

Microfinances in Rural Ecuador: A Case Study of la Cooperativa de Ahorro y Crédito Desarrollo de los Pueblos CODESARROLLO Ltda.

Michael Beilman

Faculty Sponsor: Donna Anderson, Department of Economics

ABSTRACT

This research studies the Microfinance sector in rural Ecuador, a tool currently implemented in developing countries to provide access to credit to members of society historically excluded from the financial sector. Specifically this project investigates the recent trend in commercial banks downscaling and acting as competition to microfinance institutions [MFIs]. Critics of this trend fear that it has led to a mission drift amongst current MFIs away from their social mission of serving the poorest and hardest to reach members of society due to associated costs and risks. This project investigates such claims with the use of observations in addition to interviews conducted throughout a 7-week internship with “la Cooperativa de Ahorro y Crédito Desarrollo de los Pueblos CODESARROLLO Ltda.” [The Cooperative of Savings and Credit Development of the Villages CODEVELOPMENT].

INTRODUCTION

One of the major obstacles facing the poor is access to credit. Two consequent results are: first, high amounts of absolute poverty, where a population can at best meet its demand for subsistence essentials of food, clothing, and shelter; and second, lack of gender equality. Among the many models used today to spur economic development, microfinance has risen to the forefront due to the promise of a “win-win” situation for donors and clients while eradicating poverty. The Grameen Bank of Bangladesh is an excellent example of how credit can successfully be provided to the poor while minimizing the risk that resources will be wasted.

2006 Nobel Peace Prize winner and economist Muhammad Yunus conceived the idea of the Grameen Bank, after becoming convinced through research that lack of access to credit on the part of the poor was one of the key constraints on their economic progress (Glenwick, 2007). Later studies performed by several economists have affirmed that lack of access to credit amongst the poor is one hindrance in their economic progress (Todaro and Smith, 2006). The Grameen Bank originally issued loans ranging from \$100 to \$300 to individuals. However, due to the required staff-time of loaning to individuals, loans are now generally given to “solidarity groups” of about 5 individuals. Before qualifying for loans, individuals must undergo a two-week training session in addition to required weekly meetings with a bank official (Sachs, 2005). These requirements in addition to social pressure by group members have led to Grameen’s high repayment rate of over 90% (Todaro and Smith, 2006).

Currently, approximately 95% of borrowers of the Grameen Bank are women. Since the founding of the Grameen Bank the fertility rate (average number of births per woman) in Bangladesh has fallen from 6.6 in 1975 to 3.1 in 2000 (Sachs, 2005). In regards to this decrease, Sachs states, “The jobs for women in the cities and in rural off-farm microenterprises; [and] a [resulting] new spirit of women’s rights and independence and empowerment...have made all the difference for these women” (Sachs, 2005). Further, research has related MFI’s credit lending to decreased fertility rates and child mortality rates, and increased savings and investment. In 2000 the United Nations agreed on eight “Millennium Development Goals” to be reached by 2015. MFIs are expected to aid countries in the achievement of all eight goals: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS and other diseases, ensure environmental sustainability, and develop a global partnership for development (Todaro and Smith, 2006).

Since Yunus’ inception of the first “microfinance institution”, the commercialization of Microfinance has proceeded very rapidly throughout Latin America. Only 20 to 30 years ago microfinances were dominated by non-profit organizations and cooperatives alike; however, as of 2000 commercial banks provide 29 percent of the funds to microenterprises while NGOs that have transformed themselves into licensed financial institutions provide another 45 percent (Christen, 2000). This signifies that microfinances in Latin America have begun extending credit

to the poor on a massive commercial basis. Extending formal finances to the poor results in higher costs and lower per unit returns, as a result incentives exist for MFIs to move “up-market and away from their traditional poor clientele” (Cull, 2007). The fear exists among many microfinance experts that this mission drift is negative; leaving those members of society originally targeted by MFIs – the hard-to-reach and poor- without access to financial services once again.

This research attempts to investigate such claims through a study that analyzes data gathered through in-person interviews with clients of the Cooperativa de Ahorro y Crédito Desarrollo de los Pueblos CODESARROLLO Ltda. [The Savings and Credit Cooperative of the Villages CODEVELOPMENT] in the village of San Andrés, Ecuador. CODESARROLLO is classified as a “commercial bank”, born on a national level throughout Ecuador in 1997. The cooperative seeks to establish strategic alliances with their members and other institutions in order to provide services to those who have been traditionally excluded from the formal financial market. The results of the 26 client interviews reveal that the economic status of these individuals has increased since receiving credit from Codesarrollo. Additionally, the results indicate that for the most part, Codesarrollo is successful in meeting their social mission while maintaining a “commercial bank” status.

CODESARROLLO

The Cooperative of Savings and Credit of the Villages Codesarrollo was born at a national level in the year 1997 and has since expanded throughout all sides of Ecuador including their 2003 founding in the City of Ambato. Codesarrollo has 12 agencies which lend their support to 50 “Estructuras Financieras Locales” (Local Finance Structures- small MFIs unregulated by the superintendent of banks, generally community owned and operated), 27 Organizaciones Campesinas (Villager/Rural Organization), and 18 Entidades de Desarrollo (Development NGOs) (Codesarrollo, 2003). In supporting these organizations and their clientele through savings and credit access, Codesarrollo’s dedication to those of limited resources that seek inclusion into the financial market is further emphasized.

The mission of the cooperative is a fundamental part of the social responsibility that Codesarrollo demonstrates: “CODESARROLLO is a savings and credit cooperative with social vision that looks for the integral development of marginal sectors of Ecuador, rural and marginal-urban dwellers, afro Ecuadorians and indigenous people through the promotion and strengthening of local financial markets, with the goal that these people can access agile and just financial services (Codesarrollo, 2003).

Codesarrollo is a part of many NGOs that make up the Fondo Ecuatoriano Populorum Progressio, an Italian NGO founded in 1969 dedicated to the social and economic development of the impoverished population of Ecuador (Codesarrollo, 2003). While several associations of FEPP serve the rural and urban poor by means of nationally and foreign funded development projects; Codesarrollo is the only one that specializes in extending credit to private individuals and has done so without outside funding since 2003.

The typical Codesarrollo agency mirrors a typical commercial bank; 5 to 6 employees total including a bank teller, several loan representatives, an accountant and the director of business operations (Vaca, 2008). The cooperative operates under a board of directors headquartered in the Capital of Quito. These agencies are located in 12 centrally urban locations throughout Ecuador, including the City of Ambato. These branches then lend services, including credit, training, and technology to 50 local finance structures as well as other development NGOs. In this way Codesarrollo can maximize its clientele while also supporting the solidarity of community run banks (Vaca, 2008).

Loan representatives travel to new and old clients’ homes in order to provide credit, collect repayments of past loans, as well as to notify those clients who have become behind on repayments (Vaca, 2008). While often times their agency is located as far as an hours distance by automobile, Codesarrollo’s workers are willing to travel hours longer than typical work days in order to ease the facilitation of credit to all parts of Ecuador; in this way the cooperative attempts to provide credit to the impoverished urban and rural populations.

Credit can be extended to individuals or to solidarity groups of no larger than 5 and no less than 3, similar to the practices of the Grameen Bank. Requirements for loans are relatively simple; the applicant must be a citizen of Ecuador, have a cosigner to the loan, possess a positive credit rating, and prove ownership of land or home (Vaca, 2008). After this has been completed a loan representative will travel to the location of the applicant and collect general financial information to determine a fair and realistic repayment plan. Through this process the cooperative is able to greatly reduce their risks in extending credit to clients.

A requirement to receive credit from Codesarrollo is that the members need to have a “base” in which the amount of solicited credit can be divided by 14. This result gives the cooperative a base that the member should have in their account, for example for a credit of \$2000 the member needs to have a savings account of \$142.86 ($\$2000 / 14$). This practice insures that the member has the means to repay some of the loan, a practice that ensures

the financial sustainability of the cooperatives loans. Codesarrollo has seen a fluctuation in the number of clients and total loan portfolio in past years throughout San Andrés, however the average loan size has increased despite these fluctuations (Table 1).

Table 1. Codesarrollo in San Andrés

Year	Members in San Andrés	Total Loan Portfolio	Average Loan Size
2008	69	\$138,701.93	\$2,000
2007	46	\$83,470.70	\$1,800
2006	85	\$135,172.45	\$1,600

SAN ANDRÉS

The village of San Andrés is an agriculturally based community of 9,885 habitants. It is a part of the canton of Píllaro, a home to 34,925 Ecuadorians (Píllaro, 2006). San Andrés is located 1 hour northeast by bus or automobile from Codesarrollo's Ambato agency. San Andrés varies in altitude from 7,500 feet to 12,500 feet with two rainy seasons and a plethora of rivers as serving as key sources of fertility. It is one of the many pristine agricultural settings in Ecuador's mesothermic or subtropical Andean region.

Ambato's economy is home to the largest ratio of banks and cooperatives per capita in the nation, which thrives from a large middle class and a large business sector (Vaca, 2008). Ambato's economy thrives from the agribusiness of its surrounding rural cantons and communities such as San Andrés, which is touted as some of the most fertile land in the sierra region of Ecuador. As a result 56.7% of the population of Píllaro works in some form of agriculture (Table 2).

Table 2. Employment

Category	% of Píllaro	% of Ecuador
Agriculture, Cattle raising, Fishing	56.66%	27.59%
Manufacturing Industries	8.43%	10.31%
Construction	6.59%	6.28%
Wholesale and Retail	7.72%	17.11%
Transport	4.43%	4.97%
Hotels and Restaurants	0.58%	2.10%
Public Administration and Defense	1.68%	3.69%
Teaching	3.28%	4.61%
Social and Health Services	0.77%	2.13%
Other social and personal services	4.15%	3.24%
Private households with employed persons	1.74%	3.86%
Undeclared	2.47%	9.09%
Other	1.50%	5.02%



San Andrés is well known for the cultivation of potatoes and milk products. The price of milk has risen to a steady \$0.29 per liter with the help of the Department of Local Development and the Partnership of Milk Producers (Vaca, 2008). Interestingly it is generally the women who work in the agriculture while the men tend to migrate to the Amazonian regions east of San Andrés to work in transportation or petroleum production (Vaca, 2008). A large market in Píllaro as well as four of the largest produce markets in the Andes serve as outlets for the great agricultural products of San Andrés (Figure 1), it is said that potatoes from the rich soil of San Andrés sell for much higher prices than other potatoes due to their superior quality and taste (Vaca, 2008).

MICROCREDIT IN RURAL ECUADOR

Imperfections of the Market

While microfinances started almost 20 years ago in Ecuador, the poor sectors remain a very marginalized part of the financial market. As of 2003, it was estimated that there are over 1,500,000 micro-enterprises in Ecuador, of which 40-50% are located in rural areas, 15% of this potential clientele, is currently served by formally regulated financial institutions. The rest obtain financial services in the vast informal sector, which includes approximately 300 savings and loans cooperatives with a membership base of 1.3 million people (Espinosa, 2003). In Ecuador 69% of habitants of rural areas live below the poverty line (World Bank, 1998). Additionally, 35% of the total population of the country live in rural sectors, thus there is a large need for microcredits in the rural sector. This does not signify that there is unmet demand within the rural sector. This data only suggests that there are imperfections within the financial markets of the poor, especially the rural poor.

Before microfinances were born in Ecuador, informal loans between poor individuals were very common. The informal sector includes loans from family, friends, savings accounts, and “chulqueros” (Moser, 1996). In her research Moser found that nearly half (45 percent) of households surveyed borrowed money that year from informal sources. A third borrowed from neighbors, a quarter from family members, and the rest from other sources, such as work contracts and employers. As a result, a common tendency in the financial services of the poor sectors is the exploitation of the poor. In the past it was necessary to rely on “chulqueros” for loans, these individuals practiced an exploitative system of loans. Chulqueros seem to act monopolistically, with no alternatives for credit the poor must agree to the terms of the chulqueros; thus, these chulqueros use their economic reserves to provide interest rates generally between 60% and 120%. It has been found that many current clients of Codesarrollo are still indebted to these illegal exploitative loaners (Vaca, 2008).

Microsavings

According to economist Kim Wilson and her 6 principles of microfinances, the linkage of loans to savings is a principle as important as the credit itself (Wilson, 2001). This principle is especially important in rural areas within Ecuador. Rural economic activities are dominated by agriculture in Ecuador, activities that fluctuate in cycles depending on the seasons, space, changes in climate, nutrients, etc. Thus, it seems very important to form to this cyclical life in rural sectors when providing credit; in order to provide for the continued success of the agricultural workers and microenterprises access to savings and economic reserves is instrumental to the continued economic development of these individuals. In rural areas there exists a tendency to “save” economic reserve in animals, land, inputs, and other depreciable activities (Fausto, 2005). Due to this tendency, economist Julián Hautier and his studies of microfinances in the Sierra Region of Ecuador reveal that the poor need savings in order to cover their basic necessities during periods of low production, especially to satisfy their basic food necessities (Hautier, 2005).

The Need for Microfinances in the Rural Sector

Today there are many financial institutions in the rural sector that have the goal of capturing the savings of rural habitants. While these institutions offer savings accounts, many seldom offer credit to many members of rural areas; the volume of savings captured in the rural sector is greater than the credit brought to the same regions (Vaca, 2008). This tendency consequently generates excess between what is brought or contributed to the institution and what the institution brings or contributes to the same area. While these banks utilize the savings of these members, generally there does not exist much credit from these institutions, this is a tendency that does not lend itself to the development of rural sectors such as San Andrés. This situation creates the necessity for credit, or microfinances to

these individuals. Further, the situation of the formal financial market within Ecuador functions more like an oligopoly. The four largest banks represent only 8% of the financial sector while they control upwards of 50% of the credit market (Vaca, 2008).

TWO PARADIGMS OF MICROFINANCE

Amidst the overwhelming success of the microfinance revolution, there is growing concern about the trend towards commercialization among microfinance institutions. Over the last decade the microfinance field has expanded substantially both in terms of number of institutions and the size of institutions (Christen, 2000). While such “scaling up” is applauded by those of the “institutionist” camp for its progress in spreading the benefits of microfinance services to a greater number of poor and for achieving sustainability, there is concern that “scaling-up” may lead to a drift from the MFIs original poverty alleviation mission (Glenwick, 2007). This concern raised mainly by the “welfarist” train of thought is that an emphasis on profit maximization implies a de-emphasis on poverty reduction, which results in reduced attention to the riskier and most poor clients.

The Welfarist Approach

Since Yunus’ conception of the Grameen Bank in 1974, the field has evolved into two paradigms, one of which is the welfarist approach. The Grameen Bank serves an excellent example of a welfarist MFI, emphasizing depth of outreach, or levels of poverty reached. Welfarist MFIs rely heavily on donations from “social investors” or donors who expect solely a social rate of return in the form of, for example, higher incomes for the poor, better nutrition, clean water, or lower infant mortality rates (Rhyne & Otero, 2006). The primary focus of welfarist MFIs is to immediately improve the wellbeing of its’ participants through objectives of self-employment by micro-enterprising among the poorest of the economically poor. These are mainly women, whose control over small increases of income is assumed to empower these women to improve conditions of living (Glenwick, 2007).

The basic idea behind the welfarist approach is that the strategy of reaching the greatest number of poor households results in a push away from the poorest borrowers and hence, a shift from the original mission of microfinance or a “mission drift” exemplified by Mohammad Yunus (Ghosh & Tassel, 2008).

The Institutionist Approach

Contrary to the welfarist approach, the institutionist approach is also known as a “financial systems” approach to microfinance, which is dominated by many large-scale, profit-seeking financial institutions that provide quality service to large numbers of poor clients (Rhyne & Otero, 2006). The emphasis of the institutionist approach lies on achieving financial self-sufficiency; the numbers of clients reached takes precedence over the levels of poverty reached. Institutionist MFIs rely on financial investments from investors who seek financial return (e.g. capital gains, interest, and dividends) in addition to social returns. However, in developing self-sufficiency institutionist MFIs tend to decrease reliance on donor aid instead seeking to rely on finances from the savings of clients and capital raised at commercial rates from formal financial institutions (Hishigsuren, 2004).

The basic ideal is that MFIs should take a more commercial orientation. The logic is that the best hope for reaching the greatest number of poor households is to obtain access to commercial capital in amounts that are only possible if institutions transform themselves into printable banks (Ghosh & Tassel, 2008).

COMMERCIALIZATION OF MICROFINANCE

Before examining the claims of both paradigms it is important to investigate the commercialization of microfinance in Latin America. It is useful to highlight the three key principles constituting a commercial approach to microfinance: profitability, regulation, and competition (Christen, 2000)

Profitability

First, commercialization in MFIs is reflected in strong financial performance. Not only have MFIs in Latin America adopted a commercial approach but in doing so they have become more profitable than their peers in other developing regions.

Regulation

Second, due to Ecuadorian Governing bodies’ requirements of financial sustainability to become a legal entity, it is assumed that regulated MFIs have adopted a more commercial approach. Until 2002 supervision of microfinance operations in Ecuador by the Superintendency of Banks was non-existent (Vaca, 2008). As a result of this legal void, MFIs typically followed norms more applicable to consumer lending which takes advantage of less

strict regulation and critically important loan provisions were generally done after 30 days as opposed to the 5 to 10 days recommended by microfinance best practices (Espinosa, 2003). As a result, in December 2002 the Superintendency drafted norms adhering to microfinances as follows:

- A microloan is defined as a loan that finances a micro-enterprise whose source of repayments are sales from production, commerce or service activities
- The maximum size for a micro loan is \$20,000
- Loan provisioning is mandatory after five days of arrears
- The MFIs have the liberty to establish the loan size above which guarantees would be required. For loans below this amount, all that is needed is a personal guarantor or a document signed by the borrower stating the personal assets that can be seized in case of loan default.

Furthermore the new laws also:

- Address minimum capital requirements
- Require that at least 2 members of the board of directors as well as the supervisory committee have relevant university degrees
- Require submission of periodic reports to the Superintendency in a standard chart of accounts
- Require yearly audits from an external source (Baker & Biety, 1999).
- Allow the institution to mobilize public deposit as a source of lending, e.g. using donor money to provide loans

This recent increase in regulation and thus commercialization throughout Latin America has led to an increased number of clients being served by regulated financial institutions.

Competition

Third, a MFI choosing to operate on a commercial level immediately faces competition in the new market. The profits created by pioneering NGOs generates interest from other institutions who follow suit and offer similar services, forcing original MFIs to make changes in product design, pricing, delivery mechanisms, or other basic business features (Christen, 2000). In several Latin American countries the competition has become so fierce that MFIs compete with one another to serve a shared target group, resulting in market saturation. For example, the competition in Bolivia has become so fierce that the predatory practices of some MFIs as well as the over-indebtedness of some clients as a result from the saturation have caused a severe degradation to the portfolio of the entire market (Rhyne, 2001). This over-indebtedness has many similarities with the current financial crisis in the consumer credit markets of more developed countries.

Competition has also led to a “scaling up” of activities offered by MFIs in addition to increasing the size of their clientele and branches. MFIs are continually diversifying their range of products and services to remain competitive. As noted in the section *Microsavings*, the poor not only need credit but savings services; however these are not the only services the poor require, studies have found that the poor not only need credit but also a complete range of financial services (Robinson, 2001). In the context of Codesarrollo, the cooperative originally only provided “Credi-Microempresarial” (Micro-enterprise Loans), “Credifinaicero” (Loans for NGOs and local financial structures), and general savings accounts. However, in order to compete with other institutions in the market, Codesarrollo has increased their services to include: “Crediviendo” (Loans for living necessities or house repairs), “Creditierras” (loans to purchase land), “Crediparticular” (loans for basic consumption with separate rates for loans to pay for computers), “Crediemergente” (loans for emergencies); as well as offering cost-effective services for the transfer of remittances and services for monthly government payments \$30 to the poorest 20% of citizens (Vaca, 2008).

Commercialization of microfinances within Ecuador is a relatively recent phenomenon that is the result of many driving forces. While some believe it is in the best interest of institutions to commercialize as rapidly as possible, commercialization is generally unplanned by most MFIs upon their creation. Commercialization within these institutions is a direct result of three key principles: profitability, regulation, and competition.

METHOD

The target population of this study is the clients of the cooperative Codesarrollo in the village of San Andrés, Ecuador. The village of San Andrés was chosen due to the high number of members within the area as well as to further investigate an area with competition from several commercial banks and EFLs. The objectives of this study are to determine if the clients have seen an increase in their incomes since receiving credit, to analyze the type of economic activity the cooperative supports, and to collect a general sense of client’s views of the services of Codesarrollo.

The data was collected from personal interviews of 26 clients within the neighborhoods of San Andrés from

November 16 through November 21, 2008. The study made use of a standardized questionnaire constructed with the guidance of Mr. Vinicio Vaca of the Cooperative Codesarollo and administered to the non-random sample of the 26 clients within San Andrés.

The interviews were conducted on a one-on-one in person basis unaccompanied by any formal members of the cooperative. While I was acting as an intern for Codesarollo, the confidentiality of the responses of all clients was made clear before conducting the interview.

RESULTS

In total there were 26 responses to the questionnaires, a number representing 38% of the 69 total clients within San Andrés.

The results show that 85% of members work in a form of agriculture, 14% work in a form of commerce, and 1% in making clothing. The results also show that members work an average of 9.9 hours per day, a range from 6 hours to 15 hours.

The results indicate that 58% of clients noted an increase in their average incomes after they had received credit, further, not a single response noted a decrease in income after receiving credit. A total average increase in incomes of \$50 was noted, and within the 15 clients that noted an income increase this increase was on average \$86.67. The increases ranged from \$10 to \$400.

In addition to investigating the impacts of credit, another goal of the questionnaire was to capture a sense of competition within San Andrés. 54% of respondents have credit in other banks and cooperatives, while the other half of respondents have not received credit before receiving credit from Codesarollo. 7 members of Codesarollo have credit with the San Francisco Cooperative of Savings and Credit, 4 with the Bank of Pichincha, 3 with Oscuro Credit Union. Of these members, the average amount of credit in other institutions is \$3740 as compared to \$2000.

The surveys also attempted to gain an understanding of clients' views of Codesarollo's services. 20% of respondents said the services that the cooperative brings are "very good", while 46% responded they are "good", 8% "regular", and less than 1% responded "bad". Furthermore, only 23% of members think the costs are too high, generally they have difficulties in making the timing of payments due to their inflow of money. Also, all 26 interviewees would like to see a Codesarollo agency in Pillaro.

Furthermore, the results of the interviews show that 36% of the clients use credit only for agriculture, 18% for cattle raising, 10% for agriculture and cattle raising, 4% for the purchasing of land, 15% for education; thus 85% of Codesarollo's credit is utilized for "productive" purposes (Figure 2). When asked if they viewed credit as a necessity in the development of their economic activities, 88% of respondents agreed.

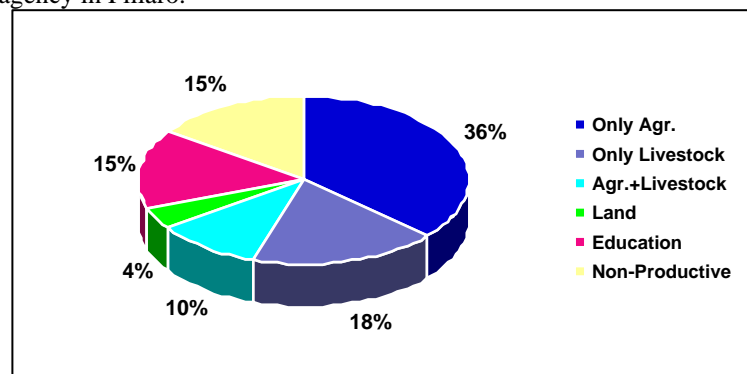


Figure 2. Use of Credit

DISCUSSION

How is Codesarollo Performing?

Through interviews and questionnaires a general knowledge of the financial market in San Andrés was gained. Generally, the members have positive thoughts about the cooperative, less than 1% responses indicated that the services of Codesarollo are "bad". According to author Kim Wilson this is a very positive aspect of the cooperative, she emphasizes the need for a positive relationship with members in order to have a successful microcredit system.

Further, the general thoughts of the members in regards to the costs of Codesarollo's services, are positive – only 23% though the costs were expensive. Therefore, 3 times out of 4 Codesarollo realizes their goal of "searching for the integral development of the marginalized population of Ecuador." If members are able to save this surplus money from low interest rates, then these members will have the option for more personal development as well as higher rates of savings that can then result in the extension of credit to more individuals within their community.

Competition in Pillaro

Additionally, the results indicate an alarming trend, 50% of Codesarollo's clients have credit in other Banks or

Cooperatives. The average loan amount from these other institutions is \$3740 as compared to \$2000, the average loan amount for members of Codesarrollo in San Andrés (Figure 3). It is interesting to note that all of the “competing” institutions have locations within Píllaro. Codesarrollo lends support through EFLs such as the Cooperative of Savings and Credit Tesoro Pillareño (Píllaro’s Treasure) located in San Andrés; but members of Codesarrollo must make visits of travel times greater than an hour in order to compete with the services of these other institutions located within the village; resulting in a severe disadvantage for Codesarrollo’s financial mission. In order to expand more services it may be necessary for Codesarrollo to increase its number of agencies to surrounding communities such as Píllaro to ease facilitation of credit which demonstrates the effect of competition on commercialization.

The results of the questionnaire show that all respondents desire an agency within Píllaro. These results are not a surprise as the trip from Píllaro to Codesarrollo’s Ambato agency is up to an hour away. For a farmer this represents a significant time and money sacrifice, the opportunity cost of 2 hours of lost work as well as the cost of transportation all serve as deterrents to make the trip to Codesarrollo to access savings, cancel debt, or seek more credit. While Codesarrollo does make a strong effort to visit these members as much as possible, it is rarely more than once a month. This process definitely has

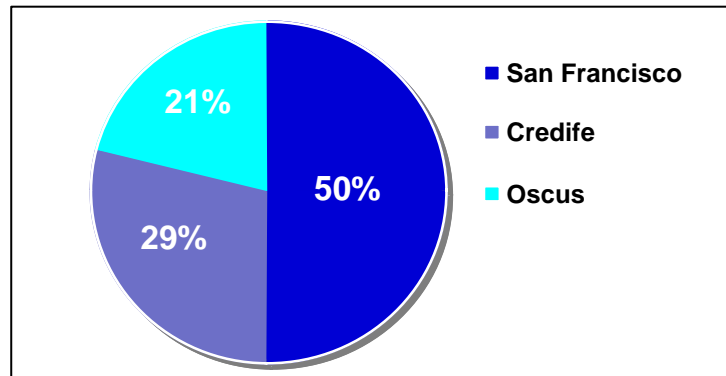


Figure 3. Credit in other Cooperatives

limitations, and as a result there is a shocking trend within some of these members. As well as seeing 50% of members with credit in other locations, I then began to ask in all interviews if the member had their primary savings accounts in another institution. I was not surprised to note that 11 out of 23 clients that chose to respond (this was not a question originally published on the questionnaire) indicated that they have their primary savings in other banks. Often times these accounts were in the Bank of Pichincha, the most successful Ecuadorian bank; it is most likely due to higher savings rates as well as the proximity of the Banks location. As discussed earlier, the ease of access to savings is as important within microfinances as is access to credit, so in order to improve their services Codesarrollo should also seek to have more agencies in rural areas to provide access to savings.

It seems in order to realize their goal of “becoming leaders on a national level in the development of rural and urban finances” it is necessary to increase the number of agencies throughout Ecuador. This knowledge is not only important to the social vision of the cooperative, but it is also important in the financial expansion that could be gained.

Codesarrollo’s Impact on Member’s Lives

While it is important to recognize that there are many other factors and externalities that could account for the increase in incomes of members, the results do show an average increase in incomes of \$50. Members’ average income before receiving credit was \$262.69 which increased within 15 clients resulting in a new average income of \$312.69; thus the average increase in those credit holders is \$86.67. Again it is important to note that we cannot attribute this increase to the credit provided by Codesarrollo, however, it is an interesting tendency to note, 58% of respondents saw an increase in their income after receiving credit. Codesarrollo realizes an instrumental goal of microfinances – credit has the tendency to raise the economic status of its recipients so they can then invest in their land, their animals, and the necessities of the family in addition to increasing their savings.

Furthermore, 25 out of 26 interviews conducted were with women. This indicates a very positive trend among Codesarrollo’s members. While Codesarrollo does not specifically target women as loan recipients or have any social mission along the lines of “empowering” women, 96% of the recipients in this study were females. It can be assumed that an increase in financial holdings amongst these women indicates a sense of increasing gender equality in their lives and within San Andrés. Again, this empowerment cannot be directly linked to Codesarrollo’s credit it is interesting to note that in this study it is the women who control their family’s finances.

Also, we know from the results that Codesarrollo is successful in bringing financial services to producers and workers of lesser resources. 85% of credit is used in agriculture, which indicates a positive trend in the Cooperative’s credit; most of the credit is utilized to help the local economy or agricultural production. If 88% of respondents view the credit as a necessity, then Codesarrollo is successfully helping these producers of limited resources, help that goes to aid the entire community. Furthermore, the results of the questionnaire show that half of

the recipients had not received credit before their current loan from Codesarrollo. This is a very positive result, Codesarrollo is successful in extending credit to producers of workers who have indeed been historically excluded from the formal financial sector in the past, further proving the cooperatives dedication to their social mission.

LIMITATIONS

Although data was compiled and results were analyzed from 26 surveys, this low sample size does indicate that none of the results are statistically accurate. When I began the interview process I was optimistic about the number of results I would obtain; however, after the first day of interviews I realized my sample size would not be quite what I desired. Some days I spent up to 10 hours plus an hour and a half of travel time only to obtain anywhere from 2 to 5 interviews. Many obstacles were the cause of these “inefficient” days.

First, the Cooperative provided only the clients name and their neighborhood within San Andrés; I was then required to ask for directions from community members who were often times unaware of the location of a member’s house. I recall one occasion where I walked 2 miles through mountainous terrain and unpaved roads in what I assumed to be the right direction; upon arriving at this location was I informed that I had indeed walked in the wrong direction. Further, the supplied list of clients was outdated so on many occasions I wasted time locating a house just to learn that the family had either moved to an urban location or migrated overseas. Due to the extreme travel times and difficulties in locating clients residences I feel my overall sample size was hindered.

Further, I did have a notice of confidentiality with each interview I conducted; however, I feel as though many times the client was still fearful to answer truthfully. I introduced myself as an intern and study abroad student conducting personal research; however, I believe that clients had the idea that I would report my findings without confidentiality to the cooperative. This further inhibited the accuracy of the results.

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