever a married person is involved in a financial transaction, this could mean a range of two to six signatures depending upon the guarantor requirement. There have been two different interpretations of this requirement among CUs surveyed. Some would allow a spouse to fulfill the requirement of one guarantor, making a loan with a total of two signatures. Others, would require two independent guarantors, for a total of six signatures required.

All CUs in the survey stated that they would make a site visit if necessary to verify the status of the business for self-employed people. Most did not perform any kind of financial ratios or require financial documents. They all indicated that it was the responsibility of staff to assist an applicant in filing out required forms and that the very philosophy of CUs implied that members should not be subject to undue demands and bureaucracy.

Once a loan application was complete, no credit union took more than four weeks to process. Several prided themselves on their quick turnover time, moving papers internally to the loan approval committee in under two weeks.

CUs did not charge commissions for processing loans for the most part, with three exceptions. Those that charged fees indicated that they related to government charges.

The maximum loan amount ranged from S/.300,000 to S/.1.0 million ($353 to $1,176) for periods of six months to five years. Interest rates were the same as personal loans.

Other Services

All CUs surveyed offered additional services to their membership other than savings and loans. All the credit union managers surveyed felt that these were important to the membership, although no one had any opinion about the amount these service were used by business members. Medical services, the most popular among organizations surveyed, could be particularly beneficial for those micro- and small-scale businesses who are not able to access the government system. No evaluation was made of the quality and cost of these services.

Other services, including mortuary services, loan insurance to cover debt payments, and to increase the value of savings accounts in cases of death; libraries; stores to purchase basic items at below retail cost; and in the case of Tulcán, a college-orientation program.

In Tulcán, the CUs meet regularly to discuss common issues. They have had preliminary discussions on coordinating services as a way to lower costs and improve services.

Organizational Culture

CUs are unique in their attitude. Contrary to many traditional financial institutions, they generally look for reasons to make loans to members, putting the burden of proof on showing that someone is not a good credit risk, rather than the more difficult task of proving honesty.

Easy access is provided to membership services. Cooperatives have the ability to relate to low income people, many of whom are uncomfortable in traditional institutions and therefore are not served by the banking community.

In their role of helping people, CUs are one of the few institutions where people are encouraged to learn and grow. This extends to the areas of both financial management and leadership. Financial management skills are very useful to people who are trying to improve their conditions with scarce resources and know-how. For self-employed people, this is even more critical since family and business finances are usually merged and the ability to manage cash flow is essential to the stability and economic growth of both units.

Loan Delinquency and Collection

Historically, it has been thought that CUs have low rates of delinquency but, unfortunately, no data have been available to confirm this. However, since CUs use the values of the cooperative system to reinforce member compliance, most people comply with their obligations, not wishing to damage their personal standing in the community. However, late payments are common.

This study was unable to undertake an analysis of loan delinquency. However, given the below-market rates of credit union loans and the people-oriented philosophy of CUs, it is probably not uncommon for business people to delay payments when cash flow is an issue, or when they perceive a lucrative market opportunity.

Government and International Programs

CONAUPE

CONAUPE was recently established by the Government of Ecuador to provide financing to small businesses. It acts as an intermediary, and uses the Central Bank as a mechanism to distribute funds. If a financial institution participates in the program, it has to agree to charge the established rate, which is fixed at below the market. The organization also has to accept the five-point spread to cover administrative costs, which is the maximum allowed at the current time.

CONAUPE is very interested in working with CUs. It held a preliminary meeting with almost 30 organizations to assess interest in their program. Many of these CUs have loan policies with interest rates below that established by CONAUPE. Of these, several expressed opinions that they would be glad to equalize rates if they could participate. Others would offer a dual interest rate structure, establishing internal criteria for loan access. There is also a group that would not accept the money unless it was further subsidized.

Given the five-point spread to cover administrative costs, it would appear that CUs could not meet their expenses. However, of those interested in the program, several expressed the opinion that their overhead costs were fixed to a certain degree, and they can easily handle more capital. Of the 15 CUs surveyed, 6 had stated interest rates above the 39 percent currently being charged by CONAUPE.

Eight had effective nominal rates above 39 percent when the additional costs of required savings deposits earning minimum interest rates are calculated.

El Plan de Padrino

Based in Guayaquil, El Plan de Padrino is a program affiliated with El Plan Internacional. They are working with small businesses providing technical assistance and resources. La Dolorosa, a credit union based in Durán with offices also in Guayaquil, was working with El Plan de Padrino, administering its loan portfolio. Under the arrangement, El Plan de Padrino enrolls new members in the credit union, who then have access to a special line of funds that are deposited at the credit union by the foundation specifically for these loans. The credit union is very pleased with the situation since it increases its membership and asset base, they receive a management fee; and there are few transaction costs. They are required to monitor the loans, and if, after following their regular procedures, they experience a loss, they would not be required to return that capital at the end of the program.

CONSTRAINTS TO MICRO- AND SMALL-SCALE ENTERPRISE LENDING

Various factors impede additional micro- and small-scale enterprise lending by CUs. Several of these problems need to be addressed by amendments to the national law; others can be resolved through organizational and system changes.

Business Financial Services

CUs are restricted under the current interpretation of the law regarding member services. More sophisticated transactions, especially important as a business grows from its initial stages to a more established enterprise, are only available from other financial institutions. These transactions include:

- Checking accounts
- Credit cards
- Letters of credit
- Factoring and/or leasing
- Guarantees

As a credit union member is successful in a business endeavor, the lack of these services may necessitate the use of banking services. This deprives the credit union of a valued member and the capital now being generated by the member's business. Alternatives would be for CUs to be allowed to provide these services, or to be able to work with certain banks in a joint arrangement, beneficial to both financial institutions as well as to the business.

Central Liquidity Fund

There is no institution that CUs in Ecuador can approach to obtain additional capital to meet seasonal demand, deposit excess cash and reserves to obtain short-term earnings, sell off loans to obtain additional liquidity, or coordinate government and international monies targeted for micro-enterprises loans.

The idea of a *caja central* has been discussed within FECOAC and is part of the organizational plans being advanced to its membership. A *caja central* needs to be properly developed and implemented, establishing confidence and respect among CUs, financial institutions, government organizations and international foundations.

CONAUPE

The monies currently being designated by the government for use in the IDB-financed program through CONAUPE are not available to CUs since they lack access to the Central Bank. This needs to be addressed on a regulatory level, since the Superintendencia de Bancos has verified credit union eligibility for those open bond institutions under their supervision. Apparently CONAUPE has begun to explore ways to utilize CUs as financial intermediaries.

Overall Problems in the Credit Union System

As listed in above, issues exist that affect the ability of the credit union system as a whole to operate. These issues need to be addressed for overall system improvement.

With better-educated leadership in the system, and additional capital available overall, services to the micro- and small-scale enterprises that comprise current and future membership will improve. This could take the form of larger loans, that are necessitated by the inflationary environment, as well as business growth.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

With more than S/.30 billion ($35.8 million) in savings, CUs represent almost 6 percent of total private-sector financial assets in the Ecuador. The total loan portfolio ranges from a conservative estimate of S/.31 billion to FECOAC's more optimistic estimate of S/.53 billion. A minimum of 30 percent of the total amount of outstanding loans — S/.9.3 billion to S/.15.9 billion, or $10.9 to $18.8 million — has been loaned to micro- and small-scale enterprises. Data generated in this study indicates that a much higher percentage (as high as 50 percent) of the loans in the system are business loans ($18.2 to $31.2 million).

Unlike other programs of assistance to micro- and small-scale enterprises, credit union capital has all been generated through domestic capital formation. It represents the capital accumulation of the estimated 677,000 to more than 1.2 million people who belong to cooperatives, representing a predominantly lower-class constituency. Furthermore, the CUs are self-financing, without external subsidies or operating support. Thus the funds available to small-scale enterprises do not represent increases in foreign debt obligations or drains on government resources.

CUs are involved in business lending because their members are involved in small-scale enterprises and are borrowing for that purpose. CUs have the ability to continue reaching this population, at significantly less cost than most other program alternatives. Organizationally, their strength is in making smaller loans to many people. Given their low delinquency rates, cooperatives have a comparative advantage relative to other financial institutions in serving small, developing businesses. With the organization of CACPEs throughout the country, the ability to focus on the needs of small enterprises will only increase.

Even with the recent closing of San Francisco de Asis, the country's largest credit union, the credit union system is and will continue to be the largest source of financing for micro- and small-scale enterprises in Ecuador. However, there are critical issues that need to be addressed if the credit union movement is to move to a healthier state of existence. Most important among these are inadequate savings mobilization policies, unrealistic interest rate policies, absence of a growth and service mentality, and weak internal controls. The credit union system cannot serve the needs of its members under the current set of operating practices.

Recommendations

1. Institutional Strengthening of the Credit Union Movement

FECOAC

FECOAC needs to be supported in its attempts to design and implements changes that address the major problems and weaknesses within the current system. FECOAC is in the process of a major restructuring, which is only at the conceptual stage. It has yet to be approved by members, and the actual implementation details have yet to be prepared.

The plan that has been proposed outlines a new system to be put in place at the beginning of 1991. It will address the issues of auditing, education and technical assistance, political advocacy, and statistical information. Within this new organizational structure, FECOAC will be a holding company, with various subsidiaries administering programs through their own management and board. This will permit a clear separation of funds and accountability, a current problem area in the system. The German-supported organization, the Confederación de Cooperativas de Alemania Federal (CONCAF), has expressed its interest in working with the auditing division. As yet, the other divisions have not been designed or funded.

The proposed structure also calls for a *caja central* to facilitate internal capital transfer and act as a conduit to targeted GOE programs and other outside funds. Earnings generated could be used to finance the services of other FECOAC divisions, or to create capitalization programs for targeted projects. This could include micro-enterprise development, 5-10 year capitalization loans to rapidly expanding CUs, operating subsidies to CUs seeking to upgrade management staff, and other ideas.

Open and Closed Bond Credit Unions

Although this study has only focused on the open bond CUs, there is a need to identify all CUs working with enterprise development. Numerous closed bond CUs also provide services to small businesses, and there is much growth potential. The system needs to document its current work, and build support services for all cooperatives.

Training

CUs need to be assisted as they strive to improve their management, operations, and services. There are several models already developing within the country. These organizational leaders need to be identified, documented, encouraged, and replicated. Training opportunities should be designed to assist others in understanding and implementing the strategies being used by these exemplary organizations.

Education is needed at all levels of the system — for credit union board and committee members, managers, staff, and members. This includes leader CUs and CACPES, as well as all CUs who are interested in participating in the growth of their community. The focus of the technical assistance should be on both organizational development, micro-enterprise lending, cooperativism and general financial and management principles. Types of courses could include:

- Basics of leadership; skills for credit union board members;
- Economics of inflation: how to stop the decapitalization of credit unions and the Ecuadorian financial system;
- Costs and benefits of member services;
- Marketing: how to reach new members and increase profitability;
- Making money for CUs: how to price services;
- Micro-enterprise lending: how to help small businesses while making sound loans;

2. Improved Communication, Referrals, Networking, and Sharing of Resources

Within the Credit Union Movement

Discussion within the credit union movement is needed — between individual cooperatives, the national federation FECOAC, and the Latin American confederation COLAC, as well as between credit union groups and other public and private organizations. This is particularly important as systems change and evolve. People need to understand the benefits and problems of different strategies. This is critical to the successful evolution of all enterprises.

Between Credit Union Organizations and Micro-enterprise Support Organizations

In the micro-enterprise area, improved communication between technical-service providers, capitalization programs, industry support groups, individual CUs, and national and regional credit union support groups will lead to better services and additional financing for small businesses. These networks can build and maintain the links which facilitate the resources critical to success, providing an exchange of information about new market opportunities and regulations. CUs can develop new and improved services based on their increased understanding of the needs of the market.

With the current financial situation of Ecuador, it is even more important that the economic analysis being done by the government and funding organizations is communicated to credit union managers and staff. They need to understand the impact of inflation, and devise strategies appropriate to the market situation.

3. Additional Research and Policy Dialogue on Micro- and Small-scale Enterprise Development

Additional research and policy dialogue is needed as there is little consensus among providers of micro-enterprise services. When asked, most small businesses will state that their major problem is financing. However, experts in the field know that lack of capital or cash is often a symptom of much deeper problems.

The key to successful business ventures is based on a variety of factors. The most important hypotheses, as suggested by the research in the field,includes:[19]

- A strong market opportunity;
- Strong management team;
- Ability to generate adequate financing;

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[19]Brody, Weiser, Rose, *The Use of Business Ventures to Pursue Social Goals: Initial Hypotheses and Recommendations*, pp. 17-19.

- Ability to attract and retain skilled and committed workforce; and

- Potential for appropriate scale of operations;

Ventures that meet these five conditions are more likely to succeed than those that do not. If we look at social purpose business ventures, where the definition includes those organizations who are seeking to create social good through the daily operations of the venture, then several other issues come into place. These include:[20]

- Ability to exploit government intervention in the marketplace;

- Strategies to remedy social restrictions such as sexism, racism, and religious beliefs while creating a new business opportunities; and

- Resources from multiple sectors including government, nonprofit and the market. This includes traditional financing sources, foundation technical assistance, and government or credit union below-market rate monies.

To encourage micro- and small-scale enterprise development, a wide array of strategies may be needed, depending upon sector, stage of business development, current geographic resources, and educational levels of the entrepreneurs to name just a few of the factors. Programs seeking to intervene in market conditions already established need to dialogue with those organizations which already serving this constituency in a very meaningful way. Services which are developed need to build on the strengths of the current system, while addressing the current weaknesses.

4. Improvements in the Savings and Credit System

Historically, Ecuadorian CUs have been able to generate their own capital base from members, and have not required outside financing. This strength is being eroded by the current inflationary environment, and the lack of realistic interest rate policies by CUs. Current rates are set for the most part based on the desire of the institution to help their members through interest subsidies. There is no incentive for people to save other than to have the necessary deposit to obtain a loan. Many CUs are encouraging their members to purchase assets rather than save since it is the only way to maintain relative financial value.

CUs should adjust to market rate interest structures. The challenge will be to work with cooperatives in a process that allows them to move to market rates while developing marketing strategies and an educational process to maintain and increase their membership.

Any developed program needs to work with CUs that are fully committed to becoming fiscally sound; are well managed, market-rate financial institutions while continuing to serve their grassroots constituency; and are making a large volume of small loans to people who are not served by mainstream institutions. To help stop the decline that is due to old loans at below market rates, a

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[20]*Ibid.*, pp. 19-22.

possible incentive would be to offer a one-time secondary market (a buy-out) of current loans that are causing the true value of credit union assets to decline. This could be made available to those CUs who were willing to establish a market interest rates, as well as variable rates for loans.

5. Program Assistance to the Credit Union System

External assistance can significantly improve the performance of the credit union system in the field of micro- and small-scale enterprise lending. Funding, however, is not the issue, and no program of assistance to CUs should provide external capital resources. The long-term strength of the credit union system depends on its ability to adopt realistic policies — both for savings mobilization and for lending. External capital, especially when subsidized, distorts any efforts at internal reform. Any program of assistance should include:

- An in-depth financial assessment and operational audit of CUs. This should examine delinquency reporting and controls (including de facto policies for loan roll-overs), interest rate policies, lending policies, and savings mobilization policies;

- Strict participation criteria. Only CUs that show a strong commitment to growth and service, and that undertake meaningful reforms in the areas of interest rates and delinquency control should be included in any program;

- Management training. Developing professional staff capabilities in the areas of financial institution management, portfolio management, new-service development and operations should be a high priority of any program assistance to CUs;

- Systems and procedures. Assistance should also focus on developing appropriate internal systems and procedures for managing portfolios, liquidity and delinquency. These could include the development or modification of financial institution software to manage operations and provide needed management information; and

- Central liquidity facility. Developing a central liquidity facility would help the credit union system manage liquidity in the system.

Program assistance should not focus on FECOAC as an institution. At best, FECOAC could be included as a participant in any development program, but until significant changes are made in the internal political control and operation of FECOAC, resources applied to developing FECOAC would be wasted.

ANNEX 1

METHODOLOGY

This report presents the findings of an on-site investigation of credit unions (CUs) in Ecuador and, more specifically, those open bond cooperatives that are currently under the regulatory supervision of the Superintendencia de Bancos. In the four weeks spent in Ecuador, 16 CUs were surveyed. These organizations included some of the largest currently in operation, as well as several that were quite recently formed.

Information on CUs and their activities was obtained through a variety of sources, including:

- Literature review at WOCCU headquarters in Madison, Wisconsin; AID library facilities; DAI Ecuador resources; and documents available within Ecuador, including prior studies assessing individual cooperatives, the national credit union system, and the overall financial market within Ecuador. Hernan Peña. the COLAC representative to Ecuador, has performed the most comprehensive analysis of the system. Numerous documents from his consulting organization, INSERFINSA, were used;

- A field study, which employed a survey questionnaire and interviews with 16 "open bond" CUs in five cities in Ecuador (Quito, Guayaquil, Ambato, Tulcán, and Babahoyo);

- Meetings in Quito with representatives of the major national organizations involved with CUs, including:

  - FECOAC, the national membership organization,
  - Latin American Confederation (COLAC) representative,
  - CONCAF staff, an organization funded through the DGRV, a German credit union assistance group,
  - Coopseguros, an insurance company providing services to CUs,
  - Fundación de Desarrollo Cooperativo, an organization developing cooperatives in rural areas,
  - FENAPI, the National Association of Small Industry Associations, who have been active in the formation of the CACPES,
  - Superintendencia de Bancos, the current regulators of open bond CUs,
  - CONAUPE, a government program offering below market rate interest monies for micro-enterprise loans to participating institutions,
  - The General Subsecretary of Public Administration to the President of Ecuador, and

- Informal discussions with micro- and small-scale entrepreneurs who had received credit union loans, were enrolled in an INSOTEC training program, or were randomly selected in local encounters with street and marketplace vendors, foodstands, tailors, small workshops, and artisans.

The study also included discussions with USAID/Ecuador staff, including Robert Kramer, Mike Deal, Maruska de Burbano, Re[illegible]an Larea, and Eduardo Fuentes.

Technical and managerial support was provided by Luis Acosta of FECOAC and Eliana Pozo of INSOTEC.

Field Study

The field study was designed to allow for meetings with individual credit union managers, representatives of national organizations, and several people who had applied for loans for their business from a credit union.

For credit union managers a questionnaire was developed to use as a tool in gathering data, and obtaining opinions, views, and analysis of each individual organizations as well as the national credit union system. Although meetings and dialogue were focused on obtaining qualitative and quantitative information, it is the nature of any intervention that changes will occur in the system being studied. All interviews solicited comments on the changes that people would like to see at the local, national, and international level.

In addition to the formal questionnaire, individual CUs provided financial statements for years 1987-1989 and the first half of 1990. When available, brochures, marketing materials, and annual reports were also obtained.

Sample Design

Credit Unions

To identify the CUs for participation in a study interview, an initial assessment was made through national organizations to determine location, schedule and status of individual cooperatives. An analysis of the official data on CUs also showed a heavy concentration of organizations within the Sierra, with 79.1 percent of total national assets. The remaining 20.9 percent of open bond cooperative assets to be found in the coastal provinces.[21]

CUs selected for the survey were in four regions of the country. These regions included the provinces of Pinchincha (Quito), Guayas (Guayaguil), Tungurahua (Ambato), and Carchi (Tulcán). An additional credit union in Los Ríos (Babahoyo) was added given it's proximity to Guayaquil.

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[21]*Memoria 1989*, p. 595.

Seven of the 11 largest CUs by asset size and membership were included. These 11 CUs make up 66 percent of national membership of open bond CUs, and 72 percent of system assets.[22] Given the overall influence they have on the national credit union movement, the study would be unrepresentative of the movement not to have examined a majority of them. To understand how stages of growth and organizational scale can impact on individual organizations, an effort was made to include several of the smaller CUs including several which were recently formed.

Given the economic situation of the country, an effort was made to identify those CUs whose interest rate policies are near market levels to examine if they were better able to handle the inflationary environment, and represented stronger financial health. These contrast with several other CUs visited which were under close monitoring by the Superintendencia de Bancos for their financial activities.

Included in the study sample are two of the CACPES currently in operation. These CUs were started in recent years to specifically attend to the financial needs of small businesses. Unfortunately, the data for most CACPES are unavailable since they have been organized as closed bond CUs.

Micro-enterprises

Micro- and small-scale enterprises were selected from three sources:

1. Self-employed people identified as credit union loan recipients, or in the process of applying for a loan;

2. People participating in a pre-loan training program sponsored by INSOTEC; and

3. Random selection of street and marketplace vendors, foodstands, tailors, small workshops, and artisans who were interested in conversing for a brief time on their business situation.

For the most people, these interviews were much more informal, with interviewees selected among people who happened to be, or work close by a particular credit union, or section of town being visited.

Survey Questionnaire

Credit Unions

A questionnaire was developed to use in interviews with CU managers and other staff, included as Annex C following. The survey requested information in the following areas:

- General data including current statistics, size of membership, membership demographics, asset base, current size of loan portfolio, and relationship with micro businesses;

[22] *Ibid.*, pp. 598-599.

- Administration including information about the organizational structure, personnel, salaries, and branch offices;
- Financial systems and management, delinquency control, and loan-collection efforts;
- Policies, rules, and procedures;
- Analysis of savings, loans, and other services offered to members;
- Discussion of external relations with public, private, and nonprofit organizations at the local, national, and international levels;
- Special programs and ways of working with micro- and small-scale businesses; and
- Problems, issues, and strengths of the CU, and Ecuadorian system.

Interviewing

Credit Unions

All interviews were conducted at the credit union offices, with the manager. In several cases, the next senior person and/or board president was also included in the meeting, or substituted for the manager if not available.

Most appointments were set up through FECOAC, or the offices of INSOTEC. In numerous instances, FECOAC provided transportation, as well as an introduction to credit union staff.

Micro-enterprises

No formal documents were developed to solicit responses from these three groups of participants. Interviews were held for periods of 15 minutes to an hour, while traveling to or visiting a particular region.

National and Public Sector Organizations

Meetings were scheduled for several hours, and in various cases a second meeting was added.

ANNEX 2

SURVEY 1990

Cooperativa ______________________

ECUADOR Lugar______________Población_________

MARTHA ROSE Fecha__________

ENCUESTA A COOPERATIVAS DE AHORRO Y CREDITO

1. DATOS GENERALES

1.1 Tipo: Abierta______ Cerrada__________
1.2 Vínculo:__________________________
1.3 No. Socios________ Prestatarios ________
1.4 No. Socios Empresarios_____Prestatarios Empresarios ________
1.5 Fecha de inició programa microempresario ________________
1.6 Horario ____________ 1.7 Afiliación __________

2. ADMINISTRACION

2.1 Gerente:
Años en puesto____________ Grado académico___________
2.2 Organigrama actualizado______ Adjunto________________
2.3 No. de oficinas, sucursales y agencias_________________
2.4 Personal:
No. de tiempo completo_____ Parcial_____ Total_______
Salario anual bruto promedio____________

2.5 Sistemas Financieros:
2.51 Contabilidad: Manual____ Mecanizado____ Cómputo_____
2.52 Cómputo: Marca_______ Vendedor________________
Programación por__________________________
2.531 Presupuesto anual:_______
2.532 Control mensual:_________
2.533 Flujo de caja anual:______
2.534 Control mensual:_________
2.535 Análisis de margen/"spread": Mensual:_____ Anual_____
2.54 Control de morosidad: Diario:______ Mensual___ Otro_______
2.541 No. préstamos morosos________ 2.542 Monto___________
2.543 No. préstamos morosos empresarios______ 2.544 Monto_______

2.545 Causas____
2.546 Definición: Cuotas morosas___ Cartera afectada____
2.547 Cuando se elimina los préstamos morosos de los libros?
2.55 Cobranza:_______ Por personal______ Terceros______
Vía judicial_____ No. en juicio_____
Medidas especializaoas________________________________
2.56 Auditoría y control practicado por:
Auditor interno______ Consejo de Vigilancia______
Auditor externo_________ Otro_________________

2.6 Políticas, Reglamentos y Procedimientos Escritos:
Manual de operaciones______ Manual de políticas_______
Descripción de funciones para empleados_____________
______ Política de crédito______ Política de inversiones_____
Política de ahorro y capitalización____________________
Política de liquidez________________________________
Política de formación de reservas_________________
Política de formación de provisiones_______________
Política de precios (tasas de interés)______________

3. SERVICIOS:

3.1 Ahorro y aportaciones:
Tipo de cuenta Tasa F/V Plazo No. Cuentas.

Tipo/destino Tasa F/V Coms Max/Min Plazo Pago Garantía No.Ctas

3.3 Cuánto tiempo toma para procesar un préstamo?

3.4 Cuáles son los requisitos de membresía para obtener un préstamo?

3.5 Cuáles son los balances de ahorros que hay que mantener por un préstamo?

3.6 Cuándo se puede refinanciar?

3.7 Otros servicios financieros:

3.8 Cómo determinan los precios/tasas de interés:

4. RELACIONES EXTERNAS

4.1 FECOAC: Afiliada_________ Cotización al día______ Rel. buenas______
Representación_______ _______ Cargo__ _____________________
Observaciones:

4.2. Banco de Cooperativas: Afiliada_____ Capital al día _____
Monto de Capital__________ Rel. buenas____
Representación__________ Cargo________________________
Observaciones:

4.3 Sector financiero: tipo de relaciones__________________
Observaciones:

4.4 Gobierno: Tipo de relaciones______________________
Observaciones:

4.5 Agencias internacionales: Tipo relaciones______________
Observaciones:

4.6 DORV-CONCAF: Tipo de relaciones_____________________
Observaciones:

5. PROBLEMAS DE LA COOPERATIVA

6. PUNTOS FUERTES DE LA COOPERATIVA

7. OTROS SERVICIOS

8. SERVICIOS AL MICROEMPRESARIO

8.1 Tipos de servicio ofrecido:
Financiamiento:____
Otros: ___________________________________

8.2 Administración:
Departamento especializado:____ No. de oficinas______
No. personal______ Gerente_____ Años en el puesto________
Manual de operaciones especializadas____________________
Manual de políticas especializadas______________________

8.3 Supervigilancia interna de créditos________ Por________

8.4 Créditos aprobados por:______________________________

8.5 Criterios para análisis crediticio:
Relaciones financieras del prestatario:
Cuota mensual al ingreso mensual_______ Valores____________
Amortización mensual global de deudas al ingreso mensual:________
Valores_____________________
Valor total del préstamo al valor total de la empresa:________
Valores_____________________
Otras:____

8.6 Especificación de documentos anexos requeridos:_______________
Verificación requerida por escrito de: Empleo____
Obligaciones a____________________
terceros_______ activos personales_______ Ingreso familiar________
Avalúo certificado requerido___________________________

8.7 Garantías requeridas_______________________________

8.8 Otros requisitos_________________________________

8.9 Qué competencia tiene la cooperativa:____________________

8.10 Fuentes de financiamiento para los servicios:________________

ANNEX 3
CREDIT UNION FINANCIAL ANALYSIS SUMMARY STATISTICS

8 DE SETIEMBRE
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	85,698	194,089		160,683	126%			74,985	87%
Activo exigible	387,378	344,420		856,981	-11%			469,603	121%
Inversiones		163,788		508,076				508,076	
Activos fijos y otros activos	114,604	132,391		225,733	16%			111,129	97%
TOTAL ACTIVO	587,680	834,688	0	1,751,473	42%			1,163,793	198%
PASIVO									
Depositos de ahorro	502,780	698,236		1,337,457	39%			834,677	166%
Otros depositos	23,784	40,779		115,613					
Otros pasivos	25,514	41,140		171,176	61%			145,662	571%
TOTAL PASIVO	552,078	780,155	0	1,624,246	41%			1,072,168	194%
CAPITAL SOCIAL									
Certificados de aportacion	23,602	32,181		52,702	36%			29,100	123%
Reservas	6,772	6,817		34,877	1%			28,105	415%
Excedentes y/o perdida	5,228	15,535		39,648	197%			34,420	658%
TOTAL CAPITAL SOCIAL	35,602	54,533	0	127,227	53%			91,625	257%
ACTIVO-PASIVO	35,602	54,533	0	127,227					

8 DE SETIEMBRE
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	50,807	61,965	0	27,336	22%			(23,471)	-46%
Activo exigible	229,663	109,959	0	145,794	-52%			(83,869)	-37%
Inversiones	0	52,291	0	86,437				86,437	
Activos fijos y otros activos	67,945	42,267	0	38,403	-38%			(29,542)	-43%
TOTAL ACTIVO	348,415	266,482	0	297,970	-24%			(50,445)	-14%
PASIVO									
Depositos de ahorro	298,081	222,918	0	227,535	-25%			(70,545)	-2[illegible]%
TOTAL PASIVO	327,308	249,072	0	276,325	-24%			(50,982)	-16%
CAPITAL SOCIAL									
Certificados de aportacion	13,993	10,274	0	8,966	-27%			(5,027)	-36%
TOTAL CAPITAL SOCIAL	21,107	17,410	0	21,645	-18%			537	3%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR	1.69	3.13	4.83	5.88					

8 DE SETIEMBRE
(000) SUCRES--ADJUSTED BY CPI TO 1980 VALUES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
TOTAL ACTIVO	82,308	62,948	0	70,397	-24%			(11,911)	-14%
TOTAL PASIVO	77,322	58,835	0	65,283	-24%			(12,039)	-16%
TOTAL CAPITAL SOCIAL	4,986	4,113	0	5,114	-18%			127	3%
CPI(1980 BASE YEAR =1.00)	7.14	13.26	20.45	24.88					

ANDALUCIA
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	31,296	25,964	25,713	27,436	-17%	-1%	7%	(3,860)	-12%
Activo exigible	51,747	586,942	828,765	967,341	1034%	41%	17%	915,594	1769%
Inversiones	0	0	34,825	132,922	0%	0%	282%	132,922	
Activos fijos y otros activos	427,748	171,953	194,902	196,332	-60%	13%	1%	(231,416)	-54%
TOTAL ACTIVO	510,791	784,859	1,084,205	1,324,031	54%	38%	22%	813,240	159%
PASIVO									
Depositos de ahorro	353,097	558,161	760,852	929,676	58%	36%	22%	576,579	163%
Otros depositos	5,721	1,851	7,662	7,917					
Otros pasivos	15,114	23,083	44,503	76,199	53%	93%	71%	61,085	404%
TOTAL PASIVO	373,932	583,095	813,017	1,013,792	56%	39%	25%	639,860	171%
CAPITAL SOCIAL									
Certificados de aportacion	99,393	149,094	192,193	216,267	50%	29%	13%	116,874	118%
Reservas	13,755	26,432	45,780	58,221	92%	73%	27%	44,466	323%
Excedentes y/o perdida	23,711	26,238	33,215	35,751	11%	27%	8%	12,040	51%
TOTAL CAPITAL SOCIAL	136,859	201,764	271,188	310,239	47%	34%	14%	173,380	127%
ACTIVO-PASIVO	136,859	201,764	271,188	310,239					

ANDALUCIA
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	18,554	8,289	5,324	4,668	-55%	-36%	-12%	(13,887)	-75%
Activo exigible	30,679	187,387	171,590	164,569	511%	-8%	-4%	133,890	436%
Inversiones	0	0	7,210	22,613	0%		214%	22,613	ERR
Activos fijos y otros activos	253,597	54,898	40,353	33,401	-78%	-26%	-17%	(220,196)	-87%
TOTAL ACTIVO	302,830	250,574	224,476	225,251	-17%	-10%	0.35%	(77,579)	-26%
PASIVO									
Depositos de ahorro	209,339	178,198	157,529	158,161	-15%	-12%	0%	(51,177)	-24%
TOTAL PASIVO	221,691	186,159	168,329	172,472	-16%	-10%	2%	(49,219)	-22%
CAPITAL SOCIAL									
Certificados de aportacion	58,927	47,600	39,792	36,792	-19%	-16%	-8%	(22,134)	-38%
TOTAL CAPITAL SOCIAL	81,139	64,415	56,147	52,779	-21%	-13%	-6%	(28,359)	-35%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR	1.69	3.13	4.83	5.88					

CARCHI
(000) SUCRES--REAL VALUES

ACTIVO	DEC 31, 1988	DEC 31, 1989	JULY 31, 1990	% CHG 88-89	% CHG 89-90	88-90	% CHG 88-90
Fondos disponibles	5,757	6,113	12,898	6%	111%	7,141	124%
Activo exigible	291,783	360,987	362,496	24%	0%	70,713	24%
Inversiones	31,356	8,706	15,603	-72%	79%	(15,753)	-50%
Activos fijos y otros activos	69,996	97,153	114,649	39%	18%	44,653	64%
TOTAL ACTIVO	398,892	472,958	505,645	19%	7%	106,754	27%
PASIVO							
Depositos de ahorro	248,009	267,283	307,918	8%	15%	59,909	24%
Otros depositos							
Otros pasivos	52,255	78,357	36,489	50%	-53%	(15,766)	-30%
TOTAL PASIVO	300,264	345,640	344,406	15%	0%	44,142	15%
CAPITAL SOCIAL							
Certificados de aportacion	83,647	111,473	137,038	33%	23%	53,391	64%
Reservas	13,095	10,640	13,323	-19%	25%	229	2%
Excedentes y/o perdida	1,886	5,205	10,877	176%	109%	8,992	477%
TOTAL CAPITAL SOCIAL	98,628	127,318	161,239	29%	27%	62,611	63%
ACTIVO-PASIVO	98,628	127,319	161,239			62,611	

CARCHI
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1988	DEC 31, 1989	JULY 31, 1990	% CHG 88-89	% CHG 89-90	88-90	% CHG 88-90
ACTIVO							
Fondos disponibles	2,435	1,677	2,907	-31%	73%	472	19%
Activo exigible	123,430	99,030	81,712	-20%	-17%	(41,717)	-34%
Inversiones	13,264	2,388	3,517	-82%	47%	(9,747)	-73%
Activos fijos y otros activos	29,610	26,652	25,844	-10%	-3%	(3,766)	-13%
TOTAL ACTIVO	168,739	129,747	113,981	-23%	-12%	(54,758)	-32%
PASIVO							
Depositos de ahorro	104,912	73,324	69,410	-30%	-5%	(35,503)	-34%
TOTAL PASIVO	127,017	94,820	77,635	-25%	-18%	(49,383)	-39%
CAPITAL SOCIAL							
Certificados de aportacion	35,384	30,581	30,891	-14%	1%	(4,494)	-13%
TOTAL CAPITAL SOCIAL	41,721	34,927	36,346	-16%	4%	(5,375)	-13%
INFLATION RATE	85.7%	54.2%	21.7%				
INFLATION FACTOR	2.36	3.65	4.44				

CARCHI
(000) SUCRES--ADJUSTED BY CPI

	DEC 31, 1988	DEC 31, 1989	JULY 31, 1990	% CHG 88-89	% CHG 89-90	88-90	% CHG 88-90
TOTAL ACTIVO	45,277	34,815	24,814	-23%	-29%	(20,463)	-45%
TOTAL PASIVO	34,082	25,443	16,901	-25%	-34%	(17,181)	-50%
TOTAL CAPITAL SOCIAL	11,195	9,372	7,913	-16%	-16%	(3,282)	-29%
CPI(1980 BASE YEAR =1.00)	8.81	13.59	20.38				

LA DOLOROSA
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	15,212	80,431	10,039	64,000	429%	-88%	538%	48,788	321%
Activo exigible	380,180	483,156	637,340	679,002	27%	32%	7%	298,822	79%
Inversiones	9,106	11,224	123,244	190,152	23%	998%	54%	181,046	1988%
Activos fijos y otros activos	33,089	36,826	39,794	86,081	11%	8%	116%	52,992	160%
TOTAL ACTIVO	437,587	611,637	810,417	1,019,235	40%	32%	26%	581,648	133%
PASIVO									
Depositos de ahorro	326,485	416,134	518,133	581,013	27%	25%	12%	254,528	78%
Otros depositos	361	5,224	457	472					
Otros pasivos	33,416	92,305	205,036	325,186	176%	122%	59%	291,770	873%
TOTAL PASIVO	360,262	513,663	723,626	906,671	43%	41%	25%	546,409	152%
CAPITAL SOCIAL									
Certificados de aportacion	40,893	49,940	55,626	58,547	22%	11%	5%	17,654	43%
Reservas	11,642	15,128	21,718	28,331	30%	44%	30%	16,689	143%
Excedentes y/o perdida	24,790	32,906	9,447	25,686	33%	-71%	172%	896	4%
TOTAL CAPITAL SOCIAL	77,325	97,974	86,791	112,564	27%	-11%	30%	35,239	46%
ACTIVO-PASIVO	77,325	97,974	86,791	112,564					

LA DOLOROSA
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	9,019	25,678	2,078	10,888	185%	-92%	424%	1,869	21%
Activo exigible	225,395	154,252	131,956	115,515	-32%	-14%	-12%	(109,880)	-49%
Inversiones	5,399	3,583	25,517	32,350	-34%	612%	27%	26,951	499%
Activos fijos y otros activos	19,617	11,757	8,239	14,645	-40%	-30%	78%	(4,973)	-25%
TOTAL ACTIVO	259,430	195,271	167,791	173,398	-25%	-14%	3%	(86,032)	-33%
PASIVO									
Depositos de ahorro	193,561	132,855	107,276	98,845	-31%	-19%	-8%	(94,716)	-49%
TOTAL PASIVO	213,587	163,992	149,821	154,248	-23%	-9%	3%	(59,339)	-28%
CAPITAL SOCIAL									
Certificados de aportacion	24,244	15,944	11,517	9,960	-34%	-28%	-14%	(14,284)	-59%
TOTAL CAPITAL SOCIAL	45,843	31,279	17,969	19,150	-32%	-43%	7%	(26,693)	-58%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR	1.69	3.13	4.83	5.88					

LA DOLOROSA
(000) SUCRES--ADJUSTED BY CPI TO 1980 VALUES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
TOTAL ACTIVO	61,287	46,126	39,635	40,966	-25%	-14%	3%	(2[illegible],321)	-33%
TOTAL PASIVO	50,457	38,738	35,390	36,442	-23%	-9%	3%	(14,015)	-28%
TOTAL CAPITAL SOCIAL	10,830	7,389	4,245	4,524	-32%	-43%	7%	(6,306)	-58%
CPI(1980 BASE YEAR =1.00)	7.[illegible]4	13.26	20.45	24.88					

EL SAGRARIO LTDA.
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	17,047	37,128	80,589	147,694	118%	117%	83%	130,647	766%
Activo exigible	1,183,233	1,353,731	1,335,782	1,363,420	14%	-1%	2%	180,187	15%
Inversiones			10,000	228,717			2187%	228,717	
Activos fijos y otros activos	266,111	151,709	475,725	212,206	-43%	214%	-55%	(53,905)	-20%
TOTAL ACTIVO	1,466,391	1,542,568	1,902,096	1,952,037	5%	23%	3%	485,646	33%
PASIVO									
Depositos de ahorro	1,124,710	1,232,041	1,306,178	1,545,666	10%	6%	18%	420,956	37%
Otros depositos									
Otros pasivos	217,165	158,485	140,230	188,482	-27%	-12%	34%	(28,683)	-13%
TOTAL PASIVO	1,341,875	1,390,526	1,446,408	1,734,[illegible]	4%	4%	20%	392,273	29%
CAPITAL SOCIAL									
Certificados de aportacion	94,253	112,860	128,333	140,938	20%	14%	10%	46,685	50%
Reservas	9,400	11,079	11,080	18,200	18%	0%	64%	8,800	94%
Excedentes y/o perdida	20,863	28,103	316,275	58,751	35%	1025%	-81%	37,888	182%
TOTAL CAPITAL SOCIAL	124,516	152,042	455,688	217,890	22%	200%	-52%	93,374	75%
ACTIVO-PASIVO	124,516	152,042	455,688	217,890					

EL SAGRARIO LTDA.
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	10,107	11,853	16,685	25,126	17%	41%	51%	15,020	149%
Activo exigible	701,497	432,191	276,564	231,952	-38%	-36%	-16%	(469,545)	-67%
Inversiones	0	0	2,070	38,911	0%	207042%	1779%	38,911	ERR
Activos fijos y otros activos	157,768	48,435	98,495	36,102	-69%	103%	-63%	(121,666)	-77%
TOTAL ACTIVO	869,372	492,479	393,815	332,091	-43%	-20%	-16%	(537,281)	-62%
PASIVO									
Depositos de ahorro	666,801	393,341	270,434	262,957	-41%	-31%	-3%	(403,844)	-61%
TOTAL PASIVO	795,551	443,939	299,468	295,022	-44%	-33%	-1%	(500,528)	-63%
CAPITAL SOCIAL									
Certificados de aportacion	55,879	36,032	26,570	23,977	-36%	-26%	-10%	(31,902)	-57%
TOTAL CAPITAL SOCIAL	73,821	48,541	94,347	37,069	-34%	94%	-61%	(36,753)	-50%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR			1.69	3.13	4.83		5.88		

EL SAGRARIO LTDA.
(000) SUCRES--ADJUSTED BY CPI

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
TOTAL ACTIVO	276,156	175,093	140,014	95,794	-37%	-20%	-32%	(180,363)	-65%
TOTAL PASIVO	252,707	157,835	106,471	85,101	-38%	-33%	-20%	(167,606)	-66%
TOTAL CAPITAL SOCIAL	23,449	17,258	33,543	10,693	-26%	94%	-68%	(12,757)	-54%
CPI(1980 BASE YEAR =1.00)	5.31	8.81	13.59	20.38					

OSCUS

(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	57,624	50,033	64,773	41,134	-13%	29%	-36%	(16,490)	-29%
Activo exigible	986,317	1,193,809	1,717,399	1,893,557	21%	44%	10%	907,240	92%
Inversiones	253,700	336,083	430,999	713,522	32%	28%	66%	459,822	181%
Activos fijos y otros activos	138,777	167,576	166,533	168,540	21%	-1%	1%	29,763	21%
TOTAL ACTIVO	1,436,418	1,747,501	2,379,704	2,816,753	22%	36%	18%	1,380,335	96%
PASIVO									
Depositos de ahorro	1,109,066	1,309,766	1,700,376	2,000,205	18%	30%	18%	891,139	80%
Otros depositos	16,295	9,582	4,712	2,888					
Otros pasivos	114,076	103,434	213,455	275,383	-9%	106%	29%	161,307	141%
TOTAL PASIVO	1,239,437	1,422,782	1,918,543	2,278,476	15%	35%	19%	1,039,039	84%
CAPITAL SOCIAL									
Certificados de aportacion	154,395	194,526	284,723	332,415	26%	46%	17%	178,020	115%
Reservas	21,231	68,860	72,753	82,947	224%	6%	14%	61,716	291%
Excedentes y/o perdida	21,355	61,333	103,685	122,915	187%	69%	19%	101,560	476%
TOTAL CAPITAL SOCIAL	196,981	324,719	461,161	538,277	65%	42%	17%	341,296	173%
ACTIVO-PASIVO	196,981	324,719	461,161	538,277					

OSCUS
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	34,163	15,974	13,411	6,998	-53%	-16%	-48%	(27,165)	-80%
Activo exigible	584,753	381,135	355,575	322,142	-35%	-7%	-9%	(262,611)	-45%
Inversiones	150,410	107,298	89,235	121,388	-29%	-17%	36%	(29,022)	-19%
Activos fijos y otros activos	82,276	53,500	34,479	28,673	-35%	-36%	-17%	(53,603)	-65%
TOTAL ACTIVO	851,602	557,906	492,700	479,201	-34%	-12%	-3%	(372,401)	-44%
PASIVO									
Depositos de ahorro	657,526	418,155	352,050	340,285	-36%	-16%	-3%	(317,241)	-48%
TOTAL PASIVO	734,819	454,237	397,220	387,626	-38%	-13%	-2%	(347,192)	-47%
CAPITAL SOCIAL									
Certificados de aportacion	91,535	62,104	58,950	56,552	-32%	-5%	-4%	(34,983)	-38%
TOTAL CAPITAL SOCIAL	116,783	103,670	95,480	91,575	-11%	-8%	-4%	(25,209)	-22%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR	1.69	3.13	4.83	5.88					

OSCUS
(000) SUCRES--ADJUSTED BY CPI TO 1980 VALUES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
TOTAL ACTIVO	201,179	131,787	116,384	113,214	-34%	-12%	-3%	(87,965)	-44%
TOTAL PASIVO	173,591	107,299	93,830	91,579	-38%	-13%	-2%	(82,012)	-47%
TOTAL CAPITAL SOCIAL	27,588	24,489	22,554	21,635	-11%	-8%	-4%	(5,953)	-22%
CPI(1980 BASE YEAR =1.00)	7.14	13.26	20.45	24.88					

PABLO MUNOZ VEGA
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	6,809	2,942	12,139	18,414	-57%	313%	52%	11,605	170%
Activo exigible	341,629	465,030	745,853	862,440	-96%	5615%	16%	520,811	152%
Inversiones	13,552	13,051	9,113	11,300			24%	(2,252)	
Activos fijos y otros activos	72,773	78,114	131,680	154,783	7%	69%	18%	82,010	113%
TOTAL ACTIVO	434,763	559,136	898,785	1,046,936	29%	61%	16%	612,173	141%
PASIVO									
Depositos de ahorro	290,359	370,663	534,128	619,730	28%	44%	16%	329,371	113%
Otros depositos									
Otros pasivos	27,533	27,861	70,196	103,932	1%	152%	48%	76,400	277%
TOTAL PASIVO	317,891	398,524	604,324	723,662	25%	52%	20%	405,771	128%
CAPITAL SOCIAL									
Certificados de aportacion	78,267	105,247	180,365	209,721	34%	71%	16%	131,454	168%
Reservas	9,960	10,102	18,881	32,078	1%	87%	70%	22,118	222%
Excedentes y/o perdida	28,645	45,263	95,215	81,475	58%	110%	-14%	52,830	184%
TOTAL CAPITAL SOCIAL	116,872	160,612	294,461	323,274	37%	83%	10%	206,403	177%
ACTIVO-PASIVO	116,872	160,612	294,461	323,274					

PABLO MUNOZ VEGA
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	4,037	939	2,513	3,133	-77%	168%	25%	(904)	-22%
Activo exigible	202,540	4,166	154,423	146,723	-98%	3606%	-5%	(55,817)	-28%
Inversiones	8,034	4,166	1,887	1,922	-48%	-55%	2%	(6,112)	-76%
Activos fijos y otros activos	43,145	24,939	27,263	25,332	-42%	9%	-3%	(16,812)	-39%
TOTAL ACTIVO	257,756	178,509	186,087	178,110	-31%	4%	-4%	(79,645)	-31%
PASIVO									
Depositos de ahorro	172,143	118,338	110,587	105,432	-31%	-7%	-5%	(66,712)	-39%
TOTAL PASIVO	188,466	127,232	125,121	123,113	-32%	-2%	-2%	(65,353)	-35%
CAPITAL SOCIAL									
Certificados de aportacion	46,402	33,601	37,343	35,679	-28%	11%	-4%	(10,723)	-23%
TOTAL CAPITAL SOCIAL	69,289	51,277	60,966	54,997	-26%	19%	-10%	(14,292)	-21%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR			1.69	3.13	4.83		5.88		

PABLO MUNOZ VEGA
(000) SUCRES--ADJUSTED BY CPI

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
TOTAL ACTIVO	81,876	63,466	66,160	51,377	-22%	4%	-22%	(30,499)	-37%
TOTAL PASIVO	59,866	45,235	44,485	35,513	-24%	-2%	-20%	(24,354)	-41%
TOTAL CAPITAL SOCIAL	22,010	18,231	21,675	15,864	-17%	19%	-27%	(6,145)	-28%
CPI(1980 BASE YEAR =1.00)	5.31	8.81	13.59	20.38					

PEQUENA EMPRESA "CACPE"
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	1,291	9,057	2,771	174	602%	-69%	-94%	(1,117)	-87%
Activo exigible	41,554	59,074	80,174	85,585	42%	36%	7%	44,031	106%
Inversiones	3,787	3,542	2,874	3,821	-6%	-19%	33%	34	1%
Activos fijos y otros activos	5,740	18,738	18,808	47,145	226%	0%	151%	41,405	721%
TOTAL ACTIVO	52,372	90,411	104,627	136,725	73%	16%	31%	84,353	161%
PASIVO									
Depositos de ahorro	18,644	31,621	27,544	32,110	70%	-13%	17%	13,466	72%
Otros depositos			5,335	3,694					
Otros pasivos	14,913	13,655	11,864	39,386	-8%	-13%	232%	24,473	164%
TOTAL PASIVO	33,557	45,276	44,743	75,190	35%	-1%	68%	41,633	124%
CAPITAL SOCIAL									
Certificados de aportacion	12,007	34,947	50,606	60,301	191%	45%	19%	48,294	402%
Reservas	1,687	5,268	8,096	75	212%	54%	-99%	(1,612)	-96%
Excedentes y/o perdida	5,121	4,920	1,126	1,159	-4%	-77%	3%	(3,962)	-77%
TOTAL CAPITAL SOCIAL	18,815	45,135	59,828	61,535	140%	33%	3%	42,720	227%
ACTIVO-PASIVO	18,815	45,135	59,884	61,535					

PEQUENA EMPRESA "CACPE"
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	765	2,892	574	30	278%	-80%	-95%	(736)	-96%
Activo exigible	24,636	18,860	16,599	14,560	-23%	-12%	-12%	(10,076)	-41%
Inversiones	2,245	1,131	595	650	-50%	-47%	9%	(1,595)	-71%
Activos fijos y otros activos	3,403	5,982	3,894	8,021	76%	-35%	106%	4,618	136%
TOTAL ACTIVO	31,050	28,865	21,662	23,260	-7%	-25%	7%	(7,789)	-25%
PASIVO									
Depositos de ahorro	11,053	10,095	5,703	5,463	-9%	-44%	-4%	(5,591)	-51%
TOTAL PASIVO	19,895	14,455	9,264	12,792	-27%	-36%	38%	(7,103)	-36%
CAPITAL SOCIAL									
Certificados de aportacion	7,119	11,157	10,478	10,259	57%	-6%	-2%	3,140	44%
TOTAL CAPITAL SOCIAL	11,155	14,410	12,387	10,469	29%	-14%	-15%	(686)	-6%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR	1.69	3.13	4.83	5.88					

PEQUENA EMPRESA "CACPE"
(000) SUCRES--ADJUSTED BY CPI TO 1980 VALUES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
TOTAL ACTIVO	7,335	6,818	5,117	5,495	-7%	-25%	7%	(1,840)	-25%
TOTAL PASIVO	4,700	3,414	2,188	3,022	-27%	-36%	38%	(1,678)	-36%
TOTAL CAPITAL SOCIAL	2,635	3,404	2,926	2,473	29%	-14%	-15%	(162)	-6%
CPI(1980 BASE YEAR =1.00)	7.14	13.26	20.45	24.88					

SAN FRANCISCO DE AMBATO
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JULY 31, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	43,960	34,531	107,352	161,915	-21%	211%	51%	117,955	268%
Activo exigible	504,406	623,460	841,220	1,069,097	24%	35%	27%	564,691	112%
Inversiones	24,532	76,392	50,527	3,869	211%	-34%	-92%	(20,663)	-84%
Activos fijos y otros activos	76,969	109,335	139,875	241,029	42%	28%	72%	164,060	213%
TOTAL ACTIVO	649,867	843,717	1,138,974	1,475,911	30%	35%	30%	826,044	127%
PASIVO									
Depositos de ahorro	509,168	642,834	861,171	1,076,886	26%	34%	25%	567,718	111%
Otros depositos									
Otros pasivos	23,230	21,796	46,025	99,261	-6%	111%	116%	76,031	327%
TOTAL PASIVO	532,398	664,630	907,196	1,176,147	25%	36%	30%	643,749	121%
CAPITAL SOCIAL									
Certificados de aportacion	69,574	94,550	129,408	182,507	36%	37%	41%	112,933	162%
Reservas	40,828	42,055	57,834	74,754	3%	38%	29%	33,926	83%
Excedientes y/o perdida	7,068	42,482	44,537	42,503	501%	5%	-5%	35,436	501%
TOTAL CAPITAL SOCIAL	117,470	179,087	231,778	299,764	52%	29%	29%	182,295	155%
ACTIVO-PASIVO	117,470	179,087	231,778	299,764					

SAN FRANCISCO DE AMBATO
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JULY 31, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	26,062	11,024	22,226	27,546	-58%	102%	24%	1,483	6%
Activo exigible	299,045	199,045	174,168	181,880	-33%	-12%	4%	(117,164)	-39%
Inversiones	14,544	24,389	10,461	658	68%	-57%	-94%	(13,886)	-95%
Activos fijos y otros activos	45,632	34,906	28,960	41,005	-24%	-17%	42%	(4,627)	-10%
TOTAL ACTIVO	385,283	269,365	235,816	251,090	-30%	-12%	6%	(134,194)	-35%
PASIVO									
Depositos de ahorro	301,868	205,231	178,299	183,205	-32%	-13%	3%	(118,662)	-39%
TOTAL PASIVO	315,640	212,189	187,828	200,092	-33%	-11%	7%	(115,548)	-37%
CAPITAL SOCIAL									
Certificados de aportacion	41,248	30,186	26,793	31,049	-27%	-11%	16%	(10,199)	-25%
TOTAL CAPITAL SOCIAL	69,644	57,175	47,988	50,997	-18%	-16%	6%	(18,646)	-27%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR			1.69	3.13	4.83		5.88		

SAN FRANCISCO DE AMBATO
(000) SUCRES--ADJUSTED BY CPI

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JULY 31, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
TOTAL ACTIVO	122,386	95,768	83,840	72,428	-22%	-12%	-14%	(49,957)	-41%
TOTAL PASIVO	100,263	75,440	66,779	57,718	-25%	-11%	-14%	(42,545)	-42%
TOTAL CAPITAL SOCIAL	22,122	20,328	17,061	14,711	-8%	-16%	-14%	(7,412)	-34%
CPI(1980 BASE YEAR =1.00)	5.31	8.81	13.59	20.38					

SAN FRANCISCO DE ASIS
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
Fondos disponibles	142,952	242,974	214,891	174,203	70%	-12%	-19%	31,251	22%
Activo exigible	10,330,698	12,565,893	11,547,780	12,708,652	22%	-8%	10%	2,377,954	23%
Inversiones	146,557	256,416	204,840	22,917	75%	-20%	-89%	(123,640)	-84%
Activos fijos y otros activos	1,717,142	2,053,972	3,237,250	5,687,990	20%	58%	76%	3,970,848	231%
TOTAL ACTIVO	12,337,349	15,119,255	15,204,761	18,593,762	23%	1%	22%	6,256,413	51%
PASIVO									
Depositos de ahorro	7,927,064	9,968,206	10,641,680	10,705,710	26%	7%	1%	2,778,646	35%
Otros depositos	1,870	1,803		1,525,069					
Otros pasivos	626,127	909,807	1,700,730	2,740,682	45%	87%	61%	2,114,555	338%
TOTAL PASIVO	8,555,061	10,879,816	12,342,411	14,971,461	27%	13%	21%	6,416,400	75%
CAPITAL SOCIAL									
Certificados de aportacion	3,622,800	3,956,611	1,597,952	1,539,997	9%	-60%	-4%	(2,082,803)	-57%
Reservas	113,721	123,353	155,758	143,504	8%	26%	-8%	29,783	26%
Excedentes y/o perdida	45,767	159,475	1,108,644	1,938,800	248%	595%	75%	1,893,033	4136%
TOTAL CAPITAL SOCIAL	3,782,288	4,239,439	2,862,354	3,622,301	12%	-32%	27%	(159,987)	-4%
ACTIVO-PASIVO	3,782,288	4,239,439	2,862,351	3,622,301					

SAN FRANCISCO DE ASIS
(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
ACTIVO									
Fondos disponibles	84,751	77,572	44,492	29,636	-8%	-43%	-33%	(55,115)	-65%
Activo exigible	6,124,708	4,011,781	2,390,881	2,162,063	-34%	-40%	-10%	(3,962,645)	-65%
Inversiones	86,888	81,863	42,411	3,899	-6%	-48%	-91%	(82,990)	-96%
Activos fijos y otros activos	1,018,033	655,750	670,248	967,671	-36%	2%	44%	(50,362)	-5%
TOTAL ACTIVO	7,314,381	4,826,966	3,148,031	3,163,269	-34%	-35%	0.48%	(4,151,112)	-57%
PASIVO									
Depositos de ahorro	4,699,678	3,182,444	2,203,280	1,821,312	-32%	-31%	-17%	(2,878,366)	-61%
TOTAL PASIVO	5,071,995	3,473,484	2,555,403	2,547,024	-32%	-26%	-0.33%	(2,524,971)	-50%
CAPITAL SOCIAL									
Certificados de aportacion	2,147,831	1,263,186	330,844	261,992	-41%	-74%	-21%	(1,885,838)	-88%
TOTAL CAPITAL SOCIAL	2,242,386	1,353,481	592,629	[illegible]6,245	-40%	-56%	4%	(1,626,141)	-73%
INFLATION RATE	32.5%	85.7%	54.2%	21.7%					
INFLATION FACTOR	1.69	3.13	4.83	5.88					

SAN FRANCISCO DE ASIS
(000) SUCRES--ADJUSTED BY CPI TO 1980 VALUES

	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-90	% CHG 87-90
TOTAL ACTIVO	1,727,920	1,140,215	743,621	747,338	-34%	-35%	0.50%	(980,582)	-57%
TOTAL PASIVO	1,198,188	820,499	603,632	601,747	-32%	-26%	-0.31%	(596,441)	-50%
TOTAL CAPITAL SOCIAL	529,732	319,716	139,989	145,591	-40%	-56%	4%	(384,141)	-73%
CPI(1980 BASE YEAR =1.00)	7.14	13.26	20.45	24.88					

TULCAN
(000) SUCRES--NOMINAL VALUES

ACTIVO	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 88-89	% CHG 89-90	88-90	% CHG 88-90
Fondos disponibles	15,316	18,368	57,935	20%	215%	42,619	278%
Activo exigible	676,711	948,400	1,105,519	40%	17%	428,808	63%
Inversiones	16,869	18,018	16,980	7%	-6%	111	1%
Activos fijos y otros activos	94,776	87,376	79,973	-8%	-8%	(14,802)	-16%
TOTAL ACTIVO	803,672	1,072,162	1,260,407	33%	18%	456,736	57%
PASIVO							
Depositos de ahorro	654,077	869,156	1,019,263	33%	17%	365,186	56%
Otros depositos							
Otros pasivos	3,358	19,208	13,486	472%	-30%	10,128	302%
TOTAL PASIVO	657,435	888,365	1,032,750	35%	16%	375,315	57%
CAPITAL SOCIAL							
Certificados de aportacion	124,695	152,752	169,715	23%	11%	45,021	36%
Reservas	11,096	30,651	20,838	178%	-32%	9,741	88%
Excedientes y/o perdida	10,446	194	37,105	-98%	18983%	26,659	255%
TOTAL CAPITAL SOCIAL	146,237	183,797	227,658	26%	24%	81,421	56%
ACTIVO-PASIVO	146,237	183,797	227,658			81,421	

TULCAN

(000) SUCRES--ADJUSTED BY INFLATION RATE TO 1985 SUCRES

	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 88-89	% CHG 89-90	88-90	% CHG 88-90
ACTIVO							
Fondos disponibles	6,479	5,039	13,059	-22%	159%	6,580	102%
Activo exigible	286,262	260,176	249,202	-9%	-4%	(37,060)	-13%
Inversiones	7,136	4,943	3,828	-31%	-23%	(3,308)	-46%
Activos fijos y otros activos	40,092	23,970	18,027	-40%	-25%	(22,065)	-55%
TOTAL ACTIVO	339,968	294,128	284,116	-13%	-3%	(55,852)	-16%
PASIVO							
Depositos de ahorro	276,687	238,437	229,758	-14%	-4%	(46,929)	-17%
TOTAL PASIVO	278,107	243,706	232,798	-12%	-4%	(45,309)	-16%
CAPITAL SOCIAL							
Certificados de aportacion	52,748	41,905	38,257	-21%	-9%	(14,492)	-27%
TOTAL CAPITAL SOCIAL	61,861	50,421	51,318	-18%	2%	(10,543)	-17%
INFLATION RATE	85.7%	54.2%	21.7%				
INFLATION FACTOR	2.36	3.65	4.44				

TULCAN

(000) SUCRES--ADJUSTED BY CPI

	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 88-89	% CHG 89-90	88-90	% CHG 88-90
TOTAL ACTIVO	91,223	78,922	61,853	-13%	-22%	(29,370)	-32%
TOTAL PASIVO	74,624	65,393	50,681	-12%	-22%	(23,943)	-32%
TOTAL CAPITAL SOCIAL	16,599	13,529	11,172	-18%	-17%	(5,427)	-33%
CPI(1980 BASE YEAR =1.00)	6.81	13.59	20.38				

ANNEX 4
CREDIT UNION SURVEY RESULTS
(September 1990)

CREDIT UNION	# MEMBER	VALUE SAVINGS (000)	AVG VAL SAV/MEM (000)	AVG VAL SAV/LN (000)	VALUE LOANS (000)	# LOANS	% LOAN MEMB	AVG VAL LOAN (000)	# BUSINESS MEMBERS	BUS MEMB AS % OF TOTAL MEM	# BUS LOANS	BUS LOAN AS % OF TOT LOAN	BUS LOANS AS % OF BUS MEMB
Quito													
San Francisco de Asis	193,571	12,230,780	63	730	10,673,154	16,754	9%	637	N/A	N/A	N/A	N/A	N/A
Ocho de Septiembre	28,000	1,236,163	44	145	856,981	8,500	30%	101	7,840	28%	5,100	60%	65%
Andalucia	22,000	937,585	43	176	966,000	5,327	24%	181	2,200	10%	1,332	25%	61%
Cotocollao	16,000	524,074	33	47	466,535	11,200	70%	42	1,600	10%	1,120	10%	70%
CACPE	3,300	35,806	11	27	82,990	1,350	41%	61	3,135	95%	1,350	100%	43%
TOTAL QUITO	262,871	14,964,408	57	347	13,045,660	43,131	16%	302	14,775	21%	8,902	34%	60%
AMBATO													
La Merced	7,600	241,600	32	69	164,500	3,500	46%	47	N/A	N/A	A LCT	N/A	N/A
Sagrario	50,000	1,545,666	31	124	1,363,420	12,500	25%	109	25,000	50%	6,250	50%	25%
CACPE	98	12,902	132	358	20,340	36	37%	565	98	95%	36	100%	39%
San Francisco	35,000	1,076,886	31	108	1,069,097	10,000	29%	107	11,323	32%	3,000	30%	26%
Oscus	21,000	1,999,776	95	167	1,893,558	12,000	57%	158	N/A	N/A	N/A	N/A	N/A
TOTAL AMBATO	113,698	4,876,830	43	128	4,510,916	38,036	33%	119	36,416	43%	9,286	41%	26%
GUAYAQUIL													
La Dolorosa	16,000	581,486	36	52	677,305	11,200	70%	60	4,800	30%	7,840	70%	163%
Nacional	50,000	445,102	9	45	404,777	10,000	20%	40	50,000	100%	10,000	100%	20%
TOTAL GUAYAQUIL	66,000	1,026,588	16	48	1,082,081	21,200	32%	51	54,800	83%	17,840	84%	33%
BABAHOYO													
23 de noviembre	1,355	14,000	10	105	17,000	133	10%	128	500	37%	80	60%	16%
TOTAL BABAHOYO	1,355	14,000	10	105	17,000	133	10%	128	500	37%	80	60%	16%
TULCAN													
Carchi	5,300	307,918	58	134	362,496	2,300	43%	158	3,180	60%	920	40%	29%
Pablo Munoz Vega	16,000	608,077	38	61	862,440	10,000	63%	86	8,000	50%	3,000	30%	38%
Tulcan	17,000	1,019,263	60	86	1,105,519	11,900	70%	93	11,900	70%	8,330	70%	70%
TOTAL TULCAN	38,300	1,935,258	51	80	2,330,455	24,200	63%	96	23,080	60%	12,250	51%	53%
TOTAL SAMPLE	482,224	22,817,083	47	180	20,986,112	126,700	26%	166	129,571	46%	23,580	51%	37%
TOTAL OPEN BOND CUs	677,007	24,212,772	36	N/A	31,021,228	N/A	N/A	N/A	203,102	30%	N/A	N/A	N/A
SAMPLE AS % OF OPEN BOND CUs	71%	94%	N/A	N/A	N/A	N/A	N/A	N/A	64%	N/A	N/A	N/A	N/A

Source: (a) Survey of 15 Credit Unions, Sept 1990
(b) Superintendencia de Bancos "Memoria 1989"

CREDIT UNION SURVEY RESULTS -- SEPTEMBER 1990

CREDIT UNION	# MEMBERS	VALUE SAVINGS (000)	SAVINGS FIXED TERM (000)	FIX-TER AS % OF TOT SAV	AVG VALUE SAV/MEMB (000)	AVG VALUE SAV/LOAN (000)	VALUE LOANS (000)	SAV-LOANS (000)	# LOANS	% L-M
Quito										
San Francisco de Asis	193,571	12,230,780	2,884,434	24%	63.185	730.021	10,673,154	1,557,626	16,754	9%
Ocho de Septiembre	28,000	1,236,163	101,295	8%	44.149	145.431	856,981	379,181	8,500	30%
Andalucia	22,000	937,585	36,241	4%	42.617	176.006	966,000	(28,415)	5,327	24%
Cotocollao	16,000	524,074	N/A	N/A	32.755	46.792	466,535	57,539	11,200	70%
CACPE	3,300	35,806	10,050	28%	10.850	26.523	82,990	(47,184)	1,350	41%
TOTAL QUITO	262,871	14,964,408	3,032,021	20%	56.927	346.952	13,045,660	1,918,747	43,131	16%
AMBATO										
La Merced	7,600	241,600	N/A	N/A	31.789	69.029	164,500	77,100	3,500	46%
Sagrario	50,000	1,545,666	56,359	4%	30.913	123.653	1,363,420	182,245	12,500	25%
CACPE	98	12,902	N/A	N/A	131.653	358.389	20,340	(7,438)	36	37%
San Francisco	35,000	1,076,886	N/A	N/A	30.768	107.689	1,069,097	7,788	10,000	29%
Oscus	21,000	1,999,776	430	0.02%	95.227	166.648	1,893,558	106,219	12,000	57%
TOTAL AMBATO	113,698	4,876,830	56,789	1.16%	42.893	128.216	4,510,916	365,914	38,036	33%
GUAYAQUIL										
La Dolorosa	16,000	581,486	21	0.00%	36.343	51.918	677,305	(95,819)	11,200	70%
Nacional	50,000	445,102	39,134	9%	8.902	44.510	404,777	40,326	10,000	20%
TOTAL GUAYAQUIL	66,000	1,026,588	39,155	4%	15.554	48.424	1,082,081	(55,493)	21,200	32%
BABAHOYO										
23 de noviembre	1,355	14,000	N/A	N/A	10.332	105.263	17,000	(3,000)	133	10%
TOTAL BABAHOYO	1,355	14,000	N/A	N/A	10.332	105.263	17,000	(3,000)	133	10%
TULCAN										
Carchi	5,300	307,918	129,599	42%	58.098	133.877	362,496	(54,578)	2,300	43%
Pablo Munoz Vega	16,000	608,077	130,204	21%	38.005	60.808	862,440	(254,363)	10,000	63%
Tulcan	17,000	1,019,263	151,160	15%	59.957	85.652	1,105,519	(86,256)	11,900	70%
TOTAL TULCAN	38,300	1,935,258	410,964	21%	50.529	79.969	2,330,455	(395,198)	24,200	63%
TOTAL SAMPLE (a)	482,224	22,817,083	3,538,930	16%	47.316	180.087	20,986,112	1,830,971	126,700	26%
TOTAL OPEN BOND CUs (b)	677,007	24,212,772	N/A	N/A	35.764	N/A	31,021,228	(6,808,456)	N/A	N/A
SAMPLE AS % OF TOTAL	71%	94%	N/A	N/A	132%	N/A	68%	N/A	N/A	N/A

Source: (a) Survey of 15 Credit Unions, Sept 1990
(b) Superintendencia de Bancos "Memoria 1989"

CREDIT UNIONS	ASSET				LIABILITIES				EQUITY			
	CHANGE 87-90 NOM	% CHG 87-90 NOM	% CHG 87-90 REAL	% CHG 89-90 REAL	CHANGE 87-90 NOM	% CHG 87-90 NOM	% CHG 87-90 REAL	% CHG 89-90 REAL	CHANGE 87-90 NOM	% CHG 87-90 NOM	% CHG 87-90 REAL	% CHG 89-90 REAL
QUITO												
San Francisco de Asis	6,256,413	51%	-57%	0.5%	6,416,400	75%	-50%	-0.3%	(159,987)	-4%	-73%	4%
Ocho de Septiembre	1,163,793	198%	-14%	N/A	1,072,168	194%	-16%	N/A	91,625	257%	3%	N/A
Andalucia	813,240	159%	-26%	0.35%	639,860	171%	-22%	2%	173,380	127%	-35%	-6%
Cotocollao	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CACPE	84,353	161%	-25%	7%	41,633	124%	-36%	38%	42,720	227%	-6%	-15%
AMBATO												
La Merced	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sagrario	485,646	33%	-62%	-16%	392,273	29%	-63%	-1%	93,374	75%	-50%	-61%
CACPE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
San Francisco	826,044	127%	-35%	6%	643,749	121%	-37%	7%	182,295	155%	-27%	6%
Oscus	1,380,335	96%	-44%	-3%	1,039,039	84%	-47%	-2%	341,296	173%	-22%	-4%
GUAYAQUIL												
La Dolorosa	581,648	133%	3%	-33%	546,409	152%	-28%	3%	35,239	46%	-58%	7%
Nacional	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

CREDIT UNION SURVEY RESULTS -- SEPTEMBER 1990

BABAHOYO												
23 de noviembre	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TULCAN	88-90	88-90	88-90	89-90	88-90	88-90	88-90	89-90	88-90	88-90	88-90	89-90
Carchi	106,754	27%	-32%	-12%	44,142	15%	-39%	-18%	62,611	63%	-13%	4%
Pablo Munoz Vega	612,173	141%	-31%	-4%	405,771	128%	-35%	-2%	206,403	177%	-21%	-10%
Tulcan	456,736	57%	-16%	-3%	375,315	57%	-16%	-4%	81,421	56%	-17%	2%
SAMPLE RANGE												
SAMPLE AVERAGE												

CREDIT UNION	# EMP	SAL(000) PER MTH MAX	MIN	COMMENTS
Quito				
San Francisco de Asis	486	600		Delinq represents past mgmt; under receivorship; can refinace after 25%-50% loan is paid.
Ocho de Septiembre	32	200	45	
Andalucia	28	220	58	Need to add to savings while paying loan;
Cotocollao	14	110	35	Cannot refinance;
CACPE	15	180	50	

CREDIT UNION SURVEY RESULTS -- SEPTEMBER 1990

CREDIT UNION	# EMP	SAL(000) PER MTH MAX	MIN	COMMENTS
TOTAL QUITO	575			
AMBATO				
La Merced	16	120	35	
Sagrario	86	200	49	
CACPE	80	60		
San Francisco	64	195	65	This past year have begun a process of redesigning the coop; new rates have increased membership by 3000 socios.
Oscus	109	160	57	
TOTAL AMBATO	355			
GUAYAQUIL				
La Dolorosa	36	100	48	
Nacional	42	360	45	Am not confident of seriousness of # bus. members; 90% loans to women; 50% $ in bank to obtain earnings
TOTAL GUAYAQUIL	78			
BABAHOYO				
23 de noviembre	8	45	16	
TOTAL BABAHOYO	8			
TULCAN				
Carchi union	24	120	42	All Tulcan coops have libraries in addition to medical, funeral, and debt life services; participate in Carchi union of coops.
Pablo Munoz Vega	38	90	55	Currently have 250 cases in the court; set rates w/other coops in Tulcan; 30% members use banks
Tulcan	35	106	48	Balance sheet should explain how there is more $ to cover loans.
TOTAL TULCAN				
TOTAL SAMPLE (a)				
TOTAL OPEN BOND CUs (b)				
SAMPLE AS % OF TOTAL				

CREDIT UNION	AVG VALUE LOAN (000)	# BUSINES MEMBERS	% TOT	# BUS LOANS	% TOT	% B/M	TASAS ACTIVAS Q	P	H	E	O	AMT IN CAJA Q	P	H	E	O	NOMINAL REAL LOAN RAT Q	P	H	E	O	TASAS PAS A	P-F	COMS
Quito																								
San Francisco de Asis	637.051		0%		0%	N/A	42%	42%	44%			20%	20%	10%			46%	46%	46%			26%	25%	
Ocho de Septiembre	100.821	7,840	28%	5,100	60%	65%	32%	34%	34%			33%	20%	20%			38%	38%	38%			20%	30%	1%
Andalucia	181.340	2,200	10%	1,332	25%	61%	25%			25%	25%	33%			33%	33%	32%	0%		32%	32%	10%	30%	0%
Cotocollao	41.655	1,600	10%	1,120	10%	70%	18%				18%	33%				100%	20%	0%	0%	0%	4%	14%		
CACPE	61.474	3,135	95%	1,350	100%	43%	40%				40%	33%			33%	33%	49%	0%	0%	-10%	49%	21%	26%	6%
TOTAL QUITO	302.466	14,775	21%	8,902	34%	60%																		
AMBATO																								
La Merced	47.000	N/A	0%	A LOT	0%	N/A	26%	28%	28%			33%	20%	20%			33%	32%	32%			12%	30%	
Sagrario	109.074	25,000	50%	6,250	50%	25%	23%	23%	23%			33%	33%	17%			29%	29%	25%			10%	32%	
CACPE	565.000	93	95%	36	100%	39%	36%					33%					43%					22%		
San Francisco	106.910	11,323	32%	3,000	30%	26%	36%			36%	42%	33%			10%	17%	43%			38%	46%	22%		
Oscus	157.796	N/A	0%	N/A	0%	N/A	22%	22%	22%			33%	33%	17%			27%	27%	24%			12%	12%	
TOTAL AMBATO	118.596	36,416	43%	9,286	41%	26%																		

CREDIT UNION SURVEY RESULTS -- SEPTEMBER 1990

GUAYAQUIL																								
La Dolorosa	60.474	4,800	30%	7,840	70%	163%	12%	18%	18%			50%	33%	25%(varies)			28%	23%	21%			8%		0%
Nacional	40.478	50,000	100%	10,000	100%	20%	29%					33%					37%					12%	30%	
TOTAL GUAYAQUIL	51.042	54,800	83%	17,840	84%	33%																		
BABAHOYO																								
23 de noviembre	127.820	500	37%	80	60%	16%	49%					33%					62%					22%	49%	
TOTAL BABAHOYO		500	37%	80	60%	16%																		
TULCAN																								
Carchi	157.607	3,180	60%	920	40%	29%	42%		42%		42%	33%		33%		33%	50%	0%	50%	0%	50%	25%	N/A	5%
Pablo Munoz Vega	86.244	8,000	50%	3,000	30%	38%	45%		45%		23%	33%		20%		100%	54%	0%	50%	0%	-3%	26%	38%	
Tulcan	92.901	11,900	70%	8,330	70%	70%	43%		43%			33%		20%			51%	0%	47%	0%	0%	26%	42%	
TOTAL TULCAN	96.300	23,080	60%	12,250	51%	53%																		
TOTAL SAMPLE (a)	165.636	129,571	46%	48,358	51%	37%																		
TOTAL OPEN BOND CUs (b)	N/A	203,102	30%	N/A	N/A	N/A																		
SAMPLE AS % OF TOTAL	N/A	64%	N/A	N/A	N/A	N/A																		

CREDIT UNION SURVEY RESULTS -- SEPTEMB^R 1990

CREDIT UNION	# G	WAIT PERI	PRO-CESS (WKS	DELINQUENCY %	# LOANS	VALUE (000)	AVG VALUE
Quito							
San Francisco de Asis	1-2	1	3-4	41%	6,869	4,400,000	640.5
Ocho de Septiembre	2	3-6	2	3%	255	24,000	94.11
Andalucia	1-2	4-6	3-4	11%	603	17,498	29.01
Cotocollao	0-2	3	2	4%	448	11,756	26.24
CACPE	1-2	1-6					ERR
TOTAL QUITO					8,175		
AMBATO							
La Merced	1-2	3	2-3	19%			
Sagrario	2	3	2	4%			
CACPE							
San Francisco	1-2	3	2-4	4%			
Oscus	0-2	2	0-6				
TOTAL AMBATO							
GUAYAQUIL							
La Dolorosa	1-2	3	2	8%	1,350	58,000	
Nacional	1	3	1	3%			
TOTAL GUAYAQUIL							
BABAHOYO							
23 de noviembre	2	3	1-2	18%		2,000	
TOTAL BABAHOYO							
TULCAN							
Carchi	1-2	3	1-4	8%	120	250,000	2083.
Pablo Munoz Vega	1-2		1-2	20%			
Tulcan	1-2	5	1-2	9%			
TOTAL TULCAN							
TOTAL SAMPLE (a)							
TOTAL OPEN BOND CUs (b)							
SAMPLE AS % OF TOTAL							

SAVINGS RATES BASIC ACCOUNT	FIXED TERM	LOAN RATES (1)	% SAV ENCAJE	NOMINAL LOAN RATE	MAX LOAN AMT (000) SUC	MAX TERM # MTHS
26%	25%	42%	20%	46%	800	30
20%	30%	32%	33%	38%	500	24
10%	30%	25%	33%	32%	1,000	60
14%	N/A	18%	33%	20%	500	50
21%	26%	40%	33%	49%	300	15
12%	30%	26%	33%	33%	500	24
10%	32%	23%	33%	29%	500	36
22%	N/A	36%	33%	43%	500	6
22%	N/A	36%	33%	43%	1,000	24
12%	12%	22%	33%	27%	600	36
8%	N/A	18%	25%-50%	28%	1,000	N/A
12%	30%	29%	33%	37%	9,000	24
22%	49%	49%	33%	62%	500	12
25%	N/A	42%	33%	50%	500	24
26%	38%	45%	33%	54%	800	48
26%	42%	43%	33%	51%	1,000	48
8%-26%	12%-49%	18%-49%	20%-50%	20%-62%	500-9,000	6-60

CREDIT UNION SURVEY RESULTS -- SEPTEMBER 1990

18%	31%	33%	30%	40%	1,188	31

(1) This refers to the basic rate for unsecured loans (quirografario) Differerent rates apply to secured loans for housing and fixed assets

CHAPTER THREE

INFORMAL FINANCE AND SMALL-SCALE ENTERPRISES IN ECUADOR

by
Richard L. Meyer
The Ohio State University

INTRODUCTION

In spite of recent efforts to expand formal financial services, especially credit, for micro- and small-scale enterprises in developing countries, personal savings and informal sources of finance still represent the most important financial sources for most small-scale enterprises. This is the case because, on the one hand, many small enterprises cannot get access to formal sources of finance and, on the other hand, there are some clear advantages for some firms in using informal sources even when they have access to formal finance.

This chapter is organized into four sections. The first section briefly summarizes information about the relative importance of informal finance for small enterprises and the various types of informal finance mechanisms that are important in many countries. The second section reports on the information obtained about informal finance from the general small-enterprise survey conducted in Ecuador. The third section reports the results of a specialized survey of a subsample of the general sample that was conducted to probe more deeply into the magnitude and characteristics of informal finance in the interviewed firms. The final section summarizes the findings and the implications for financial policy in Ecuador.

INFORMAL FINANCE AND SMALL-SCALE ENTERPRISES IN DEVELOPING COUNTRIES

Although the data are fairly sparse, surveys of small-scale enterprises in developing countries usually report a large role for informal finance in helping to establish new businesses, and in helping existing businesses to expand. Table 1 reproduces the results of some of the surveys conducted by Liedholm and colleagues at Michigan State University.[1] Own savings represented 60-94 percent of the initial investment of small enterprises, and relatives represented another 2-20 percent. Governments and banks represented 1 percent or less in all countries studied. Surprisingly, the

[1]All tables for this chapter are located in Annex 1.

informal sector represented by moneylenders was also responsible for only a small source of finance. This same situation was reported in Colombia where personal savings were the in source of start-up finance, often in the form of severance pay from previous employment.[2]
This was the case even in a sample of 68 metalworking firms with an average start-up size of 14 workers and a fairly high initial investment of $70,000.

India has been one of the most aggressive countries in attempting to stimulate formal-sector lending to small enterprises. Loan quotas, interest subsidies, credit guarantees, and specialized lending institutions have been employed to try to meet this objective. The Reserve Bank of India in 1977 conducted a large sample survey of small-scale units assisted by commercial banks under the Reserve Bank's Credit Guarantee Scheme. It was estimated that about 2.5 percent of the manufacturing establishments with employment of less than 20 were assisted by commercial banks.[3] In addition, six Indian industries were surveyed between 1978 and 1980. Two industries — shoemaking and soap — are traditional in which handicraft methods coexist with more modern factory processes. Two industries — printing and machine tool manufacturing — are composed of modern small-scale factories, and the metal-casting industry is intermediate between the two groups. Some interviewing of the powerloom sector was also conducted for comparative purposes. Between 64-84 percent of the enterprises started with less than 11 workers, except in metal casting.

Financial information about these six Indian industries is contained in Table 2, which shows the distribution of firms by percentage of initial funds provided out of own savings. Own savings accounted for over 80 percent of the initial investment in 45-78 percent of the firms, except for powerlooms. Apart from powerlooms and metal casting, about one-third of the other firms had obtained loans from friends or relatives or both, but the amounts were quite small compared to savings. Bank loans were of some importance for machine tools, printing, shoes, and metal casting in which 14-19 percent of the firms had used bank credit initially. Powerlooms were the odd industry in that neither savings, nor informal or bank loans, were important, but rather traders seem to be the major suppliers of credit.[4]

A survey of 399 small-scale West Malaysia manufacturing establishments in 1974 is interesting because the analysis focussed on access to financial sources in a period when policy interventions in credit markets were fairly moderate and no regulated maximum interest rates were in effect on loans. Just over 40 percent of the establishments made purchases of fixed assets during 1971-1973. On average two-thirds of the funds used were own funds for all plant sizes measured in number of persons employed. However, the source of loans for borrowing firms was considerably different across firm sizes. Family and relatives provided 30-40 percent of the total credit for establishments employing less than 20 persons, while formal sources, primarily banks, provided 90-100 percent of the credit to firms with over 20 workers. About 20 percent of the firms had external sources of working capital. Supplier credits represented 50 percent or more of the external finance, except for firms employing

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[2]Mariluz Cortés, Albert Berry, and Ashfaq Ishaq. *Success in Small and Medium-Scale Enterprise: The Evidence from Colombia.*

[3]Ian M.D. Little, Dipak Mazumdar, and John M. Page, Jr., *Small Manufacturing Enterprises: A Comparative Analysis of India and Other Economies*, p. 288.

[4]*Ibid.*, p. 210.

100 or more employees. Family and friends supplied 28 percent of the external funds for firms employing 1-4 workers, but that percentage fell steadily as firm size increased. Conversely, banks provided only 8 percent of the external working capital for the 1-4 worker firms, but that percentage steadily rose to 50 percent for firms with 100 or more workers.[5]

Lender surveys provide additional information about small-firm access to formal finance. Levitsky conducted a review of 10 World Bank small-scale industry projects that have been completed in Bangladesh, Cameroon, Colombia, Jamaica, Kenya, Mexico, Morocco, the Philippines, Portugal, and Sri Lanka.[6] He concluded that despite these efforts to encourage small-scale enterprise lending, these World Bank projects hardly benefitted the very small informal micro-enterprises, with the only exceptions being projects in Nepal and Sri Lanka. The reasons given were that authorized subloan sizes were too large, and the lenders tended to concentrate their lending among the larger firms within the authorized size limits. These programs also had a limited impact on the start-up of new firms. In several cases, entrepreneurs who applied for small enterprise loans had already built up considerable business in trade, importing, and other industries. Presumably these entrepreneurs were the ones who could present track records in entrepreneurship to satisfy lending institutions and who could also make good use of the loans.

The findings of the A.I.D. PISCES project produced a more optimistic conclusion regarding the portfolio of several micro- and small-scale enterprise projects studied around the world in 1979 and 1980.[7] The authors concluded that successful programs were identified that assisted significant numbers of the smallest already-existing informal sector businesses with initial loans of less than $100, with relatively low administrative costs and payback rates ranging from 90-99 percent.[8] Some programs helped the poorest people enter urban economic activities by providing loans of less than $20, and very small micro-retailing businesses were established with loans averaging $60.

One of the programs reviewed by the PISCES project was the small business lending program of the Banco del Pacifico in Ecuador. After three years of operation in Guayaquil and Quito, the bank had lent approximately $1.0 million to over 900 business owners.[9] The average of $1,100 per borrower was considerably larger than the average loan size of programs in several other countries studied. Further, the administrative costs were about $100 per loan made (about 9 percent of the loan amount) and the bank only charged 9 percent yearly interest.

The micro-enterprise programs currently funded by A.I.D. are clearly directed at smaller-size loans and, presumably, smaller size firms. The 59,000 and 75,000 loans made through A.I.D. projects in

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[5]Mathias Bruch, *Financial Sources of Small-Scale Manufacturers: A Micro-Analysis for Malaysia.*

[6]Jacob Levitsky, *World Bank Lending to Small Enterprise: A Review, Industry and Finance Series, Volume 16.*

[7]Michael Farbman, *The PISCES Study: Assisting the Smallest Economic Activities of the Urban Poor.*

[8]*Ibid.*, p. 44.

[9]*Ibid.*, p. 221.

1988 and 1989 averaged $329 and $387, respectively. Nearly half of all the loans A.I.D. finances for micro-enterprises are smaller than $300.[10] The problem, of course, is that the total number of micro-enterprises reached by these programs is fairly small.

The difficulty with many of the specialized micro-enterprise lending programs in developing countries is that they are quite costly and, therefore, reach only a small proportion of the entrepreneurs that might profitably use the funds. Furthermore, they are often highly subsidized programs so their sustainability is linked to a steady infusion of new outside funds. This places them in a precarious position when there is a shortfall in government or donor funding. There are several programs, however, that do a large volume of lending, have reached an impressive number of borrowers, and have achieved or are close to achieving long-term sustainability. These include the Interest Rate Differential Programme in India which benefitted 15 million families in the 1980-1985 period, the BKK program in Indonesia which provided 2.7 million loans totalling over $55 million in the 1972-1983 period, and the Grameen Bank in Bangladesh which has reached about 400,000 borrowers.[11] These large-scale programs tend to follow the minimalist approach providing only credit to borrowers, and are often operated by formal banks rather than nongovernmental organizations (NGOs) or specialized institutions.

GENERAL MICRO-ENTERPRISE SURVEY

The questionnaire administered to the 582 Ecuadorian firms interviewed in the general survey contained questions designed to obtain information about the financial activities of firms. This section contains a summary of the information obtained about informal finance.

Sources and Amounts of Loans

The data in Table 3 provide a summary of the responses given to the question that asked the source and amount of the most important source of informal credit obtained during the last year. About one-third of the sample reported receiving informal loans. These loans for the entire sample totaled approximately S/.80 million. Moneylenders were the most important source both in terms of number of borrowers served and total amount of loans. Supplier credits were the second most important source in total volume, but since only 6 percent of the sample reported receiving loans from this source the average loan size per borrower was the highest of all the sources. The third most important source was family and relatives, followed by friends and neighbors, and other sources.

These data clearly suggest that informal loans were an important source of financing for the firms interviewed. Furthermore, there are several reasons that suggest that these data may actually

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[10]Agency for International Development, *A.I.D. Microenterprise Development Program: Report to the Congress*, March 30, 1990.

[11]Levitsky, p. xxii.

underestimate the true magnitude of informal loans for these firms. First, some firms may have borrowed from several sources during the year, but they were asked to report only the most important source. Second, some firms undoubtedly borrowed several times during the year, but they reported only one major loan transaction. Third, some types of loans, such as advance payments made to entrepreneurs by buyers or clients, may not be considered as loans so they may not have been reported at all. This reason may explain the lack of borrowing reported from this source. Fourth, loans between relatives and friends often do not have specified repayment terms and may actually be forgiven if the borrowers have little capacity to repay. For this reason, some firms may not treat borrowing from this source as loans in the same way as loans obtained from other sources in which repayment obligations are clearly specified.

Several key characteristics of the entrepreneurs and firms interviewed were analyzed to determine if they were significantly associated with the amount of informal loans reported from each source. Table 4 reports average loan size by sex of the entrepreneurs and number of years in business.[12] Male and female entrepreneurs borrowed in roughly the same proportion: about one-third of both sexes reported receiving informal loans. Male borrowers tended to borrow more frequently from moneylenders, friends/neighbors, and other sources, while females were more likely to borrow from family/relatives and suppliers. On average, males borrowed larger amounts, except that average loan size per borrower was higher for females for loans from moneylenders, friends/neighbors, and other sources.

Years in business also influenced average loan size as shown in Table 4. A rather unusual pattern emerged in all sources of loans other than supplier credits. The largest loans tended to be received by firms that were in business either for one year or less, or for 7-10 years. The largest loan size for the new businesses may be explained by the need to borrow large amounts to get the business started. Part of the reason for the large average loan size for the 7-10 year firms is the large loans obtained by just four firms from suppliers, but even when these are excluded, average loan size is still S/.556,000. The reason for this large amount of borrowing by this age category of firms is unknown. It is interesting to note that all sources of loans are fairly well represented in all age categories of firms. Unlike the findings of research in other countries, financial sources besides families and relatives appear to be important even in the early stages of the life cycle of the firms included in this sample.

Size of firm is associated with average loan size. Table 5 shows that there is a fairly clear pattern of increasing average loan size as firm size increases when firms are measured by either total assets or number of employees. Average loan sizes classified by firm assets show this general trend, except for loans made by friends and neighbors. The loans reported for the supplier category are especially concentrated among the 12 largest firms. All sources of loans tend to be well represented in loans made to all firm size categories. It seems, therefore, that for this sample the sources of informal finance do not change much as firm size increases. These results do not support the frequent argument that borrowing from expensive sources, such as moneylenders, is usually done out of desperation by firms with no other choices. Nor does it support the idea that only families/relatives will support very small firms. This pattern of lending can be attributed to factors affecting both supply and demand for loans. Larger firms frequently need more working capital to buy inputs and pay employees than do

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[12]The statistical tests reported in this and the following tables refer to two-way analysis of variance so the tests of significance refer to the effect of both sets of variables included in the analysis.

small firms so they often have a high demand for loans. But increased firm size is also often associated with increased creditworthiness, so lenders, in both the formal and informal sectors, are usually willing to make larger loans to larger firms.

Table 6 gives information on reported loans with the interviewed firms classified by economic sector of primary activity and geographic location. The probability of borrowing varied somewhat by sector of economic activity: 33 percent of production firms reported informal loans compared to 37 percent for commercial, 26 percent for services, and a low 24 percent for agricultural firms. As shown in the table, production firms tended to borrow the largest amounts whereas agricultural firms borrowed the smallest. The largest loans were reported for supplier credits for production firms and the smallest were for agricultural loans made by family/relatives. Some of the largest average loan sizes were found in Quito and the coastal cities, especially for supplier credits. But there is enough variation in these data so that neither sector nor location is a statistically significant variable.

The interviewed firms were subdivided into specific types of enterprises and the results are reported in Table 7. The moneylender category that dominates the entire sample is fairly well represented in lending to all types of enterprises, but is particularly important for textile, leather, and agricultural enterprises. Loans made to the first two of these three enterprises tend to be fairly large. The large supplier loans were concentrated in the food and metalworking enterprises. Textile firms and small shops also frequently received loans from suppliers, but the amounts tended to be somewhat smaller. The large shop category of firms was dominated by a few large loans made by family and relatives. Generally, however, loans made by family/relatives and friends/neighbors tended to fall in the S/.100 to S/.300 range.

A number of other variables were tested for their correlation with average loan size but the results were statistically insignificant. For example, average loan size tends to increase with the age and education of the entrepreneur, but there is a large variation among loan sources. Entrepreneurs with no previous business experience don't appear to borrow less than those with either previous business or wage-earner experience. The volume of monthly sales of the enterprise and size of monthly payroll tend to be positively associated with loan size, but these variables are statistically insignificant in a two-way classification with loan source.

Characteristics of Informal Loans

The next issue analyzed in the survey data concerned the characteristics of the informal loans made. As noted in several previous tables, there appeared to be no consistent pattern in loan size by source of loan. In fact the statistic for the relationship between average loan size and loan source was not significant: all sources of loans made small, medium, and large loans in roughly similar proportions.

The purposes for which loans were made, however, were significantly different as shown in Table 8. Almost half the borrowers reported that they borrowed from informal sources to purchase materials. This result is heavily influenced by the fact that almost 90 percent of the loans from suppliers were for this purpose. This result, of course, is logical because supplier loans are usually tied to the purchase of the supplier's products. About 20 percent of the loans were reported for increasing inventory. Almost 14 percent of the loans were reported to pay debts, with friends and neighbors being the most important source. Although borrowing to refinance debts seems fairly common, the incidence does not provide strong evidence for the frequently espoused idea that many informal loans represent distress borrowing by entrepreneurs unable to meet other loan commitments. Borrowing to purchase equipment and services or pay employees represented a total of almost 14 percent of the other purposes reported. Generally, therefore, it appears that most of the reported loans are being made for fairly productive purposes of maintaining or expanding the business.

A caveat needs to be stated, however, about the data on reported loan use. On the one hand, since informal loans are not tied to specific targeted credit programs, there would seem to be little reason for the entrepreneurs to distort reported loan use, as is frequently the case with formal loans. On the other hand, the financial management strategy of the entrepreneur and the fungibility of funds make it difficult to conclusively determine the use of funds from any given source. For example, one entrepreneur will use up the firm's liquidity to pay a debt, then have to borrow to purchase raw materials for the next production cycle. Another entrepreneur may choose to use up liquidity by buying the raw materials, then later borrow to pay the debt. The method the entrepreneurs choose to manage the firms' liquidity, therefore, will influence the stated purpose for borrowing.

Another loan characteristic studied was length of the loan period. As can be seen in Table 9, most loans were made for a very short time period: roughly one-fifth were made for less than one month, and less than 2 percent were made for more than three months. These quick turnover loans are reasonably consistent with the data in Table 8 which showed that most loan purposes could be interpreted as quick turnover investments. These loans are quite short, however, for longer-term investments such as making machinery and equipment purchases. Supplier loans had a bimodal distribution with almost half granted for less than one month and half for three months. Moneylender loans were made mostly for one or two months. Loans from family/relatives and friends/neighbors tended to be the longest term, but only the former provided loans for more than three months. About 15 percent of the sample reported no loan length and it is possible that a good number may be open ended loans for which repayment is required only if and when the borrower has the capacity to repay.

Frequency of Borrowing

The next category of informal finance data that was collected and analyzed represented responses to the question of frequency with which the interviewee borrowed from various informal sources during the past year. They were given the option to respond frequently, rarely, or never. The data reported in the section above showed the average amount borrowed from the various informal sources. The data on frequency of borrowing presented in this section are complementary because they give insights into the relative frequency with which entrepreneurs borrow from these same informal sources. Various characteristics of the enterprises and entrepreneurs can be analyzed relative to these frequencies. The tables and discussion that follow represent the proportion of the sample that responded to each alternative. The statistical tests reported refer to chi-square tests. The data summarize the results for the four major informal sources: moneylenders, family/relatives, friends/neighbors, and suppliers.

Table 10 reports the frequency of borrowing reported by sex of the entrepreneur. The results correspond closely to those of Table 4. There are significant differences between males and females in the frequency with which they borrow from various sources. Overall, three-quarters or more of the sample report never borrowing from the four sources. When they borrow, however, males tend to borrow more frequently from moneylenders, while females tend to borrow more frequently from family/relatives and suppliers.

The responses to the question of frequency of borrowing were classified by years in business. Although there was a slight trend toward greater frequency of borrowing as age of business increased, especially borrowing from moneylenders, there was enough variability in the results so the differences were not statistically significant. Likewise, there were no significant differences among enterprises when they were classified by firm size or by economic sector in which the enterprise operated.

There were some significant differences, however, when the enterprises were classified by geographic location as shown in Table 11. With the exception of the moneylender category in which the differences were not significant, there was a tendency for the frequency of borrowing to be highest in Guayaquil and lowest in the other coastal areas. The data in Table 6, however, showed that the average loan sizes tended to be higher in Quito than in other regions. This seems to imply that there is a lower probability for entrepreneurs in Quito to borrow, but when they borrow it may be for larger amounts than in other regions.

The data in Table 12 report frequency of borrowing by type of enterprise. A number of the results are consistent with the data in Table 7 reporting average loan size. For example, the textile and shoe and leather enterprises tend to borrow more frequently from moneylenders than do some other types of enterprises (Table 11), and they borrow in fairly large amounts (Table 7). Agricultural firms, however, report borrowing frequently from moneylenders but in small amounts. Enterprises in the shoe and leather, small-shop, and large-shop categories tended to borrow quite frequently from all sources, and the average loan sizes were fairly large for shoes and leather, and large shops. Woodworking, artisan, and repair enterprises tended to borrow infrequently and in small amounts.

The frequency of borrowing was analyzed relative to the size of the major informal loan reported, and the results are presented in Table 13. With the exception of loans from suppliers, generally as size of loan increased, so did the frequency of borrowing. One logical explanation for this result is that when entrepreneurs borrow more frequently, they build up their credit rating and therefore are granted larger loans by the lenders.

The frequency of borrowing was analyzed relative to the age, education, and previous business experience of the entrepreneur. None of these variables was statistically significant. The variables representing volume of monthly sales and size of monthly payroll of the business were also insignificant in explaining frequency of borrowing.

Borrowing from Formal and Informal Sources

The final informal finance issue analyzed with the data from the enterprise survey was the relationship between borrowing from the formal and informal financial sectors. It is often argued that informal finance is inferior to formal finance because it is granted for a shorter term and the high interest rates charged are considered exploitative. Therefore policy makers expect that the volume of informal finance will decline when entrepreneurs can access cheaper formal loans. Yet studies have shown that farmers, for example, often borrow simultaneously from both sources because of the advantages they perceive of each.

The data in Table 14 represent the distribution of interviewed firms by size of formal and informal loans received. The data on loan size refer to the major loan received during the year from any formal and informal source. A total of 203 (145 plus 58) enterprises representing about one-third of the sample reported receiving no loans from any source. Enterprises totaling 308 in number, representing almost half of the sample, reported receiving formal loans out of the 402 that applied so this represents a success rate in borrowing of just over 75 percent. The remaining 215 enterprises (35 percent of the sample) did not try to get formal loans. The 210 enterprises (34 percent of the sample) that reported receiving formal loans but no informal loans relative to the 106 enterprises (17 percent) that reported informal loans but no formal loans would seem to provide strong evidence that informal loans are inferior for borrowers that obtain formal loans. Ninety-eight enterprises (15 percent of the sample), however, received formal loans, and also obtained informal loans. Furthermore, there is no clear pattern in the quantities borrowed to indicate which is the preferred alternative. Several firms that borrowed a large amount from formal sources also borrowed a large amount from informal sources. Therefore, for some enterprises, one loan source may be a substitute for the other, but for many enterprises they appear to be complements. It is likely that the specific terms and conditions of a given loan and the transaction costs of getting it are the most important factors in explaining loan demand rather than a simple universal preference for one source relative to the other.

SPECIAL INFORMAL FINANCE SURVEY

A special small informal finance survey was undertaken to probe further into financial issues than could be accomplished in the general enterprise survey. The main part of this special survey involved reinterviewing a small subsample of the same enterprises interviewed in the general survey. Four geographic sites were chosen — Quito, Guayaquil, Ambato, and Quevedo — and a target of at least 10 interviews was established for each location. The selection of enterprises was oriented toward those participating in micro-enterprise programs supported by USAID/Ecuador. Substitutes were included from other programs when the target sample size was not filled with interviews from these programs.

A total of 47 interviews were conducted in this special survey. The geographic distribution was 9 interviews in Quito, 10 in Guayaquil, and 14 each in Quevedo and Ambato. Fourteen entrepreneurs were associated with INSOTEC programs, 4 with FUNQUEVEDO, 3 with FED, and 26 with UNEPROM. The characteristics of the entrepreneurs are presented in Table 15. Twenty-nine are men and 18 are women. The women tended to be a bit older, except there were proportionately fewer women above 50 years of age. The men tended to be better educated. Only 6 percent of the women had some university training compared to 17 percent of the men.

Three general types of questions were asked in this special survey. First, the interviewees were asked to discuss how they financed the most important piece of machinery currently used in their business and, in the few businesses with vehicles, how they financed them. Second, they were asked to describe how they financed their input and raw material purchases and the sales of their products.

Finally they were asked to report on all formal loans received for the business during the past year and the current unpaid balance of each loan. No questions were asked about loans for personal or family purposes.

Purchasing Equipment

The entrepreneurs identified major pieces of machinery used in their businesses in 39 cases. The remaining eight enterprises were largely engaged in selling activities, so they have very little machinery. Thirty-three of these machines were purchased in the 1980s and 1990, while the remaining six were purchased before 1980. Twenty different types of machines were identified but 21 were associated with textile enterprises and five with leather goods. The rest were scattered among the eight other industries represented in the sample.

Table 16 reports on how these machines were purchased. Because of missing data and the fact that some loans included interest, the data do not always add to exactly 100 percent. The sellers of the machinery — salesmen, stores, and firms — financed over 40 of the total purchase price by allowing the purchasers to pay through multiple payments. These deferred payment or time purchases represented over half of the total purchases. The purchasers paid about 56 percent of the purchase price in cash to the sellers. About 40 percent of this cash represented savings and all but about one percent of the remainder was borrowed from either state banks or special micro-enterprise programs. A total of 11 loans were reported representing 10 entrepreneurs. No loans were reported from commercial banks, CUs, and cooperatives, and other special programs. In summary, informal sources, mostly seller financing, represented over 40 percent of the total purchase price, total formal loans represented about 35 percent, and the remaining 25 percent came from savings.

The interviewees were asked to describe the conditions that sellers applied to the portion of the purchase that was paid in multiple payments. Only three entrepreneurs reported that specific interest charges were assessed. Fourteen reported that prices for machinery bought on time did not rise relative to cash prices, but seven reported that prices could rise 5-100 percent for time purchases. In 10 cases, the purchaser was given 6 months or less to pay, in 10 cases they were given between 6 and 12 months, and in 2 cases greater than one year. Payments were usually required monthly. In 14 cases the purchaser had to go to the seller to make payments, in five cases the purchaser gave the seller post-dated checks, and in three cases the seller's representative collected from the purchaser. In half the cases no guarantor was required, while in the remaining cases usually one guarantor was needed to cosign the loan. In 12 cases, the purchasers had to sign notes (*letras de cambio*) as a guarantee for the purchase.

These results suggest that seller financing of machinery is an important source of informal loans. In many cases, these time purchases have been interest free, they are frequently fairly long term compared to other types of informal loans, and the mechanisms for securing the loan and repayment arrangements are fairly typical for informal lenders. Selling on time is undoubtedly an important marketing tool for machinery sellers so the terms and conditions of these loans are kept fairly competitive in order to stimulate sales.

Purchasing Inputs and Raw Materials

The interviewees reported that 19 different inputs and raw materials were the most important ones used in their enterprises. Considering the nature of the enterprises interviewed, it is not surprising that 18 reported cloth as the most important and leather as the second most important. Most of the entrepreneurs go outside their businesses to purchase these raw materials. But 14 of the 47 reported to have purchased 5-100 percent of their inputs and raw materials from intermediaries (comerciantes) who call upon them in their place of business, and about 70 percent can buy these materials on credit from the intermediaries. Just over half reported that prices rise anywhere from 4-20 percent for credit purchases. About half the time, this credit is offered for less than 30 days, and about half the time it is offered for 30-90 days. Normally guarantors are not required, but about half the time the purchaser must pay through postdated checks payable at a maximum of 30 days in advance. About half of the users of credit through these intermediaries think it is easier to get this type of credit today than it was five years ago, but a like number think it is more difficult. None of the users of this credit admitted that they have been denied this type of credit from their traditional sources, but about half reported that the credit terms have tightened in recent years.

Factories and stores (*almacens*) are the most important places where entrepreneurs buy inputs and raw materials when they purchase them outside the firm. Fourteen entrepreneurs reported that they purchased in factories, 34 purchased in stores, and 5 reported purchases in other places such as open markets. A total of 54 purchases were reported in these places, and in almost two-thirds of the purchases credit can be obtained. When credit is used, about 70 percent of the time the interviewees reported that prices would rise 4-30 percent. Most of the time purchasers are given 30 days to pay for these purchases. They usually don't have to provide guarantors but about 70 percent of the time they must provide postdated checks normally payable in 30 days or less.

The respondents were fairly evenly split in their opinions about whether or not this type of credit is easier or more difficult to obtain today as compared to five years ago. About one-fourth of the respondents reported that they are being denied credit from these sources they previously patronized. They were equally divided about whether the credit terms were getting more difficult today from these sources. Shorter terms were given as the most frequent change in this type of credit in recent years. The entrepreneurs reported owing about S/.11 million to these suppliers of inputs and raw materials. This amount represented about 4 percent of their total estimated purchases to date this year and averaged just over S/.500,000 per enterprise that reported such debts. This compared to S/.3.3 million reportedly owed to salesmen (*comerciantes*) by only three enterprises.

Another source of loans used in buying inputs and raw materials is moneylenders. Twenty of the 47 interviewees admitted to requesting a loan from a moneylender for this purpose during this year. The annual interest rates on such loans ranged from 0-800 percent. The maximum length was nine months but more than half were made for one month or less, and most require monthly payments. The method of payment was split fairly equally between postdated checks, payments made at the moneylender's place of business, and payments made at the borrower's place of business. Surprisingly, most of the borrowers from moneylenders reported they did not have to provide guarantors, but often provided other guarantees like notes (*letras de cambio*). Nineteen interviewees reported they had paid back a total of S/.2.5 million to moneylenders this year, and five borrowers reported they currently owed S/.468,000, so the amount of reported debt outstanding is small. Most of the borrowers from moneylenders think it is easier to get such credit today, and the most frequent reason given is that they are now known as reliable borrowers who repay their loans. No one reported to have been turned down for such loans, and only a few felt that loan conditions had changed. The most frequent change reported was that interest rates are higher today than in the past.

Forward Contracting

Forward contracting of production is another method that entrepreneurs use to obtain working capital, especially for textile and leather goods enterprises. But these contracts may also involve the borrowers as lenders as well as producers. In these contracts, a buyer will contract for some merchandise to be produced, usually to be picked up in one or two weeks. In this sample, 18 entrepreneurs reported using forward contracts with intermediaries (*comerciantes*), and 10 reported receiving advance payments that ranged from 20-50 percent of the total purchase price. About half of the entrepreneurs reported that the intermediaries then pay only 10-80 percent of the unpaid balance upon receipt of the merchandise, and agree to pay the remainder 2-4 weeks later after they expect to have sold it. Normally the producers charge no interest on the unpaid balance owed to them. At the time of the survey, five of the entrepreneurs reported they had unfilled production contracts for which they had received S/.2.2 million.

Nine entrepreneurs reported receiving forward contracts from stores (*almacens*) of which five reported receiving advance payments that represented up to 50 percent of the total purchase price. Normally the contracted merchandise is produced within a week, but the term may be as long as a month. As with the intermediaries, in about half the cases upon receipt of the merchandise the stores pay 0-90 percent of the remainder due and pay the balance within 2-4 weeks. Only one entrepreneur reported an unfilled contract with a store at the time of the interview.

Purchasing Vehicles

Seven entrepreneurs reported owning some type of vehicle or motorcycle used in part or solely for the enterprise. Most were purchased used from another person. Formal loans were involved in the purchase of two vehicles. The remainder were paid for with cash accumulated by the purchaser, sometimes including the receipts obtained from the sale of another vehicle or other asset.

Formal Credit

Data was obtained in these interviews concerning the loans that the entrepreneurs applied for and obtained during 1989 and 1990 from formal institutional sources, and the current outstanding balance of these loans. By analyzing the percent of applicants who received loans and the amount received relative to the amount requested, some insights can be obtained about loan rationing by lenders. Table 17 reports these data.

Given the nature of the sample, it is not surprising that micro-enterprise programs were the source from which more entrepreneurs tried to get loans. Two-thirds of the sample (31 out of 47) applied for loans from these programs, and 25 were successful. This is a higher success rate than might be expected given the frequent allegation that many would-be borrowers spend time and money to go through micro-enterprise training programs but fail to qualify for a loan afterwards. Furthermore, the applicants received almost three-fourths of the money they applied for and their loans averaged S/.532,000 per borrower.

Commercial banks were the second most important source of loans. About one-third of the sample applied for loans from this source, and all but two entrepreneurs were successful in getting loans. They received almost 85 percent of the amount requested, and the average loan size was S/.447,000. The other loan sources were much less important for this sample. Three out of the four applicants received loans from state banks, and the average loan size was S/.733,000. All four applicants of CU loans were successful, receiving an average of S/.369,000 per loan.

From these results, it appears that most applicants have been fairly successful in getting formal loans and have received most of the money they have requested. Loans from state banks were somewhat larger than those made by the other three sources. Surprisingly, borrowers from commercial banks were less rationed than borrowers from micro-enterprise programs, but the average loan size was higher for the latter. This result seems to suggest that participating in a special program may not increase the probability of getting a loan but, if successful, the loan may be larger than getting a direct loan from a commercial bank.

It was possible to compile the data from this special survey on the unpaid balance for all formal and informal loans to determine the relative magnitude of each source. The results are reported in Table 18. The current balance is split roughly one-third for formal loans and two-thirds informal. Four different sources represent about 17 percent each of the outstanding loans. These include special micro-enterprise programs, seller financing of machinery, and factories and stores selling inputs and raw materials. It was particularly surprising that micro-enterprise programs did not represent a larger share, given the fact that this sample was heavily oriented toward participants in such programs.

Seventy-six percent of the borrowers of formal loans in this sample reported that their primary reason for borrowing was to purchase raw materials for production, or products to resell in the case of intermediaries. As noted in Table 18, the largest single category of outstanding loans is also those reported for input and raw material purchases. Undoubtedly some of the money received as advance payments was also used for this purpose. Taken together then, it appears that the lion's share of all borrowing was for working capital purchases and only about a fourth to a third of the loans outstanding were used to purchase fixed assets or capital goods. Since many of these firms are not very capital intensive and capital goods once acquired can be used for many years before replacement, it is logical that most entrepreneurs would lack working capital to finance the purchase of inputs for their production system, or for resale.

One of the advantages of formal loans is that the term of loan tends to be longer than for most informal loans. About 55 percent of the formal loans were for 2-6 months, and 45 percent were for 12-36 months. But the guarantees are also more stringent for formal credit. Almost 90 percent of the formal borrowers reported they had to provide at least one guarantor, and in addition a note (*letra de cambio or pagare*) is usually required.

Distribution of Outstanding Debts

One of the issues that has provided the rationale for developing many of the special micro-enterprise programs is that the traditional distribution of loans without such programs is heavily skewed in favor of larger, richer borrowers. It is appropriate, therefore, to analyze the distribution of outstanding loans for this sample of entrepreneurs where 25 out of 31 applicants received micro-enterprise loans and 20 reported an unpaid balance for such loans.

Table 19 gives the distribution of outstanding debt by size category for this sample. Almost one-fourth of the entrepreneurs (11) reported no debt outstanding from any source. Another 17 percent reported total debts of S/.200,000 or less and this amount represented about 1.5 percent of the total debt reported by the entire sample. At the other extreme, six borrowers reported debts of S/.2.0 million or more and their total debt exceeded 60 percent of the total sample. Part of the large debt for this group is explained by one borrower owing S/.9.0 million for machinery purchase. If that observation is removed as an outlier, this highly indebted group still owes over 50 percent of the remaining debt. Clearly the current total debt is skewed toward just six entrepreneurs.

The total debt was divided into formal and informal sources to determine if the two sources of credit contribute equally to debt concentration. The results are reported in Tables 20 and 21. The S/.33.0 million informal debt is owed by 25 borrowers, while 22 entrepreneurs reported no informal debt. Just four borrowers hold almost 70 percent of this debt. If the one outlier case is removed, three borrowers owe over 40 percent of the remaining debt. It is clear, therefore, that informal loans are more concentrated than the total loans reported in Table 19, so by definition the formal debt must be less concentrated, as is shown in Table 21. Twenty-seven borrowers owe the S/.17.0 million formal debt. Only two borrowers owe over S/.2.0 million in formal debt, representing just over a third of the total formal debt, and there are no borrowers with loans between S/.1.5 million and S/.2.0 million. Most borrowers owe S/.800,000 or less. Since about half the formal debt represents special micro-enterprise loans, it appears that these programs have contributed to a more equitable debt distribution than exists in the informal market. Another way to interpret these results is that formal sources are more risk averse. They will not lend as much to any one small enterprise as will the informal sector.

Credit Constraints

The final question for which data were obtained concerned the extent to which the sampled businesses face difficulty in getting credit for their business. It was noted earlier that about half the respondents thought that some types of informal loans were more difficult to obtain today than five years ago. Interest rates appear to be higher and the length of loans is shorter. Since the quality of total formal credit has contracted in Ecuador in recent years and since informal sources are undoubtedly linked to formal credit, it is not surprising that the terms of informal loans would have tightened up, and perhaps some borrowers would have more difficulty today in obtaining informal loans. The entrepreneurs surveyed were asked if during the past year it was completely impossible for them to obtain a loan needed for their business. Seventeen of the 47 responded yes. The most important need for credit was reported to be to purchase raw materials. The total amounts desired varied widely from S/.150,000 to S/.13.0 million. The reported consequence of not borrowing was that the entrepreneur did not expand production (or sales, in the case of an intermediary) as much as would have been possible with the loan.

A second question attempted to determine if the interviewees currently had a specific plan for their business that could not be implemented due to lack of credit. Twenty-seven reported they had such a plan. Twelve wanted to expand production, nine wanted to buy more inputs or machinery, and the balance had other plans. Nine reported they had no savings to contribute to finance their plans, but 17 said they had a total of over S/.16.0 million available and wanted to borrow a total of S/.57.0 million. Seven wanted to borrow S/.1.0 million or less but 19 wanted to borrow larger amounts. As noted above, loan sizes from both the formal and informal sources tend to be less than S/.1.0 million so many of these entrepreneurs clearly have very ambitious plans compared to what most borrowers have been able to borrow in the past.

SUMMARY AND IMPLICATIONS

The purpose of this chapter has been to provide some insights into the role of informal financial sources in providing loans to small enterprises. Research in other developing countries shows that informal sources provide a large amount of finances to a business in the early stages of its growth. If the business grows and develops a favorable track record of borrowing and loan repayment, formal-sector financing often grows in magnitude and scope.

The principal findings about informal finance in Ecuador that were obtained from the general enterprise survey can be summarized as follows:

- About one-third of the entrepreneurs interviewed reported receiving informal loans;

- Moneylenders were the most important source in terms of number of borrowers served and total amount of loans. Supplier credit is the second most important source but far fewer entrepreneurs reported receiving it so average loan size is much larger;

- In contrast to studies in other countries, men and women entrepreneurs tend to borrow in about the same proportions. Men tended to borrow in smaller amounts, and used moneylenders, friends/neighbors, and other sources more frequently. Women tended to borrow more from family/relatives and suppliers;

- Average loan size goes up with the size of business when measured in assets or employees. Contrary to expectations, all sources of loans made small, medium, and large loans;

- Moneylenders lend to all types of enterprises, but are particularly important for textile, leather, and agricultural enterprises;

- Larger loans from suppliers were concentrated in the food and metalworking enterprises;

- Average loan sizes were not significantly correlated with age, education, and previous business experience of the entrepreneur, or geographic location or economic sector in which the enterprise operated;

- The majority of informal loans were reportedly used to purchase inputs and raw materials;

- Most loans were made for less than three months. Only family/relatives made loans beyond three months in any significant number;

- The frequency of borrowing tends to be positively correlated with size of loan; and

- A larger number of enterprises receive formal loans than informal loans. But some borrowers borrow heavily from both formal and informal sources so it is difficult to generalize if one source is considered superior to the other.

The special finance survey produced some additional insights about informal finance.

- Seller financing represented over 40 percent of the purchase price of machinery purchased. Formal loans represented about 35 percent, and the remaining 25 percent came from savings;

- Seller financing for machinery was granted for a longer period of time than most other types of informal loans. These loans are usually interest free but the price of the machine may be marked up compared to the cash price;

- About two-thirds of the time that entrepreneurs purchase inputs and raw materials, either from intermediaries or from factories or stores, they purchase on credit for 30-90 days. Guarantors normally are not needed but the buyers often have to provide postdated checks for the payments;

- Approximately 40 percent of the entrepreneurs forward contract some of their production with intermediaries and they frequently receive advance payments representing 20-50 percent of the total purchase price at the time of the contract. Forward contracting with stores is somewhat less frequent but the terms are roughly similar;

- Fifty-four percent of the sample (25 out of 47) received loans from special /micro-enterprise programs during 1989 and 1990. Commercial banks were the second most important formal source;

- Seventy-five percent or more of loan applicants from formal sources received loans, and the total amount received represented 70-100 percent of the amount requested;

- One-third of the total debts outstanding are owed to formal sources, and loans from micro-enterprise programs represented half that amount. In spite of the high rate of participation in micro-enterprise programs, only 17 percent of the current outstanding debt is owed to these sources. Over 40 percent, however, is owed to the informal sources that finance the purchase of inputs and raw materials;

- About three-fourths of the borrowers of formal loans reported that the primary purpose was to purchase raw materials;

- Formal loans tend to be made for a longer term than informal loans, but most require at least one guarantor and a note (*letra de cambio* or *pagare*) is usually required; and

- The current outstanding balance of total loans is heavily concentrated among relatively few borrowers, but the balance of formal loans is less concentrated than the unpaid balance of total informal loans.

The importance of informal finance for small businesses in Ecuador is clearly demonstrated in these results. Informal debt swamps formal sources even for this sample of firms drawn from micro-enterprise programs. It must be the case, therefore, that informal finance is even more important for enterprises not participating in such programs. Much of the informal finance is associated with sales made to businesses in the form of machinery, inputs, and raw materials. The factories, firms, stores, and intermediaries that offer credit undoubtedly use it as a way to stimulate sales to buyers who otherwise would have difficulty making purchases. Oftentimes the borrowers get this type of credit interest free, but on some occasions they lose discounts available to cash purchasers or pay a 5-20 percent mark-up on the purchase price. Since the payment period is short, these charges or lost discounts can represent a fairly high interest rate, but the transaction costs of getting this credit are low for the borrower.

Moneylenders, family/relatives, and friends/neighbors are also important sources of loans, particularly for some enterprises. Relatively less is known about these credit transactions but they appear to be short term and many are also directed toward financing working capital. If more information was available about the start-up of enterprises, it would probably show a more significant role played by these sources of loans in the early stages of a business. A larger proportion of entrepreneurs reported borrowing from moneylenders during the year than reported unpaid moneylender loans at this time. There may be a downward bias in the latter question, however, because borrowing from a moneylender is frequently considered to be a sign of a entrepreneur in financial stress, and interviewees may have wanted to avoid presenting that image of their current situation.

In spite of its ubiquitous nature, many entrepreneurs reported no outstanding balances for informal loans, and informal debt appears to be more concentrated among a few borrowers than does formal debt. The formal loans may be more equally distributed in this sample than in the general population of small enterprises because so many entrepreneurs have loans from micro-enterprise programs. But several respondents reported that it was more difficult to get informal loans today compared to five years ago.

Formal loans offer the advantage of being longer term on average. But the formal sources seem to have stricter collateral requirements in terms of guarantors and other loan guarantees than do most informal sources. The perception of many entrepreneurs is that formal sources charge lower interest rates but this is hard to document because of a lack of clarity about interest charged. For example, the frequently reported rate of, say, 2 percent per month is interpreted in several ways. It may mean that each month the borrower pays interest at the rate of two percent of the original loan regardless of the current unpaid balance. Or it may mean 2 percent payable on the unpaid balance. Or it may mean that interest is charged at 2 percent per month for the expected life of the loan and the total interest and principal owed is divided into periodic installments. Or 2 percent per month for the life of the loan may be discounted from the original loan balance then repaid in installments. Not only do these interpretations vary between formal and informal sources, they even vary among commercial banks.

Generally formal loans are reportedly made for the same purposes as informal credit, namely to purchase inputs and raw materials. This may imply that entrepreneurs use formal loans to avoid the higher cost of informal sources, or that they are denied informal credit in the amounts desired. If the former is the case, then formal lenders should have a large demand for short-term, low risk, unsubsidized working capital loans if they can create ways to make small loans profitably with low transaction costs for the borrowers. But if the latter is the case, formal lenders must beware. Informal sources normally possess an information advantage about possible clients. If a informal lender denies a potential client credit because he or she is judged to be uncreditworthy, it is unlikely that a formal lender should lend to that client.

Finally, a general comment should be made about the sample of entrepreneurs from which these conclusions were drawn. The general sample was weighted heavily by participants in micro-enterprise programs, and all the interviewees in the special informal credit survey were participants. Participants in these programs go through a two-stage selection process. First, there is self-selection by those who choose to enter a micro-enterprise program, which usually involves paying a fee to attend a training program. Second, there is the screening process by the program as to which entrepreneurs are accepted. It is possible that this selection and screening process results in a group of entrepreneurs with above-average ambition, drive, and ability to produce, and a desire to enter the formal credit system to expand their business. They may have an extra-ordinarily positive view of the market, and their ability to expand and sell their production and repay loans. Lenders may have a more sanguine view about their prospects and may want them to first demonstrate a period of gradual growth before lending them large sums of money.

It is likely that those firms that get access to large formal loans will exhibit two qualities. First, they will be successful in their businesses. Second, they will develop a relation with a formal lender and will make and repay a series of small loans. As the lenders see their business success, they will be inclined to make larger loans. At this point, the entrepreneurs will be able to choose among loan sources and, for a given transaction, choose the source that offers the lowest interest and borrowing costs. Informal finance will continue to be important as a complementary source for those entrepreneurs with choices, and as a substitute for those without.

It is very hard to determine from this sample either the benefit of micro-enterprise programs or any financial constraints these entrepreneurs may face. Micro-enterprise programs seem to be making loans of similar sizes for similar purposes as are made by informal lenders. The savings in interest rates may be the chief advantage for firms that get these loans. There may be, however, good reasons for the fact that some would-be borrowers did not get formal and/or informal loans. If these fundamental reasons are not attacked directly, simply providing special funds for micro-enterprise lending will not likely result in much increase in formal lending.

ANNEX 1

TABLE 1

SOURCES OF FINANCE FOR INITIAL INVESTMENT BY SMALL ENTERPRISES IN SELECTED COUNTRIES

Source	Bangladesh 11 Thanas 1980	Nigeria 3 States 1970	Sierra Leone Entire Country 1976	Tanzania Rural Towns 1968	Haiti Port-au-Prince 1979
			(Percent)		
Own Savings	73	94	60	78	72
Relatives	2	4	20	15	9
Banks	**	1	1	1	1
Government	**	**	**	1	**
Money Lenders	1	**	1	**	1
Other*	23	**	18	6	16

Source: Liedholm and Mead, p. 39

Notes: * Includes nonresponses
** Less than 1 percent

TABLE 2

PERCENTAGE OF INITIAL FUND PROVIDED OUT OF OWN SAVINGS, INDIA

Industry	Number of Workers				
	0-20	21-40	41-60	61-80	81-100
Machine tools	2.2	7.9	23.6	5.6	60.7
Powerlooms	62.1	8.1	10.8	13.5	5.4
Printing	12.7	14.1	11.3	4.2	57.7
Shoes	29.8	6.4	7.4	1.1	55.3
Soap	10.0	2.0	8.0	2.0	78.0
Metal casting	29.0	10.5	7.9	7.9	44.7

Source: Little, Mazumdar, and Page, p. 209.

TABLE 3

INFORMAL CREDIT SOURCES AND AMOUNTS

Source	Number of Borrowers	Percent of Sample	Total Amount of Sucres (000)	Percent of Total	Average Loan Size in Sucres (000)
Moneylenders	78	12	30,500	38	391.0
Family and Relatives	51	8	18,840	24	369.4
Friends and Neighbors	16	3	3,780	5	236.2
Suppliers	36	6	22,476	28	624.3
Clients	0	0	0	0	0
Other	13	2	4,570	6	351.5
Total/ Average	194	31	80,166	101	413.2

Source: Enterprise Survey

TABLE 4
AVERAGE LOAN SIZE (000 SUCRES) BY SEX AND YEARS IN BUSINESS

Source	Sex*		Years in Business***				
	Male	Female	One or less	Two or three	Four through six	Seven through ten	Eleven or more
Moneylender							
Loan Size	343.2	529.8	702.0	251.8	178.2	723.1	345.2
Number	58	20	10	17	14	13	21
Family/relatives							
Loan size	556.9	174.4	820.0	312.5	108.9	403.3	218.0
Number	26	25	10	12	9	9	10
Friends/neighbors							
Loan size	213.8	333.3	207.5	183.3	100.0	366.7	250.0
Number	13	3	4	3	1	3	4
Suppliers							
Loan size	1,014.0	137.2	188.3	146.5	273.0	2,767.5	630.9
Number	20	16	6	6	9	4	11
Other							
Loan size	279.1	750.0	0	433.3	35.0	450.0	333.3
Number	11	2	0	6	2	2	3
Total							
Loan size	472.8	297.8	572.7	274.1	174.3	841.9	374.9
Number	128	66	30	44	35	31	49

* Significant at 20% level. ** Significant at 10% level. *** Significant at 5% level.
****Significant at 1% level.
Source: Enterprise Survey.

TABLE 5

AVERAGE LOAN SIZE (000 SUCRES) BY TOTAL ASSETS AND NUMBER OF EMPLOYEES

Source	Total Assets (sucres)***					Employee Groups*			
	Through 750,000	751,000 through 1,500,000	1,501,000 through 3,000,000	3,001,000 through 6,000,000	More than 6,000,000	Up to 1	Through 2	Through 4.25	Over 4.25
Moneylender									
Loan size	112.9	486.1	222.4	386.2	657.7	288.8	192.3	437.3	544.3
Number	12	19	17	16	13	13	17	28	21
Family/Relative									
Loan size	164.3	207.3	293.3	256.7	1,321.7	270.7	326.5	186.3	845.0
Number	7	11	15	12	6	15	20	8	8
Friends/ Neighbors									
Loan size	20.0	308.3	170.0	250.0	200.0	150.0	188.3	250.0	366.7
Number	1	6	3	4	2	2	6	5	3
Supplier									
Loan size	122.5	152.1	150.0	2,214.6	1,142.9	114.9	226.3	368.0	1,699.7
Number	8	11	5	5	7	10	11	5	10
Other									
Loan size	100.0	162.5	506.7	350.0	533.3	100.0	400.0	364.0	350.0
Number	1	4	3	2	3	1	4	5	3
Total									
Loan size	124.3	307.6	254.9	564.9	854.2	228.4	259.0	365.6	829.7
Number	29	51	43	39	31	41	58	51	45

* Significant at 20% level. ** Significant at 10% level. *** Significant at 5% level.
**** Significant at 1% level.
Source: Enterprise Survey.

TABLE 6

AVERAGE LOAN SIZE (000 SUCRES) BY ECONOMIC SECTOR AND FIRM LOCATION

	Economic Sector				Location			
Source	Production	Commerce	Service	Agriculture	Quito	Guayaquil	Costal	Sierra
Moneylender								
Loan size	446.9	348.3	430.0	163.3	484.3	520.2	333.5	252.2
Number	35	18	17	6	15	21	20	9
Family/Relative								
Loan size	281.4	485.4	500.8	65.0	675.7	229.3	185.4	325.0
Number	22	13	12	2	14	14	11	6
Friends/Neighbors								
Loan size	300.0	240.0	205.0	150.0	314.3	217.5	127.5	200.0
Number	4	5	6	1	7	4	4	1
Supplier								
Loan size	1,305.7	209.9	78.1	0	1,012.0	194.8	1,040.7	136.6
Number	14	13	7	0	5	9	14	8
Other								
Loan size	424.3	400.0	133.3	0	700.0	242.8	20.0	375.0
Number	7	3	3	0	3	7	1	2
Total								
Loan size	540.0	340.6	344.4	140.0	592.8	335.6	476.2	240.9
Number	82	52	45	9	44	55	50	26

* Significant at 20% level. ** Significant at 10% level. *** Significant at 5% level.
**** Significant at 1% level.
Source: Enterprise Survey.

TABLE 7

AVERAGE LOAN SIZE (000 SUCRES) BY TYPE OF ENTERPRISE*

Source	Food	Textiles	Shoes & Leather	Wood-working	Basic Products	Metal-working	Artisans	Barber and beauty	Repairs	Small Shop	Large Shop	Agriculture	Other
Moneylender													
Loan size	162.5	609.2	779.1	180.0	375.0	116.0	202.9	68.3	131.2	316.7	233.3	163.3	700.0
Number	4	13	11	5	4	5	7	3	4	6	3	6	2
Family/Relative													
Loan size	4,000.0	321.5	232.9	200.0	276.7	160.0	161.4	210.0	110.0	187.5	910.0	40.0	200.0
Number	1	13	7	1	3	3	7	3	2	4	5	1	1
Friends/Neighbors													
Loan size	260.0	100.0	300.0	0	0	0	300.0	300.0	10.0	100.0	250.0	225.0	300.0
Number	2	1	3	0	0	0	1	2	1	1	2	2	1
Supplier													
Loan size	1,053.3	482.2	157.5	300.0	85.7	5,500.0	100.0	40.0	30.0	256.1	70.0	0	0
Number	3	9	4	2	3	2	1	1	1	8	1	0	0
Other													
Loan size	200.0	750.0	150.0	0	800.0	500.0	20.0	0	0	0	350.0	0	0
Number	3	2	3	0	1	1	1	0	0	0	2	0	0
Total													
Loan size	586.9	474.7	435.0	212.5	307.9	1,141.8	174.7	163.9	98.1	252.6	501.5	163.3	475.0
Number	13	38	28	8	11	11	17	9	8	19	13	9	4

*Significant at 20% level. **Significant at 10% level. ***Significant at 5% level. **** Significant at 1% level.
Source: Enterprise Survey.

TABLE 8

FREQUENCY DISTRIBUTION OF REPORTED PURPOSES FOR INFORMAL LOANS[a]

Purpose	Source					Total
	Moneylender	Family/relative	Friends/neighbors	Suppliers	Other	
	(Percent of Responses)					
Purchase materials	37.5	40.0	25.0	88.2	66.7	48.4
Increase inventory	26.4	24.0	18.8	5.9	16.7	20.6
Pay Debts	15.3	12.0	37.5	2.9	8.3	13.6
Purchase equipment	8.3	14.0	12.5	0	0	8.2
Purchase services	4.2	2.0	0	2.9	8.3	3.3
Pay employees	4.2	0	6.3	0	0	2.2
Other	4.2	8.0	0	0	0	3.8
Total[b]	101.0	100.0	100.1	99.9	100.0	100.1

[a] Significant at the 5% level.
[b] Totals do not equal 100 due to rounding.

Source: Enterprise Survey.

TABLE 9

FREQUENCY DISTRIBUTION OF LENGTH OF INFORMAL LOANS[a]

Length of Loan	Source					Total
	Moneylender	Family/relative	Friends/neighbors	Suppliers	Other	
	(Percent of Responses)					
Less than 1 month	12.5	19.4	21.4	45.5	20.0	21.8
One month	33.3	6.5	7.1	3.0	26.7	19.4
Two months	51.4	25.8	23.6	0	26.7	32.1
Three months	2.8	38.7	42.9	51.5	26.7	24.8
More than 3 months	0	9.7	0	0	0	1.8
Total[b]	100.0	100.1	100.0	100.0	100.1	99.9

[a] Significant at the 1% level.
[b] Totals do not equal 100 due to rounding.

Source: Enterprise Survey.

TABLE 10

FREQUENCY OF BORROWING FROM INFORMAL SOURCES BY SEX OF ENTREPRENEURS

Frequency	Moneylenders***		Family/relatives**		Friends/neighbors		Suppliers****	
	Male	Female	Male	Female	Male	Female	Male	Female
	(Percent of respondents)							
Frequently	8.0	4.9	1.1	3.7	1.1	0.6	4.9	13.2
Rarely	17.3	9.9	13.6	10.6	6.3	4.4	6.8	6.6
Never	74.7	85.2	85.3	85.6	92.6	95.0	88.2	80.2

* Significant at 20% level. ** Significant at 10% level. *** Significant at 5% level. **** Significant at 1% level.

Source: Enterprise Survey.

TABLE 11

FREQUENCY OF BORROWING FROM INFORMAL SOURCES BY GEOGRAPHIC LOCATION OF THE ENTERPRISE

Source/ Frequency	Location				
	Quito	Guayaquil	Costal	Sierra	Other
	(Percent of Respondents)				
Moneylenders					
Frequently	8.0	7.9	5.3	6.6	8.3
Rarely	16.8	18.7	11.8	11.8	15.0
Never	75.2	73.4	82.9	81.6	76.7
Family/relatives****					
Frequently	1.8	2.9	0.6	0	6.7
Rarely	17.9	18.4	7.0	13.2	5.0
Never	80.4	78.7	92.4	86.8	88.3
Friends/neighbors****					
Frequently	0	2.3	0.6	0	1.6
Rarely	10.1	10.7	2.4	1.3	1.6
Never	89.9	87.0	97.0	98.7	96.7
Suppliers****					
Frequently	4.6	8.5	9.9	10.5	1.6
Rarely	9.2	13.1	2.9	3.9	3.3
Never	86.2	78.5	87.1	85.5	95.1

* Significant at 20% level. ** Significant at 10% level. *** significant at 5% level.
**** Significant at 1% level.

Source: Enterprise Survey.

TABLE 12

FREQUENCY OF BORROWING FROM INFORMAL SOURCES BY TYPES OF ENTERPRISE

Source/ Frequency	Type of Enterprise												
	Food	Tex-tiles	Shoes and leather	Woodworking	Basic products	Metalwork-ing	Artisan	Barber and beauty	Repairs	Small Shop	Large Shop	Agricul-ture	Oth-er
Moneylenders													
Frequently	1.6	6.1	14.0	7.9	5.9	10.3	4.7	0	6.9	10.3	10.3	8.3	0
Rarely	17.7	14.0	24.0	7.9	14.7	13.8	14.0	5.6	13.8	10.3	13.8	16.7	16.7
Never	80.6	79.8	62.0	84.2	79.4	75.9	81.4	94.4	79.3	79.5	75.9	75.0	83.3
Family/relatives***													
Frequently	0	7.0	2.0	0	0	0	2.3	4.8	0	0	0	0	0
Rarely	9.7	7.8	27.5	5.4	15.2	14.8	18.2	14.3	7.1	12.8	20.7	12.1	8.7
Never	90.3	85.2	70.6	94.6	84.8	85.2	79.5	81.0	92.9	87.2	79.3	87.9	91.3
Friends/neighbors													
Frequently	3.2	0.9	0	0	0	0	0	0	3.7	0	0	3.1	0
Rarely	7.9	7.0	12.0	2.7	6.1	3.7	2.3	11.1	0	2.7	10.3	3.1	0
Never	88.9	92.1	88.0	97.3	93.9	96.3	97.7	88.9	96.3	97.3	89.7	93.8	100.0
Suppliers****													
Frequently	3.1	11.5	8.2	5.4	6.1	3.7	2.3	26.3	0	21.1	10.3	0	0
Rarely	10.9	7.1	10.2	2.7	12.1	7.4	2.3	0	3.7	5.3	13.8	3.1	4.3
Never	85.9	81.4	81.6	91.9	81.8	88.9	95.3	73.7	96.3	73.7	75.9	96.9	95.7

* Significant at 20% level. ** Significant at 10% level. *** significant at 5% level.
**** Significant at 1% level.

Source: Enterprise Survey.

TABLE 13

FREQUENCY OF BORROWING FROM INFORMAL SOURCES BY SIZE OF INFORMAL LOAN (000 SUCRES)

Source/ Frequency	Size of Informal Loan			
	Up through 90	Through 180	Through 360	Over 360
	(Percent of Respondents)			
Moneylenders***				
Frequently	12.8	10.9	27.4	26.1
Rarely	25.6	47.8	37.1	23.9
Never	61.5	41.3	35.5	50.0
Family/relatives				
Frequently	0	6.3	8.5	7.0
Rarely	26.8	31.3	30.5	32.6
Never	73.2	62.5	61.0	60.5
Friends/neighbors**				
Frequently	5.6	2.3	0	0
Rarely	0	13.6	12.3	16.3
Never	94.4	84.1	87.7	83.7
Suppliers				
Frequently	16.7	18.2	10.5	29.3
Rarely	19.4	9.1	10.5	12.2
Never	63.9	72.7	78.9	58.5

* Significant at 20% level. ** Significant at 10% level.
*** Significant at 5% level. **** Significant at 1% level.

Source: Enterprise Survey.

TABLE 14

FREQUENCY DISTRIBUTION OF ENTERPRISES WITH FORMAL AND INFORMAL LOANS**

Amount of Informal Loan (sucres)	Amount of Formal Loans (sucres)						Total
	None		Through	Through	Through	Over	
	Never applied	Loan denied	250,000	500,000	1,000,000	1,000,000	
None	145	58	54	75	43	38	413
Through 90,000	18	10	5	9	1	1	44
Through 180,000	20	7	7	9	6	1	50
Through 360,000	19	12	8	17	5	2	63
Over 360,000	13	7	2	10	5	10	47
Total	215	94	76	120	60	52	617*

* Data missing on 8 cases

** Significant at 10% level.

Source: Enterprise Survey.

TABLE 15

AGE AND EDUCATION OF ENTREPRENEURS BY SEX

Sex	Number Interviewed	Age (years)				Education		
		20<30	30<40	40<50	50+	Some or full primary	Some or full secondary	Some or full University
		(Percent)						
Male	29	21	41	21	17	24	58	17
Female	18	17	28	44	11	28	67	6

Source: Special Finance Survey,

TABLE 16

SOURCES OF FINANCING FOR 39 PIECES OF MACHINERY

Item	Sucres		Percent	
Total Original Cost	33,796,000		100.0	
Financed by Seller	13,978,000		41.4	
Missing Data	884,400		2.6	
Paid in Cash	18,934,200		56.0	
Sources of Cash Payment:				
Savings		8,749,200		41.8
Informal Loans:				
Parents/relatives		25,000		0.1
Friends		25,000		0.1
Moneylenders		200,000		1.0
Subtotal		250,000		1.3
Formal Loans:				
Commercial bank		0		0
State banks		10,370,000		54.8
Credit Unions		0		0
Other cooperatives		0		0
Special microenterprise program		1,550,000		8.2
Other special programs		0		0
Subtotal		11,920,000		62.9
Summary				
Total informal	14,228,000		42.1	
Total formal	11,920,000		35.3	
Savings	8,749,200		25.9	
Missing Data	884,400		2.6	

Source: Special Informal Finance Survey.

TABLE 17

FORMAL LOANS APPLIED FOR, RECEIVED, AND UNPAID BALANCE

Source	Number Applied	Received		Amount Applied*	Received		Unpaid Balance*
		Number	Percent		Amount*	Percent	
Commercial Banks	17	15	88.2	7,980	6,700	84.0	2,264.0
State Banks	4	3	75.0	3,130	2,200	70.3	1,140.0
Credit Unions	4	4	100.0	1,450	1,475	101.7	628.2
Other Coops	0	0	0	0	0	0	0
Micro-enterprise Programs	31	25	80.6	17,730	13,300	75.0	8,656.9
Other Programs	1	0	0	60	0	0	0

* Thousand Sucres

Source: Special Informal Finance Survey.

TABLE 18

SOURCE AND AMOUNT OF TOTAL LOANS OUTSTANDING

Item	Amount Outstanding (Sucres)	Number of Borrowers	Average Balance per Borrower (Sucres)	Percent of Total
Formal Loans:				
Commercial banks	2,264,000	7	323.4	4.4
State banks	1,140,000	3	380.0	2.3
Credit unions	628,250	3	209.4	1.2
Special microenterprise programs	8,656,900	20	432.8	17.1
Subtotal	12,689,150			25.0
Machinery and equipment purchases:				
Formal loans	3,776,900	4	944.2	7.4
Informal loans	0	0	0	0
Seller financed	9,000,000	1	9,000.0	17.7
Subtotal	12,776,900			25.2
Input and raw material purchases:				
Intermediaries (comerciantes)	3,300,000	3	1,100.0	6.5
Factories	8,479,000	7	1,211.3	16.7
Firms	831,000	1	831.0	1.6
Stores	9,092,947	13	669.4	17.9
Moneylenders	468,000	5	93.6	0.9
Subtotal	22,170,947			43.7
Advance Payments Received:				
Intermediaries	2,160,000	5	432.0	4.2
Stores	140,000	1	140.0	0.3
Subtotal	2,300,000			4.5
Vehicle purchases:				
Formal loans	840,000	1	840.0	1.7
Informal loans	0	0	0	0
Subtotal	840,000			1.7
Total loans outstanding				
Formal	17,306,050			34.1
Informal	33,470,947			65.9
Total	50,776,997			100.0

Source: Special Informal Finance Survey

TABLE 19

SIZE DISTRIBUTION OF TOTAL OUTSTANDING DEBT

Size of Loan (Sucres)	Borrowers		Outstanding Balance	
	Number	Percent	Amount*	Percent
No Loans	11	23.4	0	0
0 ≤ 200,000	8	17.0	700.0	1.4
200,000 < 400,000	4	8.6	1,160.0	2.3
400,000 < 600,000	5	10.6	2,322.0	4.6
600,000 < 800,000	5	10.6	3,697.0	7.3
800,000 < 1,000,000	1	2.1	980.0	1.9
1,000,000 < 1,500,000	4	8.6	5,280.0	10.4
1,500,000 < 2,000,000	3	6.4	5,270.0	10.4
2,000,000 and over	6	12.8	31,358.9	61.8
Total	47	100	50,767.9	100.1

* Thousand sucres

Source: Special Informal Finance Survey.

TABLE 20

SIZE DISTRIBUTION OF INFORMAL DEBT

Size of Loan (Sucres)	Borrowers		Outstanding Balance	
	Number	Percent	Amount*	Percent
No Loans	22	46.8	0	0
0 ≤ 200,000	9	19.1	816.0	2.4
200,000 < 400,000	3	6.4	778.0	2.3
400,000 < 600,000	1	2.1	600.0	1.8
600,000 < 800,000	0	0	0	0
800,000 < 1,000,000	6	12.8	5,488.0	16.4
1,000,000 < 1,500,000	1	2.1	1,126.9	3.4
1,500,000 < 2,000,000	1	2.1	1,700.0	5.1
2,000,000 and over	4	8.5	22,962.0	68.6
Total	47	99.9	33,470.9	100.0

* Thousand sucres

Source: Special Informal Finance Survey.

TABLE 21

SIZE DISTRIBUTION OF FORMAL DEBT

Size of Loan (Sucres)	Borrowers		Outstanding Balance	
	Number	Percent	Amount[a]	Percent
No Loans	20	42.6	0	0
0 ≤ 200,000	5	10.6	543.0	3.1
200,000 < 400,000	8	17.0	2,633.8	15.2
400,000 < 600,000	8	17.0	4,129.3	23.9
600,000 < 800,000	2	4.3	1,600.0	9.2
800,000 < 1,000,000	1	2.1	1,000.0	5.8
1,000,000 < 1,500,000	1	2.1	1,370.0	7.9
1,500,000 < 2,000,000	0	0	0	0
2,000,000 and over	2	4.3	6,030.0	34.8
Total	47	100.0	17,306.1	99.9

[a] Thousand sucres

Source: Special Informal Finance Survey.

APPENDIX A

LIST OF INTERVIEWS

Presidencia de la República del Ecuador
José Chávez

Banco Central del Ecuador
Luis Cevallos
Germán Ortega
Roberto Pozo

Superintendencia de Bancos
Nelson Armendáriz
Ligia Medina

Cooperación Nacional de Apoyo a las Unidades Populares Económicas (CONAUPE)
Susana Balarezo

Bancos Privado

Banco La Previsora	:	Juan Gortaire (Quito), Ricardo Garaicoa (Guayaquil)
Banco Internacional	:	Raúl Guerrero
Banco Nacional de Fomento	:	Fernando Alvarado, Camilo Sandoval
Banco Consolidado	:	Blasco Moscoso
Banco Popular	:	Mario Pérez
Banco del Progreso	:	Fernando Aspiazu (Guayaquil)
Banco de Guayaquil	:	Jaime Sánchez
Banco de la Producción	:	Víctor Hugo Revelo
Banco del Pacífico	:	Leopolpo Baez (Quito), Marcial Laniado (Guayaquil)
Banco Continental	:	Joaquín Martínez (Guayaquil)
Banco de Préstamos	:	Angel Valle
Banco del Pichincha	:	Miguel Carrión
Fundación Banco Popular	:	Edisón Pérez

Confederación de Cooperativas de Alemania Federal (CONCAF)
Dieter Hubental
Franklin Lozada
Jenny Valencia

World Council of Credit Unions
Bill Tucker

Confederación Latinoamericana de Cooperativas de Ahorro y Crédito (COLAC)
Hernán Peña

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Federación Nacional de Cooperativas de Ahorro y Crédito del Ecuador (FECOAC)
Otto Andrade
César Frixone
Jorge Ortega (Guayaquil)

Cooperativas de Ahorro y Crédito
Galo Ruiz (Carchi, Tulcán)
Nelly Huacón (23 de Noviembre, Babahoyo)
Carlos Acosta (Pablo Muñoz Vega, Tulcán)
Antonio Cerón (Pablo Muñoz Vega, Tulcán)
Hugo Villacorte (Tulcán, Tulcán)
Hilda Espinoza (Andalucía, Quito)
Aura de Jurado (La Dolorosa, Guayaquil)
Alfonso Ruiloba (San Francisco de Asís, Quito)
Miguel Gaibor (San Francisco, Ambato)
Celino Chávez (8 de Septiembre, Quito)
Ernesto Romero (Cotocollao, Quito)
Bertha Zambrano (Merced, Ambato)
Martha Freire (El Sagrario, Ambato)
Alfonso Salazar (El Sagrario, Ambato)

Cooperativas de Ahorro y Crédito de la Pequeña Empresa (CACPE)
Walter López (Ambato)

Coopseguros del Ecuador
Sixto Dávalos

Corporación Financiera Nacional
Rodrigo Moscoso

Federación Nacional de Cámaras de la Pequeña Industria del Ecuador (FENAPI)
Carlos Ribadeneira
César Rovalino

Fundación de Desarrollo Cooperativo
Manuel Benítez

Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC). Ambato
Jorge Grijalva

Instituto de Estrategias Agropecuarias (IDEA)
Hugo Ramos

Instituto Ecuatoriano de Seguridad Social
Jaime López (Ambato)

Obra Social y Cultura Sopena (OSCUS)
Martha Silva (Ambato)

APPENDIX B

LIST OF ACRONYMS

AID	Agency for International Development
BCE	Banco Central de Ecuador (Central Bank of Ecuador)
BID	Banco Interamericano de Desarrollo (Inter-American Development Bank)
BNF	Banco Nacional de Fomento (National Development Bank)
BEDE	Banco Ecuatoriano de Desarrollo (Development Bank of Ecuador)
CAC	Cooperativas de Ahorro y Crédito
CACPES	Cooperativas de Ahorros y Créditos de la Pequeña Empresa
CAF	Corporación Andina de Fomento
CDs	Certificates of Deposit
CFN	Corporación Financiera Nacional
COLAC	Confederación Latinoamericana de Cooperativas de Ahorro y Crédito (Latin American Confederation of Credit Unions)
CONAUPE	Corporación Nacional de Apoyo a las Unidades Populares Económicas
CONCAF	Confederación de Cooperativas de Alemania Federal
CUs	Credit unions
CUNA	Credit Union National Association)FECOAC (Ecuadorian National Federation of Credit Unions)
FECOAC	Federación Nacional de Cooperativas de Ahorro y Crédito del Ecuador
FEE	Fundación Eugenio Espejo
FENAPI	Federación Nacional de Cámaras de Pequeños Industriales (National Association of Small Industry Associations)
FOPINAR	Fondo de la Pequeña Industria y Artesania
GDP	Gross domestic product
GNP	Gross national product
GOE	Government of Equador
IDB	Inter-American Development Bank (see BID)
IMF	International Monetary Fund
INSOTEC	Instituto de Investigaciones Socio-Económicas y Tecnológicas
MSEs	Micro- and Small-scale Enterprises
NGOs	Nongovernmental organizations
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

APPENDIX C

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