Empowerment Through Microfinance: Fact or Fiction? An Analysis of Microfinance In Ecuador

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ABSTRACT

Microfinance institutions (MFIs) around the world boast both their social missions and their impacts in the communities they serve. However, upon further inspection, academics and researchers have more skeptical opinions about microfinance's influence on the empowerment of people. What is the real story? Relying on testimonials from real microfinance clients and institutions, this thesis aims to prove that microfinance is an effective empowerment tool for marginalized populations in Ecuador, and to recommend strategies for MFIs to properly document their impacts in communities.

"But if you go out into the real world, you cannot miss seeing that the poor are poor not because they are untrained, or illiterate, they are poor because they cannot retain the returns of their labor... they have no control over capital… Why can't the poor control any capital? Because they do not inherit any capital or credit, nor does anybody give them access to capital, because we have been made to believe that the poor are not to be trusted with credit - they are not creditworthy. But are banks people-worthy?"[1]

Overlooking Santa Rosa, Ecuador[2]

[1] Yunus, Muhammad. "Banker to the Poor: Micro-Lending and the Battle Against World Poverty" 2007.
[2] Photo taken by author (2017).
[2] Photo taken by author (2017).
[3] "Frequently asked questions about gender equality" *UNFPA*. 2005.

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Abbreviations

1DJ	1 de julio (Primero de julio)
COAC	*Cooperativa de Ahorros y Créditos*
CONAIE	*Confederación de Nacionalidades Indígenas del Ecuador*
FODEMI	*Fondo de Desarrollo Microempresarial*
GGR	Global Gender Gap Report (2017)
MFI	Microfinance Institution
MÑ	Mushuc ñan
NGO	Non-governmental organization
P2P	Peer to Peer lending
P.A.R.	Portfolio at risk
PPI	Progress out of Poverty Index
SBS	*Superintendencia de Bancos*
SEPS	*Superintendencia de Economía Popular y Solidaria*
TEA	*Tasa Efectiva Anual*
UDHR	Universal Declaration of Human Rights
VF	VisionFund
WDR	World Development Report on Gender Equality and Development (2012)

Translations

Campesino

A peasant farmer

Casa matriz

Base, central, main office

Cliente

Client

Confederación de Nacionalidades Indígenas del Ecuador

Confederation of the Indigenous Nations of Ecuador

Cooperativa de Ahorros y Créditos

Cooperative of Savings and Credits

Fondo de Desarrollo Microempresarial

Micro-business Development Fund

Machismo

The cultural practice prevalent in Latin America that promotes men as being naturally superior to women

Mestizo

Ethnic category in Latin America that denotes a mixed ancestry of Amerindian and white (Spanish) European

Microfinanzas
Microfinances
Socio
Partner, member, associate
Superintendencia de Bancos
Superintendence of Banks
Superintendencia de Economía Popular y Solidaria
Superintendence of Popular and Solidarity Economy
Tasa Efectiva Anual
Effective Annual Rate

CHAPTER I: INTRODUCTIONS

Empowerment, Equity, and Equality

Before delving into the arguments of this thesis, it is important to define the terms “empowerment,” “equity,” and “equality.” These words are often thrown around interchangeably, but they have distinct meanings. I will be using the descriptions provided by the United Nations Population Fund, a reproductive health and rights agency of the UN. Their definition is focused on the intersection of gender with these terms, but I believe that they can be easily used in reference to other marginalized populations.

The term “equity” denotes fairness: fair treatment under the law, fair access to opportunities… a level playing field. To achieve equity, tailored strategies need to be created and implemented to overcome historical, economic, or socio-cultural disadvantages that are ingrained into an environment. Achieving equity can then lead to “equality.” Equality denotes equal access to and participation in institutions, formal and informal, no matter one’s physical characteristics or socio-cultural conditions. Equality can be viewed as the most idealized, utopian outcome possible, and therefore, is not something that will be observed immediately. Achieving equity is a reachable goal of empowerment at this point in time.

Inequality, something that currently persists globally, denotes that certain populations are “excluded or disadvantaged in relation to decision-making and access to economic and social resources."[3] Therefore, "empowerment" is first, the act of identifying those marginalizing systems and then, addressing those power imbalances to give affected populations more autonomy in facets of their lives. Empowerment is required to achieve any sort of equity, and therefore equality, in private and public decision-making.

In the context of this thesis, I aim to prove that microfinance is a tool of empowerment for marginalized populations in Ecuador. Microfinance can help populations that are underserved, that have been denied economic autonomy due to historical and socio-cultural prejudice, to achieve equity in their country. This can be defined as equal opportunity and access to financial and educational systems, or even just allowing more autonomous decision-making power in their private lives.

It is necessary to keep these distinctions in mind. When the reader is confronted with information about marginalized groups in Ecuador, it is important to identify which systems are at fault, which prejudices maintain these systems, and therefore, why microfinance is a beneficial empowerment tool for individuals.

Ecuador

Nestled in the Northwest of South America is the lush nation of Ecuador. Home to about 16.4 million people,[4] Ecuador is historically, culturally, and environmentally rich in its complexity. It has been remembered for its link to the

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[3] "Frequently asked questions about gender equality" *UNFPA*. 2005.
[4] "The World Factbook: Ecuador" *Central Intelligence Agency*. 2018.

ancient Inca, as a site of Spanish "exploration," and home to important scientific discoveries.[5] Many American tourists enjoy not having to exchange their dollar[6] for the ability to see breathtaking volcanoes in the Andean highlands, to relax by the beach, and to explore the ecological diversity of the Amazon, all within a matter of days. Many, however, overlook the strife that everyday Ecuadorians experience, nor understand the history of the country.

23% of the Ecuadorian population lives below the poverty line.[7] It is estimated that only 46% of the population hold an account at a financial institution.[8] This lack of access to financial security disproportionally affects rural, low income, female, and indigenous peoples, and continues to be exasperated by national economic turbulence.

The Ecuadorian economy began as a small, but strong, exporter of agricultural products and natural resources, as well as hosts a vibrant tourist economy. In the late 1960s, substantial oil reserves were discovered, and Ecuador rapidly became a major player in the global petroleum economy. This dramatic rise in GDP helped the government funnel spending into public service initiatives such as health, education, and housing programs. Petroleum solidified its place of power in the Ecuadorian political economy.

Ecuador's political history is riddled with corruption and dramatic political upsets. The late '90s complicated these matters with economic turmoil as

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[5] In 1835, Charles Darwin spent time in the Galapagos Islands, an important step in developing his theory of evolution.
[6] Ecuador adopted the US dollar as its official currency on January 9, 2000. El Salvador and Panama are the two other Latin American countries that have "dollarized" their economies.
[7] Poverty headcount ratio at national poverty lines (% of population). Estimated to be less than between $4-5 per day. The World Bank Group. 2016.
[8] "Financial Inclusion Data: Ecuador" *The World Bank Group*. 2014.

well. In 1997, protests erupted against President Abdala Bucaram Ortiz, not-so-affectionately known as “El Loco.”[9] Hyperinflation was wrecking the country due to negligent spending and low international oil prices. Local good prices had increased by 600%. Congress dismissed the president on the grounds of “mental incompetence,” and in 1998, Jamil Mahuad was elected. His term was ended quickly, however, when both the army and indigenous protesters forced him to leave office in 2000.

Vice-President-turned-President, Gustavo Noboa was forced to face the exacerbated economic crisis. With inflation at 96.1%, he made the radical choice to adopt the US dollar as the national Ecuadorian currency to finally stop the freefall of the *sucre*,[10] and to stabilize the country’s financial market. It was not a complete shock to the population, as Ecuadorians had already begun to informally adopt the US dollar as to not lose purchasing power in the hyperinflation crisis. Even though dollarization has been seen as a worthwhile solution - Ecuador has enjoyed an average annual economic growth of 4.4% over the past decade[11] - inflation did not decrease from double digits until 2004.

Before continuing with the political history of the country, it is important to clarify what “dollarization” means: Ecuador is not able to print physical US bills, but American cash is accepted and used as legal tender. In international trade, its products are subject to the fluctuation of the US dollar exchange rate.

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[9] Translated by author: The Crazy One.
[10] The old Ecuadorian currency. *Sucre* coins are still used alongside American dollars.
[11] This is higher than many other Latin American countries.

There are many pros to this policy. As the US is Ecuador's largest trading partner, using the US dollar decreases transaction costs between the two countries, and Ecuadorian exportation has increased since dollarization. In this vein, the stability of the US dollar promotes long term investment and trade by foreign actors. Ecuador can also expect a lower risk of inflation, a historically tumultuous issue for the country, as the US dollar carries a lot of confidence.[12] In the political vein, dollarization helps prevent the central bank from having its own monetary policy. Unlike the Fed in the United States, the Central Bank of Ecuador is operated under the executive branch, and therefore can be manipulated for political gain. Ecuadorian governments have to rely on transparent fiscal policies to fix economic problems, such as raising taxes or accumulating debt through government spending, rather than printing money.

Many, however, view this last point as a main disadvantage of dollarization. Having a strong domestic currency like the dollar makes Ecuador's exports less competitive in the international markets. Citizens have started traveling to Colombia and Peru to do their basic shopping because the dollar can buy more there than at home.[13] A lack of monetary autonomy means that the government cannot perform "competitive devaluation" to boost export volumes, and exporters are left dependent to the whim of the market. Furthermore, being an oil producing country with a dollarized economy means that a decrease in net

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[12] US inflation has never exceeded 4%. Even though Ecuador is using the dollar, it has seen inflation higher than 4% in 2011 and 2012… but these rates did not reach double digits and it has in the past.

[13] It has been documented that some Ecuadorians in Quito drive 5+ hours to Colombia to buy goods.

exports of non-oil commodities paired with a fall in oil prices creates a double sucker punch for the Ecuadorian economy.[14]

With all that being said, many experts believe that the country cannot de-dollarize: the costs would outweigh the benefits. The main issue with Ecuador's economy is its reliance on oil. In 2014, 52% of the country's export value came from petroleum. When oil prices fall, everyone in the country loses. Even then, if export demand were to increase, Ecuador cannot magically increase production to match. Its capacity is limited.[15] If the country were to de-dollarize, they would still be receiving an incredible inflow of US dollars from oil, and the new national currency would appreciate, causing the same issue the country is experiencing currently.[16]

After dollarization, the next four years of the 2000s saw the turnover of two presidents. Civic unrest and mass-protesting caused the removal of Lucio Gutierrez, elected in 2002, after his newly reformed Supreme Court dropped corruption charges against two former presidents. Al Palacio, his replacement in 2005, was defeated in the 2006 election after mismanaging protests over the spending of oil revenues. After a shut-down of production and a declared state of emergency, oil companies were finally required to pay local taxes, and promote infrastructure projects in the regions they operated.

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[14] Guess what the current economic issue for Ecuador is? You guessed it! These exact characteristics!

[15] Not for all negative reasons. Land protection of the Amazon comes into play.

[16] Domestic experts believe that Ecuador should turn its focus to improving trade relations with other Latin American countries, such as lowering tariffs and becoming more competitive in regional trade.

In 2006, socialist[17] President Rafael Correa began his reign on the promises of social reform programs to alleviate poverty, and the nationalization of oil production in the country to free workers from foreign corporations. His party, PAIS, easily won 60% of the assembly seats on his platform in 2007. This allowed Correa to pass a new constitution in 2008, and have Ecuador officially default on billions of dollars of "illegitimate" foreign debt.

In 2009, Correa was re-elected[18] and completed the nationalization of the oil industry by the middle of 2010. With the Ecuadorian state finally owning 100% of its produced oil and gas, Correa began to feel confident in challenging foreign entities. Famously in 2012, Ecuador granted asylum to Wikileaks founder Julian Assange in their London embassy as he was seeking refuge to escape extradition to Sweden on rape charges. Many Ecuadorians viewed this unfavorably, and tensions heightened with Britain and the US as a result.

Even so, in 2013, Correa was elected a third time,[19] but began a controversial four-year term. Four months into his re-election, Parliament approved what was called a "gagging law," as the state created an official body to sanction the media and redistribute broadcasting frequencies.[20] Furthermore, Correa authorized oil production expansion into untouched parts of the Amazon rainforest, blaming the lack of foreign funding for conservation as a causing factor. Finally, in 2015, Parliament shocked the public by eliminating presidential

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[17] Often called an authoritarian-socialist president…
[18] Considered, however, his "first" election under the new 2008 constitution.
[19] Or second time, under the 2008 constitution.
[20] Radio is still a popular medium in Ecuador, especially in indigenous communities.

term limits. Many were worried about Correa running again - or taking over indefinitely.

In April of 2016, a devastating 7.8-magnitude earthquake in the northwest coast of Ecuador severely damaged the services industry and exacerbated overarching economic struggles. More than 400 people died, and billions of dollars in damages were incurred. Urban unemployment grew from 4.5 to 6.5 percent, and underemployment increased about 7%.[21]

In an interesting turn of events, Correa did not run again, and backed Vice-President Lenín Moreno in the 2017 elections against Guillermo Lasso, a center-right banker running on lowering both taxes and government spending.[22] Moreno narrowly won the election, even with accusations of voter fraud from his opponents, and is currently serving as president. He is the first wheelchair-using president in Ecuadorian history, and has promised more spending on programs for disabled Ecuadorians, as well as campaigned on continuing Correa's level of spending on public services. However, Moreno has found a need to distance himself from Correa's legacy with a shimmying economy and domestic social pressures.

Correa, enjoying the funding given by oil revenue, was able to improve the state's education, healthcare, and social security systems, as well as complete major infrastructure projects like constructing new highways and a new international airport. However, government spending increased to be 44% of

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[21] "Ecuador" *The World Bank Group*. 2018.
[22] Many compare the campaign tactics and national division to the 2016 US election cycle.

GDP,[23] and also increased the debt to GDP ratio to 33.1%.[24] As one can assume, these spending plans are unsustainable. In 2017, Ecuador's GDP was measured at $97.8 billion USD.[25] With stagnant oil revenues and exponentially increasing debt, Moreno either has to increase taxes or cut government spending, neither of which is popular.

Moreno is choosing to stray from Correa's path, and held a referendum in February this year to create new avenues for the country. Ecuadorians voted to reinstate a term limit for presidents, divest from oil production in protected parts of the Amazon, as well as permanently ban corrupt politicians from participating in political life.[26] In March, Moreno also cut off the internet connection of Assange in punishment for exacerbating tensions between foreign powers. While the government's relationship with the media is still shaky, Moreno is trying to take steps to mend after Correa's decade-long war with journalists.

Another challenge facing the country is the issue of underemployment. In 2017, the rate of underemployment was estimated to be 21.4%, the highest recorded since 2007.[27] This means that almost a quarter of the population is employed in a job requiring less than 40 hours a week or paying less than the minimum wage - if it is even a paid position at all.[28] While there were 90,000 fewer unemployed people from March 2016 to March 2017, this does not mean

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[23] Statistic from 2014. For comparison, government spending was 20% of GDP in 2000.
[24] Statistic from 2015.
[25] "The Global Gender Gap Report" *The World Economic Forum*. 2017.
[26] Correa campaigned throughout the country to encourage people to vote "No" to all referendum questions. For all 7 referendum questions, "Yes" won. Looks like that did not go too well for him.
[27] "Declining unemployment masks rise in underemployment" *The Economist Intelligence Unit*. 2017.
[28] Many are forced to accept underpaid work to have some sort of income to support themselves. Young adults and recent graduates are particularly pushed to accept unpaid or underpaid work.

that individuals found "adequate" employment. Only 38.5% of the labor force were working full-time positions in March 2017. The lack of formal employment disproportionately affects women, with only 29.5% of the female economically active population seeing adequate employment compared to 45.3% of men.[29]

Microfinance (in Ecuador)

The current Ecuadorian government must find a way to deliver campaign promises of providing more subsidies for the poor, creating major building programs for job creation, as well as extending credit for rural workers, and creating greater government financial accountability. But as explored in the above section, they do not have the means to do so. When the public sector lacks the ability or capital to aide its population, turning to community motivated, private, or non-governmental interventions, can be more reliable. This is where microfinance can make a difference.

Microfinance is considered the semi-formal sector of finance. It provides normal financial services, such as credit, savings, insurance, and more, at a smaller scale for populations that normally would not have access to formal financial institutions for whatever reason, such as geographic or infrastructural limitations, legal shortcomings, or socio-cultural stigmas. Microfinance promotes financial inclusivity across gender, geography, and class and pairs well with the social empowerment of the underserved in both the developed and developing

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[29] "Declining unemployment masks rise in underemployment" *The Economist Intelligence Unit*. 2017.

worlds. In much of the world, women and ethnic minorities are large, neglected populations.

The concept and practice of microfinance has been around for centuries. In the 18th century, rural cooperatives and credit unions could be found from Germany to West Africa, and access to credit was used as a political statement.[30] The modern industry, however, did not start to take hold in Latin America and Southeast Asia until the 1960s and 1970s with various experiments by private foundations and governments on the use of social collateral in group lending models. Microfinance came fully into the international view in 2006, when Muhammad Yunus and Grameen Bank won the Nobel Peace Prize "for their efforts through microcredit to create economic and social development from below."[31] After this recognition, a flood of MFIs began to form in the global market, and while many of them maintained a socially responsible, non-profit model, controversy erupted as some established predatory, for-profit[32] practices through incredibly high interest rates and lack of financial education for clients.[33] The industry, in turn, began to fall out of favor, especially with a series of scandalous exposees linking loan repayment pressure to suicide rates.[34] Now, microfinance is still present in many developed and developing parts of the world, but is struggling to receive the overwhelming support it once enjoyed.

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[30] The author of *Gulliver's Travel*, Jonathan Swift, started the Irish Loan Fund to provide credit to low income Irish families that were neglected by the British government.
[31] "The Nobel Peace Prize 2006" *Nobelprize.org*. 2014.
[32] I do not mean to imply that for-profit MFIs are evil or wrong, but they can be if they are executed poorly and without nuance.
[33] Some of the modern debates surrounding the industry are: the need for greater MFI regulation and accountability for their interest and default rates, hiring practices, and tracking of client demography.
[34] Biswas, Soutik. "India's micro-finance suicide epidemic" *BBC News*. 2010.

With that being said, Ecuador has one of the fastest growing microfinance sectors in Latin America. While governments in other parts of the world may have had a hands-off approach to overseeing the presence of MFIs, Ecuador has incorporated MFIs under the *Superintendencia de Bancos* (SBS)[35] since 2002. This organization monitors the quality of financial services, provides financial education, and supervises risks in the financial system of Ecuador. Furthermore, in 2004, consumer protection and financial transparency laws were introduced. These required all public financial institutions, NGO-MFIs included, "to disclose their procedures adequately and maintain transparency about the interest rate and fees charged."[36] To maintain tight regulation of interest rates in the microfinance sector, the SBS created a national price formula, the *Tasa Efectiva Anual* (TEA),[37] which is similar to the international Effective Annual Interest Rate formula.[38]

These regulations are important because MFIs generally have to charge much higher interest rates than formal financial institutions, but should not be charging so much that they become predatory. Due to the amount of risk they shoulder, as well as the small amounts they loan, MFIs' interest rates keep them afloat. The current Ecuadorian interest rate cap is set at about 30% for MFIs, and set at about 27% for all other lenders.[39] While this may seem extremely high, this

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[35] Translated by author: Superintendence of Banks.
[36] "Microfinance Pricing in Ecuador" *MFTransparency.org*. 2010.
[37] Translated by author: Effective Annual Rate. Differs from international Effective Annual Interest Rate by not including insurance charges.
[38] Defined by Investopedia: "The interest rate that is actually earned or paid on an investment, loan, or other financial product due to the result of compounding over a given time period."
[39] Banco Central de Ecuador. 2018.

rate is a decrease from 33.9% in 2010[40] - which brought about a lot of difficulties for the MFI market. Many small, community-based MFIs had to sell their portfolio to larger institutions, as they could no longer operate from lower interest rates on small loan amounts. A current struggle in the country is to find ways to reconnect with lost clients who are left in need.

Government steps have turned into great leaps for microfinance in the country, making it the second largest portfolio in Latin America after Brazil. In October of 2015, there were 887 registered *cooperativas de ahorro y crédito* (COAC),[41] totalling to about 4,700,000 *socios*, and a national portfolio of about $8.3 billion USD.[42] Many believe that there are so many COACs in the country due to the ability for small, informal, community-based lending groups to be formally recognized by the government, institutionalized, and then regulated.

Another important Ecuadorian microfinance characteristic to explain is the distinction between *socios* and *clientes*. A *socio* denotes that a borrower is also a member of a COAC. Many community MFIs promote democracy within their groups, and want borrowers to have a voice in the decision-making processes of the COAC. A *cliente* is more synonymous with the Western idea of banking: that you are a client that is served by the financial institution. You do not have a say the Board of Directors elections, nor are you able to vote about which services are

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[40] "Interest Rate Debate in Microfinance: reflections on regulated caps" *About Microfinance*. 2018.

[41] Translated by author: cooperative of savings and credits. In Ecuador, many organizations describe themselves as COACs. They are semi-formal financial institutions performing *microfinanzas*, and fall under the umbrella of MFIs.

[42] *Superintendencia de Economía Popular y Solidaria*. Translated by author: Superintendence of Popular and Solidarity Economy.

provided to you. There are some Ecuadorian COACs or formal institutions that operate in a *cliente* manner, but a majority call their borrowers *socios*.

The government has continued to dedicate itself moving microfinance forward. The *Superintendencia de Economía Popular y Solidaria* (SEPS), a government department formed in 2012, is charged with overseeing economic organizations within the country all the while promoting the development and stability of solidarity within the economy. In 2015, they formed four new goals: to strengthen COACs, to increase integral risk management, to create credit risk management, and to promote solvency compliance. The SEPS wants to use technological integration in these next steps, by creating new financial products that are not traditional, but still satisfy the needs of microfinance *socios*. This includes the incorporation of digital money systems into COACs on the part of the State.

These goals may be lofty, however. Aforementioned, Ecuador's government is having to tighten its belt in many public investment and service provisions. Many COACs do not have the capital in their portfolios to both expand their services to new clients in need, and make these infrastructural improvements. Therefore, is microfinance actually an effective empowerment tool for marginalized populations in Ecuador?

To approach this question, it is important to determine which populations are in need in Ecuador. In the previous paragraphs, female, low-income, rural, and indigenous people were mentioned as being excluded and undervalued in

Ecuador. For this thesis, I will be focusing specifically on women and indigenous peoples.

Populations In Need: Women

Many non-governmental organizations continue to attempt to define gender equity, and therefore equality, and to explain the resounding, global effects due to its systematic absence in the world. The 2012 World Development Report on Gender Equality and Development (WDR) discusses the importance of equity for economic development. They emphasize that equality denotes a level field in both opportunity and outcomes: that women and men should have equity in not only the accumulation of endowments, but also in their application towards economic and personal opportunities and empowerment.[43]

Gender gaps persist in both the developing and developed world, as "...many [women] are caught in a productivity trap: working hard on an uneven playing field with unequal access to productive inputs."[44] Much like the barriers that exist for poor populations in accessing formal financial opportunities, women experience legal and socio-cultural hurdles in their everyday lives, limiting them from not only economic rights, but other social rights as well. When I spoke with female entrepreneurs during my time in both Ecuador and Chile, many felt that they did not have the same authority in price negotiation, or other business relations, as male competitors due to societal gender bias. This pervasive and

[43] "World Development Report on Gender Equality and Development" *The World Bank*. 2012. 4.
[44] Ibid. 19.

oppressive cultural norm of aggressive male pride is called *machismo* in Latin America.[45]

To quantify the Productivity Trap more explicitly, it is necessary to look at specific data of limited female opportunity. While gender gaps in labor force participation and education enrollment have generally continued to shrink over the past 30 years, large gaps still persist.[46] For one, educational performance still lags, especially in STEM subjects, lessening the accessibility for women to high-income professional jobs. Women regularly hold worse jobs than men, form entry level all the way to executive offices, as in the developing world, only 27% of top-management jobs are held by women.[47] This translates into lower income: on average, 19% less in developing countries and 15% less in OECD countries.[48] A combination of discrimination in the appointment of managerial jobs as well as the persistent, systemic sexism in education (leading to a lack of necessary qualifications for higher paying jobs), have perpetuated a wide gap in female economic participation. The gap widens when looking at lower classes: low-skill women from poor families face the largest participation gaps in the world.[49]

A lack of economic autonomy factors into the limit of female household and societal voice. Women generally work more hours per week than men, as they are expected to balance both domestic and professional labor duties, if they are even allowed to work outside of the home. Many are not able to make

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[45] There is no direct English translation of *machismo*. The term, however, has become globally known in relation to institutionalized sexism and misogyny.
[46] OECD reports that the gaps have fallen 1% each year since the mid-1990s. "Closing Gender Gaps in the Labour Markets of Emerging Economies: The Unfinished Job" *OECD*. 2016.
[47] Ibid.
[48] Ibid.
[49] Ibid.

independent decisions about household assets and spending, hindering their bargaining power in the household, and not permitting them to pursue independence outside of stifling situations. In order for women to be empowered they must have "access to the material, human, and social resources necessary to make strategic choices in [their lives]."[50]

As the reader may now see, the socio-cultural limits of women's decision-making processes feed into the hindrance of their economic, legal, and professional autonomy, which circle back into promoting prejudice and restriction of female empowerment… the Productivity Trap. It is difficult for international and non-governmental organizations to pinpoint which tool towards empowerment is the best to promote. Some of the have proposed ways to approach closing these gaps are through social policy, improvement of communication, transportation, and female health infrastructure, as well as more comprehensive legal support.

However, expanding access to economic opportunities is the most impactful way. The Canadian International Development Agency has shown its support for programs that provide "increased access to productive assets (especially land, capital, and credit), processing, and marketing for women" due to their shown results in furthering gender equity.[51] Why?

If we pretend to ignore the fact that women are people and deserve to enjoy their human rights, there are actually explicit economic reasons for why female economic empowerment is important. The 2012 WDR strongly argues

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[50] Cheston, Susy, and Lisa Kuhn "Empowering Women Through Microfinance" 2002. 12.
[51] "CIDA's Policy on Gender Equality" *Canadian International Development Agency*. 1999. 11.

that patterns of gender inequality hinder the process of a country's economic development, as is discourages economic efficiency and achievement, important facets for a country's successful social, political, and economic growth.[52] Women hold a high proportion of the global labor force, and by having the opportunity to use their skills to the fullest capacity, global productivity can increase, making the global GDP per person increase by an estimated 16%.[53]

The removal of access barriers to education and opportunity would make countries more competitive in the globalized world and have more inclusive institutions and policy decisions. David Cuberes and Marc Teignier argue that the better utilization of female labor potential creates "greater macroeconomic efficiency."[54] The most talented people are able to rise to the top, especially in entrepreneurship, and "obstacles to women's access to entrepreneurship reduce average ability of a country's entrepreneurs, affecting negatively the way production is organized in the economy and, hence, reducing its market output."[55] Furthermore, in a long term viewpoint, promoting gender equity now can help improve the outcomes of the next generation. Women are more likely to spend their incomes on improving their households and on their children's nutrition, health, and education, encouraging broader social implications, especially if these

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[52] "World Development Report on Gender Equality and Development" *The World Bank*. 2012. 3.
[53] "Girl Power: The costs of sexism" *The Economist*. 2015.
[54] Cuberes, David, and Marc Teignier. "Aggregate Effects of Gender Gaps in the Labor Market: A Quantitative Estimate" 2015. 2.
[55] Ibid.

actions are paired with women in more powerful social, political, and economic positions.[56]

By improving access to productive resources such as joint land titles, credit, financial education, and collateral, women can improve their social standing and situation through their own initiative. Microfinance, for some, is an obvious tool to promote economic empowerment towards gender equity. It is seen as a "virtuous cycle," as it allows marginalized populations, in this case women, to access "flexible, convenient, and affordable financial services" to economically and socially empower themselves.[57]

How does Ecuador stack up in the global conversation of economic empowerment and gender equity?

According to the 2017 Global Gender Gap Report (GGR), Ecuador is ranked number 42 (score 0.724) out of 144 countries. The index is formed by averaging countries' rankings, weighted with their scores, in the categories: economic participation and opportunity (rank 93), educational attainment (rank 54), health and survival (rank 57), and political empowerment (rank 32).[58] A score of 1 denotes complete equity, 0 denotes complete inequality. Even though Ecuador scores above the global average, it does not mean that they should stop working to improve themselves. Female economic participation and opportunity

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[56] "Closing Gender Gaps in the Labour Markets of Emerging Economies: The Unfinished Job" *OECD*. 2016.

[57] Littlefield, Elizabeth, Jonathan Murduch, and Syed Hashemi. "Is microfinance an effective strategy to reach the millennium development goals?" 2003. 1.

[58] "The Global Gender Gap Report" *The World Economic Forum*. 2017. 10. Parenthetical ranks are for Ecuador in each category. For comparison, Iceland is ranked number 1 (score 0.878) overall with ranks 14, 57, 114, 1 for respective categories, and the United States is ranked number 49 (score 0.718), with ranks 19, 1, 82, 96 for respective categories. Food for thought!

is one of their lowest-ranking sectors denoting that the country lacks economic empowerment measures for women.

Ecuadorian women are estimated to earn a mere $8,559 compared to the $14,015 estimated income of men.[59] Only 52% of women in the labor force are hired compared to 82.8% of men.[60] Furthermore, out of the 46% of Ecuadorians with access to an account at a financial institution, only 40.8% of those people are women.[61] There are many legal provisions meant to promote gender equity in Ecuador such as allowing women to have equal access to financial services, inheritance rights for daughters, election list quotas for national elections, and parity of parental rights in marriage and divorce. But there are no non-discrimination laws concerning the hiring of women, and labor participation and financial access gaps show that women are still struggling to enjoy equity in Ecuador.[62]

Therefore, microfinance offers women opportunities for financial self-stability, poverty alleviation, and general feminist empowerment in their communities.[63] It has a sound base to be utilized to increase gender equity and generate resounding positive effects throughout a country, such as decreasing poverty levels, supporting higher economic growth, enjoying better governance, and spreading financial inclusivity, which increases the stability of the family unit.

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[59] Ibid. Estimated earned income (PPP, US$) 140.
[60] Ibid. Labour force participation. 140.
[61] Ibid. Access to Assets. Hold an account at a financial institution. 141.
[62] Ibid. 141.
[63] Littlefield, Elizabeth, Jonathan Murduch, and Syed Hashemi. “Is microfinance an effective strategy to reach the millennium development goals?” 2003. 1.

Populations In Need: Indigenous Ecuador

In this section, there will be less general information on indigenous marginalization, and a more direct focus on indigenous Ecuador. There are thousands of populations globally that identify themselves as indigenous, but on top of that, there is limited, and often incorrect, information about much of their histories and struggles, which makes it difficult to construct a just narrative.[64] Indigenous history in Ecuador is one of marginalization and indignation, which can do well to represent the experiences of other Amerindian communities in Latin America.

Out of the 16.4 million Ecuadorian people, 71.9% identify as *mestizo*, a mix of Amerindian and white European. About 7% (1.1 million) Ecuadorian people identify as part of the indigenous population[65] and fit into 14 distinct nationalities in the country.[66] 93% of the population speaks at least Spanish, which is the official language. The rest of the population speaks foreign or indigenous languages as their primary language (2.2% and 4.8% respectively). Quechua and Shuar are the official languages of intercultural relations while other indigenous languages are used exclusively in tribal communities.[67]

One could think that these statistics would translate to significant indigenous representation and empowerment in the country. However, many

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[64] Readers from the United States should understand this with our country's treatment of Native Americans…
[65] It is important to keep in mind that there may be some people that are in fact *mestizo*, but still identify as indigenous.
[66] "Ecuador" *IWGIA*. 2018.
[67] "The World Factbook: Ecuador" *Central Intelligence Agency*. 2010 est.

mestizo people do not identify with their indigenous roots. This is an impactful fact to keep in mind. Almost three fourths of the Ecuadorian population have some connection to Amerindian ancestry, but participate in the systematic oppression, and the maintenance of racist institutions, against those that wish to carry on their indigenous traditions.

It was not until 2007 that the United National passed the Declaration on the Rights of Indigenous Peoples. The document affirmed their rights as being equal to all other peoples, but also recognized that their historical oppression, extermination, and segregation requires the allowance of self-determination. Article 5 states: "Indigenous peoples have the right to maintain and strengthen their distinct political, legal, economic, social and cultural institutions, while retaining their right to participate fully, if they so choose, in the political, economic, social and cultural life of the State."[68]

This gets confused, however, when states believe that indigenous cultures are "primitive," and therefore should not even have the option to receive basic public services in the first place, such as infrastructure systems, education and financial services, or a combination of these and many others. When indigenous communities want to participate in the state system, or feel that they have no choice but to relinquish some of their autonomy to the state, they have no means to do so and are left at the mercy of their oppressors. In Ecuador, this is a large problem as 79% of the indigenous population are is found in rural, low-income, institutionally-underdeveloped parts of the country, which exacerbates their

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[68] "United Nations Declaration on the Rights of Indigenous Peoples" *United Nations*. 2008. 5.

participation gaps. According to the World Bank, indigenous Ecuadorian households are almost twice as likely to live in poverty (less than $4 per day) and extreme poverty (less than $2.50 per day).[69]

Indigenous peoples have been segmented into distinct regions throughout the country. Afroecuadorian communities are generally found in the northeastern coast of the country. They are considered an indigenous group due to their longstanding presence in the country since the 16th century.[70] Besides experiencing indigenous discrimination, Afroecuadorians are victims of further racial oppression and segregation. Other Amerindian groups are split between the Andean highlands and Amazonian lowlands. 24.1% of this indigenous population (265,100 people) live in Amazonian Ecuador and are part of highly vulnerable communities. Generally, these tribes have less than 1500 surviving members. Furthermore, there is a catch-22 for these populations as Amazonian conservation efforts have hindered domestic infrastructure development in this part of the country,[71] and indigenous communities should not be expected to leave their lands in order to have access to national services. In recent history, however, many tribes have seen the younger generations leave ancestral homelands and relocate to the Galapagos for access to the tourist economy, further threatening the maintenance of indigenous tradition.

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[69] "Indigenous Latin America in the Twenty-First Century" *International Bank for Reconstruction and Development*. 2015. 60.
[70] African slaves were used by the Spanish in the conquering of the Inca, and first landed in Ecuador in 1533. Ecuador became a place for escaped slaves to resettle as conquering, and later plantation colonization, continued.
[71] But not hindered oil extraction infrastructure!

The Ecuadorian government has had its struggles and conflicts to maintain Amerindian history. In 1964, the government passed the an agrarian reform law. This was an important step for many rural Ecuadorians. However, the government treated indigenous tribes as *campesinos* in need of individual land titles, rather than recognizing their demands for collective rights of ancestral land. Furthermore, to achieve land reform, the government encouraged the colonization of "empty" forested lands which in fact had been inhabited by minority groups for thousands of years, and Afroecuadorians were considered "assimilated settlers" rather than being part of a traditional community with rights to communal land.

In 1986, the *Confederación de Nacionalidades Indígenas del Ecuador* (CONAIE)[72] was founded. They are a coalition of around 500 tribes, and their unity created an opportunity for collective bargaining with the government. Some of their missions include organizing pan-indigenous uprisings, demanding land restitution, institutionalizing a national economy based on territorial autonomy, and obtaining the rights to practice traditional medicine, to bilingual education, and to control archaeological sites.[73] They are known for use of direct action, focusing on popular uprisings and takeovers of government buildings and urban areas.

CONAIE also preaches against Western influence. Many of their protests in the 1990s were in response to International Monetary Fund policies and the World Bank's loan to the government to privatize the oil sector. From 1964-92, Texaco, an American oil company, dumped 18 billion gallons of polluted water

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[72] Translated by author: Confederation of the Indigenous Nations of Ecuador.
[73] "Quienes Somos" *CONAIE*. 2018.

into indigenous lands, and was not held responsible by the Ecuadorian government for their actions.[74] In 1994, a new neoliberal agrarian reform law attempted to sell communally held land as a way to limit indigenous land holdings and privatize the water system. CONAIE's protests in Quito helped stop the privatization of vital water systems and the reallocation of indigenous land, but the oil loan was still passed.

It wasn't until 2011 that Chevron (the overarching operator of Texaco) was successfully sued for $6 billion USD for polluting the Amazon. Besides being dangerous for the Ecuadorian ecology and environment, mining and oil extraction are large threats to indigenous territory, autonomy, health, and safety. Many CONAIE national protests correlate with mining and petroleum project expansions, as indigenous communities are disproportionately affected by cancer and skin diseases caused by unsafe petroleum extraction and the subsequent contamination of their rivers.

In 1998, CONAIE witnessed its most important victory to date with the changing of the Ecuadorian constitution. In it, indigenous groups were explicitly given rights to maintain their cultural heritage and traditions, and the state was given more responsibilities for environmental conservation. In 2007, Ecuador voted in favor of the UN Declaration of the Rights of Indigenous Peoples, and has ratified the ILO Convention 169.[75] However, many of these provisions for equity have been in word alone. The lack of government adherence to the modified

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[74] Many sites of oil extraction overlap with indigenous ancestral lands.
[75] This document has been recognized in the country for more than 20 years. It is an international legal instrument addressing the rights of indigenous and tribal peoples.

constitution has created disillusionment and tension within CONAIE and between other indigenous groups.

In the 2010s, CONAIE has been trying to regroup, and refocus their political influence on a platform of environmentalism, plurinationality, and multiculturalism. They sparred frequently with Correa, who created policies to forcibly turn over Amazonian indigenous land to oil companies. Furthermore, a famous indigenous-rights nonprofit, Fundación Pachamama, was closed by officers in 2013. It is believed that it was in retaliation for their public disagreement with the Correa government, and their maintained protection of Amazonian community rights. Currently, it is unsure how indigenous groups are responding to Moreno and his policies.

Aforementioned, CONAIE and other indigenous groups in Ecuador actively fight against Western, capitalistic, and neoliberal influence in their communities and country. Microfinance may not seem like something that would appeal to them. But there is a vital need for a connection between the indigenous communities and mainstream politics. While issues of ethnicity and multiculturalism have been so marginalized from Ecuadorian politics, their absence has come to define the country. Tribal and indigenous peoples still lack full guarantees of socio-cultural, political, and territorial rights. There are no specific public policies in place to empower them, or even to sustain the presence of Ecuador's indigenous peoples.

Locally-created microfinance institutions can provide vital services that the state has failed – or refuses – to provide. While there is the complication of required oversight by the state, COACs can tailor their services and missions to best fit populations that need them. In this case, indigenous peoples. It can be as simple as facilitating small formal savings, or creating rotating group loan structures. This access to basic financial services can allow marginalized communities to understand and break into the overarching structures of the powers-that-be. Lending opportunities that rely on community cooperation and social capital could lend itself to tribal unity and further autonomy.

While entrepreneurial loans are one of the most common types of microcredit, credit can be extended for a myriad of other purposes. In economic development, there is a cross-section that is concerned with health effects by environmental issues. With water pollution being so rampant in rural, indigenous parts of the country, microcredit programs could help marginalized communities make safe water infrastructure investments, or provide for other health needs.

The remainder of my thesis is structured as follows: Chapter II is a literature review evaluating past and present academic literature about the interactions between microfinance and historically marginalized populations. Chapter III is a research section drawing on personal experiences in central Ecuador in March of 2017. Chapter IV concludes the work with my final thoughts and recommendations.

CHAPTER II: Literature Review

The previous sections have hopefully convinced you that both women and indigenous peoples are marginalized populations in Ecuador. Geographic isolation and socio-cultural barriers for these groups have exacerbated gaps in education rates and labor participation, as well as maintained a lack of access to services, financial or otherwise. Empowerment is a necessity for these populations in order to achieve equity, and microfinance has been perceived as a tool for empowerment. Therefore, a logical assumption would be that microfinance should be provided to these communities in tailored ways to benefit them. Does academic literature support this expectation, however? The following sections will explore this question.

Women and the Microfinance Market

Because gender inequality and the systematic marginalization of women is a shared global phenomenon, this section will reference research from countries outside of Latin America.

According to Ramesh S Arunachalam, an Indian independent consultant for the Commonwealth Secretariat: "...microfinance, as it exists today, has more of finance and less of gender in its overall scheme of things."[76] Arunachalam

[76] Arunachalam, Ramesh S. "Microfinance and Innovative Financing for Gender Equality: Approaches, Challenges and Strategies" *Eighth Commonwealth Women's Affairs Ministers Meeting*. 2007. 6.

explains how the lack of tailored assistance and deliberate policy initiatives by MFIs, to help specifically female clients, have stunted the potential benefits of including women in the semi-formal financial sector.

Some researchers agree, and support their opinions about the lack of influence of microfinance on gender equity through their studies. For example, Abhijit Banerjee, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan conducted a randomized experiment in Hyderabad, India to analyze how the introduction of a MFI to average households in an urban environment would actually affect social practices such as healthcare, education, and women's empowerment. In the study, the researchers survey randomly selected households on their use of a newly introduced, for-profit MFI, Spandana, in their community. Loans were given in a group format (where clients were able to form their own groups based on personal social connections and judgements), and clients were required to be female, 18-59 years old, have resided in the same area for at least one year (to exclude migrant workers), have valid identification and residential proof, and 80% of the women in the group must own their home.

The study of the impact of providing loans to women who may or may not use them for business draws some interesting conclusions, namely that microfinance is not for every household, or not even for most households. Over both the short and long runs, the marginal businesses that were created by female entrepreneurs were not highly productive or profitable, as overall consumption rates were not dramatically changed, and there were no indications of "miraculous" social transformations.[77] While there was some marginal business creation, the new female operated businesses were smaller and less profitable than an average business, but they cite that this may be due to cultural and legal precedents as well as time constraints, not just the ineffectiveness of Spandana. Furthermore, the new loans brought about an increase in the purchasing of durable goods, but a dramatic decrease in luxury and temptation goods that would normally be more accessible with a growing household income. Finally, the theory that an increase in women's bargaining power in the household through the attainment of economic leverage would lead to an increase in investment in child human capital is challenged, as there was no change in the probability that children and teens were enrolled in school, no difference in private school fees or in private versus public school enrollment, as well as no change in the number of hours worked by boys and girls aged 5 to 15 years old. The few positive effects were a reduction in female teen labor supply, and a greater success and growth for established, previously-profitable businesses.

Some researchers are more optimistic. Elizabeth Littlefield, Jonathan Murduch, and Syed Hashemi created a literature review compiling quantitative findings on the influence of microfinance in helping reach the millennium development goals, one of which is female empowerment. They found that through financial access and education, women in Nepal and the Philippines were more active in household decision making and planning. In Bolivia and Ghana, women had increased self-confidence and more positive views of their self-worth

[77] Banerjee, Abhijit, Esther Duflo, Rachel Glennerster, and Cynthia Kinnan. "The miracle of microfinance? Evidence from a randomized evaluation" 2014. 5.

in the community, some even taking a more active role by participating in local governments. In a survey of 1300 client and nonclient Bangladeshi women, those that participated in a credit-program reported greater feelings of empowerment and were able to have more ownership and control of productive assets.[78]

Some researchers are in the middle, seeing microfinance as a beneficial entity, but not all together effective in making greater socio-economic change. Cindy Dyar, Patrice Harduar, Cynthia Koenig, and Gabriela Reyes explored the topic through a literature review on microfinance in China and found that its role on promoting greater gender equity in the country was negligible. They cite that it is still tricky to observe a MFI's actual impact on gender equity, as even established microfinancing programs in other parts of the globe, specifically Latin America, do not have the data necessary to measure the success of their programs on reducing gender inequality.[79] Furthermore, there are possible unforeseen negative effects: ill health and exhaustion from longer and harder working hours; women as intermediaries between the MFIs and male relatives, as they do not get to control the money they receive; and a lack of real income increases.[80]

Although microfinance is beneficial by targeting some of the lowest-income populations, such as rural women, there is no conclusive evidence that MFI involvement has a significant impact on reducing gender inequality in China. Some of the main reasons cited are that programs do not help all women,

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[78] Littlefield, Elizabeth, Jonathan Murduch, and Syed Hashemi. "Is microfinance an effective strategy to reach the millennium development goals?" 2003.
[79] Dyar, Cindy, Patrice Harduar, Cynthia Koenig, and Gabriela Reyes, "Microfinance and Gender Inequality in China" *University of Michigan*. 2006. 3.
[80] Ibid. 11-12.

especially the poorest, and that the results are nowhere universal - for every story of success there is a story of failure.[81] The researchers acknowledge that there are benefits to introducing microfinance to communities: increases in household income spur more family members to attend school and access health care; basic economic empowerment of individuals (women) increases through the acquisition of more economic leverage in their lives; clients experience an increase in general well-being; and social and political empowerment permeates throughout households.[82] They conclude that microfinance is merely a small part of a greater solution for gender equality rather than the sole answer, as well as characterize MFI programs as responsible for reducing income inequality with more certainty than gender inequality.

While there are both affirmations and negations of microfinance's influence on promoting gender equity, it can not be denied that there is *some* effect of MFIs in communities, especially when it comes to female empowerment. There may not be a direct causation, but the general increase of financial access for women as well as greater rates of decision-making power are indicators of advancement.

How does this conversation compare to the observations of studies focusing on indigenous communities' interactions with microfinance?

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[81] Ibid. 23.
[82] Ibid. 10-11.

<u>Indigenous People and the Microfinance Market</u>

From an academic literature standpoint, I was left greatly unsatisfied in pursuing this question. A challenge with this research is that defining "indigeneity" differs around the world, and self-identificaltion as a specific ethnicity may not be reflected at insitutional levels. Unlike the previous section, it is out of the scope of this thesis to delve into studies conducted in Africa and Asia, as the cultural backgrounds of these papers are unique, and require that contextual understanding to translate the significance of their results. Many MFIs, espeically in Latin America, have some sort of indicator of how many of their clients are part of an indigenous community, but do not expand on how that plays into their provided services.

I observed that many microfinance studies do not focus on the characteristic of being indigenous. As in: MFIs and researchers often document that a person is poor, but they just happen to be of an indigenous ethnic background. In a completely different thesis, it would be interesting to explore a pervasive conflict in Latin America: classism versus racism. When I was in Chile, locals frequently commented on the United States' "obsession with race." Chileans openly call themselves classist, but refuse to believe they are racist. This is something I have heard in other Latin American countries as well. There is a lack of acknowledgement of the intersection between class and race, and that… maybe some people are poor, or have fallen into poverty traps, <u>because</u> of their race or ethnic background. In Ecuador, a country that has routinely suppressed the voices of the indigneous population, and has executed policies that ignore tribal rights, it is unsurprising, from an outsider view, that indigenous communities are some of populations most in need.

Marginalized groups such as ethnic minorities, migrant workers, and female-headed households have little to no ability to save regularly, making them both the poorest socio-economic populations and also the least likely to be helped by all forms of financial institutions. Social and political structures maintain prejudices against women, specifically poor women, and indigenous groups, hindering their advancement in their communities. While there may not be universal agreement in the academic world that MFIs make meaningful impacts, their presence can begin to make some waves of empowerment in communities.

CHAPTER III: RESEARCH

Microfinance is present at such a global spread, and research about it is still developing, that there are limited academic studies to rely on exclusively from Latin America, let alone from Ecuador. To confront this challenge of my thesis, I will be relying on my personal experiences while I was in Ecuador of March 2017, as a sort of microdata. The four MFIs, and their clients, that I met with varied in characteristics as well as services. The interviews were not conducted in a uniform format,[83] so I did not obtain the same information from all of the institutions. However, where I am able and where it is necessary, I use supplementary online information.

OSCUS

The first institution we met with was OSCUS. From the outside, the Baños office reminded me of what a Bank of America brick-and-mortar would look like in the United States. Inside was no different, except that it was quite larger, with several stories and scores of offices. The tiled floors were gleaming from natural light, and attractive seating arrangements were occupied by *socios* and employees wherever you looked. It was pleasantly busy. The energy emitting from hustling

[83] There were multiple students on the trip who all had their own questions. Interviews were conducted as conversational information sessions with MFIs. Client interviews were lead by the subjects themselves and they were at liberty to share as much or as little with us as they wanted.

bodies was light with motivated positivity rather than heavy with anxiety and stress.

We were escorted upstairs by a female manager to their large presentation meeting area, their logo prominently displayed on the wall. She began by detailing their history and mission.

OSCUS was established in 1963 by a group of European nuns. They wanted to create financial opportunities for rural Ecuadorian women. From their humble beginnings, they expanded to the semi-formal institution they are today - the closest a semi-formal COAC could be to a formal bank. A recent accomplishment for the institution was a partnership with Mastercard that provided international debit cards for their *socios*. They are the only *cooperativa* in Ecuador to provide this service. Our manager also shared that they are a for-profit COAC, and knew that was often viewed as a negative characteristic. However, she emphasized that profit was used for tax payments and for employee rewards, such as bonuses, for portfolio management. When officers are typically overseeing about 500 client profiles, she explained that it is important to find incentives to promote good work practices.

While they are no longer an institution aims to solely help women, the manager emphasized that more than half of their portfolio was made up of female clients. She told me that they were "aiming for equality… so a 50/50 portfolio of men and women."[84] With that being said, however, she proudly divulged that many of the director positions of the COAC were filled by women, and that their

[84] Any quotes are an approximate translation of the speaker by the author. Based on handwritten notes, not from recordings, so should not be perceived as an exact quotation.

offices were conscious of trying to maintain a balance of male and female employees.

In retrospect, I have found greater appreciation for these characteristics. OSCUS is a democratic COAC, where borrowers are considered *socios*, or members, and have a voice in the operation of the *cooperativa*. To have women in positions of power means that members of the institution voted for them, which, I believe, throws into question the pervasiveness of *machismo* in the communities they serve. Granted, I do not know if the campaigns for these positions were uncontested, or saw only female candidates, but I think OSCUS is an important example of promoting empowerment not only in their client communities, but also in their institution.

Our hostess also talked about education programs that their institution provided. *Socios* were able to take surveys and vote for what free education classes should be provided for the next class rotations. Some of the most recent topics were basic finance education, how to understand taxes, and how to run a business. Employees are also provided training. Many local loan officers have never worked in financial fields before, so OSCUS provides professional development and training as to not discriminate against potential employees in communities.

OSCUS provides a wealth of services for its diverse range of *socios*: education, savings, credit, insurance, and programming for children. While many borrowers are low income entrepreneurs, OSCUS has expanded to cater to low-middle class households as well. We received brief explanations on all of their practices.

There is a large emphasis on promoting saving practices with their *socios*. In many low income, rural communities, having informal savings is even a stretch, as capital is needed for immediate use rather than putting it away for potential later use. Furthermore, households that rely on agriculture need help with consumption smoothing,[85] and that can be achieved through access to savings. To become a *socio*, every person is required to open a normal savings account with $10, and maintain that as a minimum amount. OSCUS also provides time savings accounts where a *socio* can place a certain amount of money for a certain amount of time (generally a year) and earn interest. However, they are not allowed to touch that money at any point during the interval. This is important in disseminating basic financial education about the benefits of savings as well as financial discipline and planning.

While the bulk of their portfolio is made up of business loans, they were they only institution that I met with that also allowed credit for personal consumption. From what I understood, these loans still went through a thorough approval process like business loans, and therefore, were often large capital purchases that were meant for the betterment of the person and their family, such as a stove, materials for a roof, a car, or even real estate, rather than frivolous purchases. Interest rates varied based on requested amounts, length of loans, and

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[85] Agricultural households usually receive a large bulk, if not all, of their yearly income at a specific point in the year due to harvest schedules. Consumption smoothing is the ability to properly spread the spending of that income out over the entire year, rather than being in a difficult situation right before the next harvest season - or even earlier.

types of loans. The interest rate of consumption loans is generally around 15%, but can go up to 20% if the loan is more than $10,000. Business microloans are capped at $10,000, and see an interest rate of about 22%, which is significantly under Ecuador's interest rate cap of about 30%. Refinancing was offered for loans at risk, and has a rate of 4.5-7%, depending on the amount of money needed and length remaining on the loan.

OSCUS was also the only institution that I met with that provided an insurance program for *socios*. For just a dollar ($1) a month, borrowers would be put on an insurance package that included accident, general medicine, funeral, and life insurance. If you are from the United States, you are probably wondering how this could possibly work, especially at such a low cost - we the audience were certainly shocked by this announcement! However, the manager tried to calm us by saying that of course, all of these offerings do not cost just a dollar - they actually cost $1.40, but the *cooperativa* covers the difference.[86]

Finally, OSCUS is trying to create more meaningful social impact by also providing programming for the children of their *socios*. Parents can set up savings accounts for their children that can be accessed when they turn 16. Furthermore, OSCUS has created online games with financial education topics that children can play when they are with their parents in the offices. The institution hopes that by exposing children to these ideas, such as saving and money management, at a young age, these lessons will carryover and benefit them well into their adult life.

[86] I am still unsure how this is possible, but I was not in the position to ask for more detail.

The OSCUS clients I met with were definitely what they considered their "superstars." They were entrepreneurs whose businesses catered to the tourism industry and were very successful, receiving loans at the top of their offering brackets, or even having moved on to formal financial institutions for some of their financing needs. It was beneficial to meet these clients to keep in perspective the breadth of clients that MFIs can serve. The entrepreneurs I met had come from low-income beginnings, and felt that, frankly, they had gotten lucky to have their businesses grow. They would now be considered a higher social class then where they had begun, but were still benefiting from their partnership with OSCUS. They spoke about how their loans had started small, but gradually increased by maintaining a timely repayment schedules.

Salazar

Within seconds of arriving in front of a clean cement building, a man clad in red and surgical gloves, energetically welcomed us into a bright, open room with shelves of colorful, wrapped sweets filling the surrounding walls. He introduced himself as Señor Salazar, and showed us into the rows of seats he had set up in his showroom. He then began telling us about himself. He runs a family-owned candy store and production factory specializing in traditional, handmade, Ecuadorian sweets. After watching his father build his business, Salazar took over, but wanted to expand to further frontiers.

Desiring to capitalize on Ecuador's strong tourist economy, Salazar sought to transform the family's small shop into an educational space. He wanted people from around the globe to be able to come and see an intricate culinary art form, and appreciate the cultural traditions of his family and country. The only place he found support was from OSCUS. They believed in his business when no one else did. Through a series of loans in growing amounts, Salazar has been able to build a workshop and showroom that is comfortable for foreign visitors, as well as a business that can employ his entire family and two external employees. He shared that he now feels more secure in his business as he has formal savings and insurance provided through OSCUS, and how he dreams for the future. He hopes to open more branches outside of Baños, and to begin exporting his goods to international markets.

His told us that his only worry for the future was the product of a mixed blessing: he was able to educate his two children all the way through university, and they have since relocated to foreign countries to work. He is concerned that his kids will never come back home - that the cultural knowledge of an important traditional product may not be passed down to the next generation. He paused for a moment and looked downcast, but then perked up and asked if we were all the drinking age (only 18 in Ecuador). He had some special fermented guava juice that he wanted to share with us… that was only meant for adult guests, of course.

Jorge and Santiago Gamboa

Later in the day, we walked through Baños to a large multi-storied structure, something uncommon for that area of town. We were shown into a beautiful outdoor eating area that looked in on an indoor swimming pool. A man stepped forward and introduced himself as Jorge Gamboa, the owner and founder of Spa Gamboa, a hotel spa for locals and travelers wanting to escape and unwind. Due to the difficulties of seasonal income, Jorge explained his desire to create more amenities to appeal to domestic tourism.

He told us about how he began his business with a single *cajón*.[87] He saw that spa resorts were becoming more popular in towns close to the Amazon - ecotourists found the release desirable after physically demanding trips. He told us how he was the first in Baños to have a *cajón*, and his initial clients were just his neighbors. Soon, however, he was able to build a structure for the *cajón* and invest in a few more.

Near the beginning, he shared with us that he was not able to qualify for microcredit, and had to turn to "alternative" sources of capital. He secured a loan from an independent moneylender,[88] and was fortunate enough to complete the loan without running into the "grave consequences" that are paired with late payments. After many years and small additions of services and space, he had

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[87] Translated by author: bin. Famously found in Ecuador, a *cajón* is a vessel for steam baths. It is literally a wooden box that spa-enthusiasts sit in as they are enveloped with steam. Just their head is exposed. The treatment is typically followed by an ice bath. A complete session usually consists of several steam-to-ice-bath rotations.
[88] A nice way of saying loan shark. Informal, predatory moneylending is a large issue in Ecuador.

reached the point where he could add a hotel onto the spa. He took out loans with OSCUS to purchase the land and began the construction of the hotel. He has now reached a point where he is working with formal financial institutions for his large investment needs, and only uses OSCUS for cosmetic improvements. His son Santiago is currently taking over the business, as he has recently completed university with a degree in business, and his other children were also employed in some way at the hotel. He shared that he provided jobs for a few outside employees, but smirked and joked about the drama of having non-family members working there.

He concluded that he was still not finding many opportunities to save, and is not making a substantial profit - all revenue generated goes towards salaries, and is reinvested into hotel improvements. However, he was proud of what he had been able to accomplish with the help of microcredit and was looking forward to becoming a luxury destination for tourists.

Mushuc ñan and Gonzalo

Tucked away in the small pueblo Salasaca in the Ambato region was the next COAC we visited: Mushuc ñan (MÑ). There we met Gonzalo, an indigenous man and one of the original founders of the *cooperativa*. We learned that the name was Quichua, a common indigenous language of the area and Ecuador, and translated to "New Path." It is the only MFI we met with made and maintained by indigenous people with the goal to serve other indigenous people in the central region of Ecuador and the Galapagos.

When Gonzalo and his neighbors started MÑ in 2001, they were only 21 *socios*. They each pooled a small amount of money, but together they created a sum that many of them had never seen before, and began their informal rotating lending model. Soon, they had more and more individuals join the group, and finally formed the first official COAC in Salasaca. In 2008, MÑ expanded to open the first COAC offices in the Galapagos. While this is a great achievement and has helped them compete with other COACs in Ambato, Gonzalo shared that it was out of necessity. Many of the young indigenous people in their community had found it imperative to migrate out of their ancestral land to create a livelihood. The tourist industry is more substantial in the islands, and they can make more money directly selling their artisanal products or services rather than being commissioned by a merchant who sells on their behalf.

MÑ now serves about 8100 *socios*. A majority of their clients are indigenous, low income, and live in remote rural areas, which, Gonzalo confessed, makes it difficult to maintain their portfolio. In March of 2017, they were experiencing about a 35% default rate, and were in the process of closing one of their rural offices due to repayment issues in that area. He pointed out the window at a stove on the doorstep of the COAC office, an attached name tag flapping in the breeze. It had become more common that employees would come to the office in the morning and find equipment and other physical goods labeled with the name of a client - since they had liquidity restraints and were behind on their repayments, *socios* used physical collateral to hold off defaulting. Even though loan officers only oversee about 35-50 clients, the geographical restraints really limit their ability to serve more in the area. It sometimes can take a full day to visit a few clients due to travel time and distance.

These trials have put a lot of strain of their capital funds and ability to loan to new clients. As of now, their portfolio is maintained by savings and capital grants by international banks… but MÑ is trying to find new sources of funding to maintain and expand their mission. All of their services are performed in cash due to the technology constraints of their *socios*. With that being said, Gonzalo emphasized that they organize their portfolio with a computer system and use electronic transfers between the Ambato and Galapagos offices.

Despite their struggles, I also received information about all of the benefits they provide their *socios*.

Much like other COACs, a majority of their loans are given for microenterprise investments. Some of the most popular requests for credit are for artisanal businesses such as garment-making, or for agricultural purposes, such as buying livestock. Uniquely, MÑ also provides credit for familial death. Funeral rights are extremely important in many indigenous communities, but are very costly, and are therefore difficult to perform properly at the income level of many of their clients. As previously detailed, households may not even have informal savings. Furthermore, if the male head of the household passes away, the remaining female spouse may not be able to make ends meet for a significant amount of time, as cultural expectations have not allowed her to have a job. As to follow their mission statement of empowering indigenous peoples, the founders of MÑ found it important to include these provisions to support families, and specifically women, in their community.

They set their interest rate to match the interest rate cap set by the *Banco Central de Ecuador*. In 2017, that was about 31%. Loans provided in Salasaca are generally smaller than in the Galapagos. They range from $100 to $10,000, but on average are about $1000. The island communities can receive loans up to $25,000, but $1000 is also the most common amount. Because the loan amounts are so small, and the COAC takes on so much risk with its *socios*, MÑ has to charge such a large interest rate for its clients.

MÑ provides education programs for their *socios*. With the receipt of their first loan, all borrowers are required to attend a class about basic business practices. Indigenous communities are disproportionately affected by the failures of the Ecuadorian education system, and therefore, many potential borrowers have never been exposed to any form of financial education. Additionally, the COAC holds other classes in their offices about the importance of managing money.

These education initiatives logically feed into their offering of savings. Unlike OSCUS, MÑ requires an initial normal savings deposit of $30 to become a *socio* but a maintenance of $5 minimum afterwards. They also offer time savings accounts that can be held for up to a year and earn an interest rate of 7-10%. Finally, they provide savings accounts for children to help parents begin financial planning for their families.

After our information session, we followed Gonzalo from the MÑ office through the side streets of Salasaca, admiring the naturally growing greenery throughout the town. We arrived at his home, a clean white building with an open door prepared to welcome us. We walked into the lower level. There was what appeared to be a community gym space on one side with some weight equipment, but we walked onwards to where he had his showroom for his artisanal business. He began to tell us more about himself.

He reflected on his childhood, and how he grew up in a poor community with no access to electricity or clean water. Now, he marveled. Now, something he started has been able to help many in his community support themselves. His own artisanal business specializes in fabrics and weavings, and has benefited greatly by the COAC. He and a large portion of his family depend on the livelihood, and loans help them make the bulk purchases of fabrics, thread, and other raw materials to make their goods.

With all the benefits, Gonzalo did not let himself get carried away with dreaming. His family sends their goods to other, more urban parts of the country to be sold to tourists, but they are finding the level of competition with other artisans to be difficult. The prevalence of COACs throughout the country have allowed more businesses to be created and expand, even in Ambato, and artisans are having to lower the price of their products to sell in bulk to merchants. Despite this challenge, Gonzalo plans to keep using loans to build his business and expand to even more products.

After speaking with us for an hour or so, he invited his family into the room, and with them they carried bowls of steamed corn and potatoes, freshly gathered from nearby fields.

1 de julio

The next day, we visited the third COAC of the trip. From the street, there was no indication of a MFI being anywhere nearby, but after walking through a community farmers' market, a simple, multiple-storied building emerged with bright green letters: 1 de julio. We were met at the entrance by several people, women and men clothed in both formal indigenous wear and more western business apparel. We were led upstairs to their large meeting room. The tables were set up in a large rectangle, clearly in attempt to create a circle for collaborative events.

We were notified that we would actually be served a lunch prepared by some employees and *socios*, and shortly after, platters of local dishes were carried out of a small office kitchen. Corn and vegetables, freshly made soup, chicken, and several types of potatoes were served. We ate with our hosts, and they watched us carefully, making sure we used our hands to consume certain parts of the meal. After we finished, we helped gather the plates and utensils to be washed, and settled to learn more about 1 de julio (1DJ).

One of the managers welcomed us and introduced the COAC. 1DJ was formed in 1998 with the goal of protecting the *campesino* and indigenous communities in the Tungurahua providence from loan sharks. It was not founded with the idea of becoming a registered COAC, but through the efforts of its *socios* it has grown to its current size and stature. In 2002, the organization relocated its *casa matriz* to Santa Rosa in the Ambato region, as its central location makes it easier to offer services to empower more communities. They now boast four offices in the Tungurahua province as well as two offices in the jungle to serve Amazonian communities that are often neglected by national and non-governmental services.

The manager continued on this point: 1DJ wants to provide services for parts of the Ecuadorian population that do not have them. Even if this means taking on more risk, and thinking of more creative solutions to accommodate borrowers. This idea was really driven home by their claim that their default rate was 0%... but 10% of their portfolio was overdue. Our host passionately defended these figures, as the COAC wanted to exercise every option possible before giving up on a *socio*.

I also believe that the COAC is able to take this risk as it has uniquely insured its portfolio. While it does not provide insurance to its clients, *socios* pay 0.07% out of every 1000 dollars borrowed to help 1DJ pay an insurance agency to secure its loans.

Although passionate about their institution, the manager confessed that it was beginning to be difficult for the COAC to provide loans to new clients. The demand is there, but they do not have the capital to help. In 2013, the COAC was at a point financially where they could buy the building of their *casa matriz*, but this achievement was paired with the retraction of capital support from the Ecuadorian government. Currently, 1DJ has an alliance with an international bank in Panama to maintain their portfolio, but growing economic issues there have made it difficult to rely on them. They also enjoy a partnership with international banks in the European Union, specifically in Belgium, but are in the process of reaching out to new investors through NGO networks.

Despite the capital difficulties 1DJ is facing, they still take care to maintain quality services for their current *socios*.

99% of their credit portfolio is made up of microenterprise and agricultural loans. Our host recognized that the lack of diversification of their clientele was dangerous, but he felt it was their duty to take on this risk in order to help their *socios*. Many of the loans are for livestock purchase, repairing homes (where the businesses are housed), and bulk material buying. Even though they hold a lot of responsibility for their clients, their interest rate is set at around 17%, but varies based on loan amount and repayment schedule. 1DJ finds it necessary to mandate an age range for their clients: 16-55 years old. From what I understood, 55 is generally the age at which rural workers get too run down to be fully productive, or they hand down their businesses to their children. Furthermore, they allow 16 year olds to take out loans in hopes of promoting entrepreneurial education at a younger age. An example the manager provided was a teenage *socio* who sold chips and gum on the street, and needed a loan for the initial bulk purchase of goods.

A large range of capital amounts is available for *socios*, from $100 up to $25,000. Unlike MÑ however, their average amount is in the higher end of their offerings at $10,000. 1DJ tries to tailor repayment schedules based on the needs of their borrowers. Clients in the jungle are offered daily repayment schedules that span generally from 1 year to 5 years. Santa Rosa and Ambato clients have a more typical monthly repayment schedule. 1DJ tries to utilize many different mediums in executing their loans to accommodate as many as they can, therefore they can operate in cash, check, or e-transfer.

1DJ follows the trend and requires potential borrowers to open a normal savings account with $10 to become a *socio* and maintain that minimum. They also provide time savings accounts that last for about 6 months and have interest rates from 4-8%. To incentivize savings, they want to try to provide high savings interest rates. The manager shared that the average savings account is about $300. Free children savings accounts are also provided, earning 4% interest, until the child turns 16. Then, their account is automatically transformed into a *socio* account and the client can begin borrowing money if they desire. 1DJ also provides free senior citizen accounts, earning 4% interest, when a *socio* turns 55.

Additonally, education programs are provided. 1DJ's emphasis on savings has been one of their central pillars, but they have been expanding to basic business management and (financial) literacy classes. Furthermore, through their partnership with the Belgium bank, they are able to provide technical workshops and trainings for their agricultural worker *socios*, to help them collaborate and learn of advancements in the industry.

Our host ended on emphasizing again the central missions of the COAC: to maintain a democratic institution that is focused on providing help for the communities in which they operate, and to create shared goals with the community members that make lasting social benefits.

Sisay Association (Silvia)

After a morning of filling our minds and stomachs, we arrived in the hills surrounding Santa Rosa. A group of women dressed in traditional indigenous clothing met us, and escorted us up a dirt path to a wooden house, that we later found to be their workshop and showroom. Colorful artisanal products covered every surface. After we were settled in the wooden benches strategically placed around the central room, one of the women stepped forward and introduced herself, Silvia. She is a member of the Sisay Association, and she motioned to the other women in the room of varying ages. Some looked to be in their early twenties, and others looked to be grandmothers.

She explained that they are a group of indigenous women in their rural community that pool resources, as well as use collective bargaining power, to make and sell their artisanal goods. They make shoes, bags, and other fabric items, all with hand-woven patterns and designs from traditional methods. 1DJ provides the group with a loan, and that capital is either used by an individual member for something they need to purchase, or is put toward a common needed supply. Then, all of the women are expected to work together to pay back the loan.

Silvia shared that all of the women in the group consider themselves to be economically challenged, and were not content in being denied their economic rights and autonomy in their home. As a way to fight the *machismo* many of them experienced, they grouped together to form their association and approached 1 de julio for help. They have since been awarded loans to buy machinery and bulk raw materials.

Many of their members' spouses, however, are unhappy with their microenterprise ambition and venture into business. Even though they work full time, their husbands still place the burden of childrearing and household tasks on them as well, which has been challenging for their hopes of expansion and one day, exportation. Women often have to bring their children to the workshop, which distracts from the necessary work, or are forced to miss large portions of time with their children, which is difficult for their home lives. A solution would be taking out loans for machinery that could quicken the work, but Silvia described that many of them have an internal conflict about increasing their productivity to satisfy such a demand. The more they industrialize by buying machines, they more they threaten to lose their personal tradition and cultural value of their craft.

José

After a short drive, we came to another community in the beautiful Santa Rosa region. A small man with a large smile waved to us from the middle of a field of crops, and motioned for us to cross over the stream next to the road by using a single board. A hop, skip, and a jump later, we were in the presence of José, a farmer in the lush hills of Santa Rosa. Before he talked more about himself, he wanted to hear from each of us. He wanted to know our names, where we were from, and what we studied in university. After each individual introduction, he thanked us for coming and exclaimed that it was a pleasure to host us.

He then began his story. As we could see, standing in the middle of his land, he was a strawberry farmer… although he wasn't always one. He was an agricultural worker who became obsessed with wanting to grow the beautiful red fruits, but he had no idea how to go about switching his production. He was contacted by 1 de julio, who wanted to take on the risk to support his venture. José shared that this loan made it possible for him to purchase the infant plants, the materials to properly irrigate his land for strawberry production, as well as gave him access to other strawberry farmers in the area and learn the trade.

He performed all of the manual labor himself to reach his dream. Now he is able to employ several of his neighbors in the field and pay them an average wage of $12 per day during the season. He currently sells to local markets, but is expanding to other regions. The COAC has continued to connect him with free technical training, almost monthly, where he can meet other farmers and discuss their plots, as well as learn new techniques to help his production.

José told us how blessed he felt to meet people from across the world and share his story. He said that he couldn't wait to tell his children when they were back home. He was delighted to share that because of the loans that grew his business, he was able to educate both of his children all the way through university. They are now an accountant and actuary and will never have to work in the farm, which he is not sad about. While he was preoccupied about his minimal savings, and approaching the age of 55, he shrugged his shoulders and simply told us, "a person cannot live without debt." He gifted us each with a bag of freshly picked strawberries. They were some of the largest and sweetest strawberries I have ever eaten.

Hermes

We continued on to the base of a hill in another Santa Rosa community, and were directed that we would have to walk the rest of the way up the dirt path. If it began to rain, as it had been during the week, the wheels of the bus would get stuck, and we would really be in trouble. After a 10 minute hike paired with some difficult Ecuadorian altitude, we reached the home and workshop of Hermes. Sawdust covered the floor of many of the rooms, and the beginnings of some of his products could be seen scattered next to his equipment.

"Since my first day as an employee, I new that I wanted my own business," Hermes told us. He is an indigenous artisan that specializes in wooden objects. He told us how he began his business as a hobby, making everything by hand, sanding for hours to reach the perfect smoothness. After deciding to pursue his passion, he was actually denied loans, even from COACs like 1DJ. No one yet felt that he would be able to make his business venture work. Through ambition and determination, Hermes kept making and selling his products on the side, and laughed as he shared that he wore down 1DJ enough to give him a small loan of $100.

He has been able to gradually increase his loans. He stopped having to rely on his hands and has upgraded to several different types of saws and sanders. He was even able to recently buy a vehicle to transport his goods to markets. He told us that this purchase was the most important one he had made - even more important than the tools he now had. While he enjoyed his view from being up on a hill, it was impossible for him to go to the market during the rainy season. All of the dirt roads turned into dangerous mudslides, and his reliance on having to walk everywhere meant that he was unable to sell his goods for a significant part of the year.

While he still does not have significant savings, he was hopeful for the future, and shared his dream of exporting internationally. He showed us his beautiful, one-of-a-kind products, and proudly talked about the painstaking amount of labor he puts into each one. He says he likes to make plates and cooking utensils the most. He wants to stop as many people as he can from using lacquered wood with their food. He is convinced that all of those chemicals eventually start getting into what you eat!

VisionFund/FODEMI

Finally, we met with the last MFI of our trip: VisionFund (VF). When we entered their building, it reminded me of OSCUS. It was large and spacious, and had a more formal bank feeling than the other COACs we had visited. We were greeted by two male managers, both dressed in business suits, and showed upstairs.

They began by telling us the history of the MFI. They were founded in 1995 as a nonprofit called *Fondo de Desarrollo Microempresarial* (FODEMI) with the goal of helping rural businesses with their financial needs.[89] They soon found, however, that there was even more need in Ambato than initially anticipated. They transitioned from an informal NGO to a cooperative, and then finally in 2014, officially joined VisionFund International, a formal banking institution. VF has offices in over 100 countries around the world, is part of the IMF, and is one of the largest providers of microfinance in Ecuador, Latin America, and the Caribbean. In 2015, the nonprofit FODEMI officially closed its doors, and the for-profit *Nueva Sociedad Financiera VisionFund Ecuador* began. One of our hosts emphasized that they were still regulated by the SBS even with their for-profit status.

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[89] Translated by author: Micro-business Development Fund.

Their borrowers are *clientes*, as they are not a COAC providing *microfinanzas*. However, they are considered the only formal bank in Ecuador to provide group microloans. Because of their international connections through VF, 90% of their portfolio is funded with foreign capital,[90] allowing them to take on the risk of the group loan structure. The interest rate is set at the *Banco Central* cap of about 30%. They did not share this information, but I assume that their rate is this high because they have a lot of overhead as a for-profit organization. Their portfolio contains about 520,000 active borrowers who are part of the most vulnerable and poor populations in the region. Their microloans are only for entrepreneurial investment, and are most commonly used by *clientes* for agricultural and artisanal businesses. Group loan amount start at about $600 per person and can go up to $5000 per person.

Before going further, it is important to explain what group lending is and how VF's model works. With group lending, a number of individuals come together and take out a loan. That money is split evenly between them, or the group may decide to a rotation, where each new loan is awarded to the borrower next in line. At repayment time, all the group members are expected to pay back their amount plus their portion of interest, or the individual awarded the loan pays back in full. If one member of the group does not have sufficient money and the group believes it will be defaulting on a payment, it is the responsibility of the other members of the group to make up the difference.

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[90] The managers mentioned that a significant amount of capital comes from the EU and Germany.

Some MFIs find group loans to be a more reliable way to interact with their poorest clients, especially when COACs are first beginning.[91] Social capital is used to encourage repayment as borrowers are interacting with and relying on members of their community. This is important for lenders when they may not be able to rely on physical collateral being present. With group loans, MFIs can interact with more clients, gain more revenue, and reduce operation costs.

To form a group with VF, a loan officer puts together potential borrowers based on their interests, qualifications, and location. All of the group members should know each other as they should be from the same community.[92] However, VF makes sure that a group is not made up of just family members, and that there is variation in the borrowers. Groups can be small, from 3-7 people, or larger, capping membership at 25 borrowers. Every group then receives a briefing about the advantages and disadvantages of a group loan before actually agreeing to the group. If groups make payments on time, they can start to increase their loan size. But, VF is very strict with their consequences of missed payments. If a group is a few days late, they will have their loan amount reduced. If more than 5 days late, they will never be able to apply for a loan again.

The loan officer helps the group set up a Board of Directors that represent the group with VF, being the intermediary between the MFI and the group borrowers. The Board is made up of a President, Secretary, and a Treasurer. It has to be a unanimous vote in the group to be elected. While the managers told us there was usually never an issue, a loan officer is encouraged to step in and help

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[91] MÑ started as a group lending model.
[92] All group members should be located within a 5km radius of each other.

choose leaders if necessary. After the group is set up and ready to borrow, they are all required to attend a workshop about savings, credit, and accounting practices.

The other 10% of their portfolio is funded through Peer-to-Peer (P2P) lending on Kiva.org. VF was the only MFI we met with that utilized this service. Kiva is an international nonprofit that was founded in 2005. It connects borrowers from around the world with potential capital investors. For example, VF could post a profile on Kiva of one of their client groups, explaining the purpose of the loan and a little about the clients themselves. Then, investors around the world, like myself, can choose to donate a minimum of $25 to eventually match the loan amount. If the loan is matched, Kiva lends the MFI the capital at 0% interest to be used normally (meaning the MFI can charge its normal interest amounts) to fulfill the loan promise. When the client pays back the loan plus interest to the MFI, the initial capital amount is returned to the investors on Kiva, and they can use their money to fulfil another loan. This process is beneficial to MFIs because they do not have to pay interest on borrowed capital and therefore, can use the capital to loan to riskier clients. VF has been partnered with Kiva for 6 years, and has used it to fund about $4 million USD worth of loans.

Besides credit, VF also requires clients to open a normal savings account with them before starting a loan. A *cliente* can earn a maximum of 8% interest on their savings account. The managers told us that only about 2000 *clientes* have savings accounts, however, because it is a new service. Furthermore, they do not offer electronic services for most of their clients. As they want to be accessible to the most poor members of society, they try not to create barriers to access.

According to their website, VF Ecuador boasts that 66% of their portfolio is made up of female clients. However, I do not feel that this mission of empowerment carries over into their office environment. During our meeting, all of the employees I saw were men. When I asked about how many female loan officers they had, one of the managers laughed[93] and stated that it was probably around 5%. He then looked at me and graciously explained that husbands in the community wanted to pick up their wives at 5:00 and have them able to make dinner. Furthermore, the long hours and travel distances required of a loan officer were "just too challenging for women in general." In reaction to my flabbergasted face, he tried to walk back what he said. He hurriedly clarified that he himself was not discriminatory towards hiring women, but that the socio-cultural ways of the communities in which they served were regressive.[94]

Marta

After our informative morning, we again drove through the rolling Ecuadorian hills to meet the last client of our trip, Marta. She welcomed us at a bright blue gate and led us through to her home. She stood facing us, framed by a large window behind her in her living room which doubled as her workshop.

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[93] The language in this paragraph is admittedly very biased by my personal feelings about the interaction. I have experienced condescension from men many times in my short life, and this was a similar moment.
[94] Sure.

Handmade leather goods were piled around her: jackets, coin purses, gloves, and her locally famous fanny packs. Marta looked out the window and began to tell us of her life.

She and her husband has started their business about 10 years ago and had an efficient system in place. She would make the goods and her husband would make the business contacts to sell them in local markets. They were able to provide for their children, and begin to save some money. One morning, however, Marta woke to find her husband had left her. No note. His possessions gone. Marta was devastated and completely shut down living. Her voice cracked as she told us how she believed that the leather business was unquestionably over, and the small savings she had were used to just put food on the table as she figured out what to do next.

Luckily, her family lived in her community and encouraged her to join the local MFI, VisionFund. She had a talent with leatherworking, and should pick herself up by running the business herself. She shared that she was nervous, afraid, and lacking confidence, as she had no clue how to be an entrepreneur. Her husband had shielded her completely, from the names of clients to the numbers that went into her craft. No bank or formal financial institution would have helped Marta. The loans she needed were too small, and her lack of stability and financial education made her a risky investment. However, the community-based structure of VF was perfect for her, and helped her rebuild not only her business, but her life as well.

While she emphasized her struggle of not making enough to properly save for herself and her children, she proudly talked about how she could feed them, clothe them, and send them to school, all without a man in her life. She spoke about her growing confidence in her personal voice, and how she has become a community leader and mentor, especially for other women. Her dream is do one day have her own brand that she can mark her products with, so that everyone can know that it was her hands that crafted the leather goods.

CHAPTER IV: LOOKING FORWARD

This thesis has aimed to answer the question: is microfinance an effective empowerment tool for marginalized populations in Ecuador? In Chapter I, the political and economic history of Ecuador, as well as its current microfinance environment, introduced why women and indigenous peoples are some of the country's populations most in need. In Chapter II, a literature review, or a demonstrated lack thereof, about microfinance studies with target populations, complicated the idea that microfinance is beneficial for communities. However, Chapter III documented direct interactions with employees and clients of Ecuadorian MFIs, giving texture and perspective about the socio-cultural changes that economic empowerment via microfinance can bring.

Where does one go from here?

Concerns and Recommendations

As mentioned in Chapter II, there is a stagnation in microfinance research. Many of the studies are not current, and there is little attention being paid to making impactful innovations in the industry. Furthermore, there is a lack of nuance in connecting countrys' potentially racist systems with a necessity for tailored microfinance programs. I believe that the scandals that emerged in the early 2000s about predatory practices stained the MFI industry, and has deterred interest, and therefore progress, to be better.

Ecuador, however, has a healthy microfinance sector. Even though the government has experienced severe turmoil and economic issues, there have been painstakingly thorough efforts to maintain microfinance in the country by protecting consumers and overseeing management practices. It is difficult to say if there should be a greater global expectation of government influence on microfinance. One gets into the issue of potential government corruption and manipulation - if regimes have been systematically ignoring marginalized populations, why would they turn around and support empowerment programs? One can also criticize the institutionalized need for a proof of national identification, such as a *cedula* or I.D. The populations that are most in need potentially do not have these types of government documents, and are therefore further ostracized. With that being said, maybe Ecuador is truly a unique case in which government regulation of community-based financial inclusion programs works, and allows for tailored economic development.

In recent years, economic issues have limited the ability of the Ecuadorian government to directly support microfinance, making some COACs turn to external sources of capital. All of the interviewed institutions were either already relying on foreign capital, or were in the process of applying. Some of the smaller, less established institutions voiced their concern with securing capital loans and grants. How can they convince others that their services are beneficial and that their institution is a worthwhile investment?

In my research, I was able to find all of the institutions online. They had sections dedicated to explaining their histories and missions, as well as a *transparencia* tab dedicated to interest rate transparency. However, it was often difficult to find their portfolio size and demographics. VisionFund was the only organization that advertised the gender distribution of their clients. But how can external actors be convinced that a COAC is worthwhile?

A European investment banker probably does not have the ability to take off from work and fly to Ecuador, and then travel for a week to rural communities to meet the MFIs and their clients. They do not have the ability to interact face-to-face with clients and be thoroughly moved by their histories. While the interviewed borrowers still struggled with things, like managing savings, they emphasized their overwhelming positive experiences with microfinance. Either through educating their children, or being able to pursue their entrepreneurial dreams, the intervention of microfinance brought them empowerment. These personal experiences convinced me of the importance of microfinance for promoting economic inclusion and empowerment of marginalized populations, and I have since made choices in my personal life to support microentrepreneurship.

Yet, it is frustrating to think that I would never have written this thesis without my experience in Ecuador. I would never have been able to access information about the COACs' clients and employees. Moreover, when interviewing with the institutions themselves, managers struggled to answer important descriptive questions: how many women took out loans? What are the dietary habits of clients? How many have access to sewage systems and electricity? How old is an average client?

For readers from Western developed countries, we know that (regretfully) money and information make the rules. An investment banker can look at a P&L statement of a MFI, can see the interest and default rates, can compare the number of borrowers to the number of offices. But how can they know what is happening on the ground? How can they be convinced that a MFI is helping rather than hurting a community?

The main conclusion from my investigation is: if MFIs want to preach their socio-cultural effects in communities, they should have the information to back it up. Be it qualitative or quantitative, they should be expected to show proof of their impacts. Stagnation in the microfinance industry has been caused by a lack of responsible lender-client interactions. By not collecting data, or monitoring demographic changes and movements, MFIs lack the ability to make substantial claims to external actors of microfinance's effectiveness, and hurt the institution overall.

To take a step back and be practical, it can be expected that many MFIs, especially nonprofit institutions, may not have the capital resources to conduct such surveys. There are several creative solutions to this problem. One is to think of surveys that can be conducted by loan officers and are streamlined to identify important poverty indicators. Surveys such as the Progress out of Poverty Index (PPI) are designed to be quick and low-burden by being only 10 questions long, but can be used to effectively estimate the level of poverty of a client's household. Questions range from the material of their roof, to how many of their children attend school.

If even this type of survey is too difficult to conduct, maybe this can be a callout to other NGOs and researchers to step up and fulfill this need. Not only in Ecuador, but globally as well. By partnering with MFIs, non-governmental actors can access, observe, and interact with vast populations in need. In turn, MFIs can use this information to promote themselves to potential investors, to their country governments, and even to potential clients.

We can look to a successful example of a MFIs collecting data about their clients. In Guatemala, Friendship Bridge is showcasing the benefits of their services among indigenous, rural women.[95] In 2011, they began to employ comprehensive monitoring and evaluating of their clients through surveys, such as the PPI. They also took care to ask about clients' feelings of social empowerment, their satisfaction with loan officers, financial education topics they have put into practice, and the enrollment of their children in school. Even though they have not been collecting this data for very long, Friendship Bridge has given greater meaning to their 98.7% repayment rate, and can confidently say that they are one of the strongest portfolios in Latin America.

Something that benefits Freindship Bridge is their ability to tailor their services to the needs of their clients. The exemplify the ideal that "...not only are women good for microfinance, but...microfinance could be even better for women with a little more focus on gender differences."[96] How can other MFIs match this?

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[95] "Impact Results" Friendship Bridge. 2013.
[96] Cheston, Susy, "'Just the Facts, Ma'am': Gender Stories from Unexpected Sources with Morals for Microfinance" *Opportunity International.* 2006.

To begin, a large hurdle facing MFIs is how they plan to continue to expand in order to reach more social and economic sectors of women, as well as mediating the possible negative effects of their lending models. They should listen to the recommendations of researchers who emphasize the need for MFIs to create better formal structures, tailoring their services towards the unique needs of women and men, as well as their specific socio-cultural demographics, rather than trying a "one-size-fits-all" approach. Additionally, it is important for MFIs to realize that the burden of debt may be unfairly pushed towards poor women with current, established practices of targeting female clients. They may be trapped as mediators between MFIs and their male relatives that actually control the loan funds.

It is necessary to recognize that when women are microfinance clients, they may have a greater need for certain types of financial services such as formal and flexible voluntary savings; better health, asset, accident, and life insurance programs; and a larger access to credit. MFIs need to adjust their services to accommodate their female clients' (usually a large portion of their client base, at that) needs, by tailoring loan amounts and repayment schedules; allowing more opportunity for individual loan products through collateral requirement adjustments; and greater microinsurance programs.

Secondly, MFIs cannot ignore their other responsibilities in their clients' lives. Due to education performance gaps, a need for baseline education and literacy is essential to encourage female financial and social growth in the developing world. Some institutions do not provide these services. Non-financial services should be provided that encourage adult literacy and business training, opening the door to access better jobs and income-generating opportunities, which in turn promotes gender equity. The nonprofit world is familiar with capital restraints, so it may be understandable why some organizations are not able to afford these programs. But then, they should take it upon themselves to contact complimentary NGOs that can cater to this need and generate greater empowerment effects in communities.

Furthermore, MFIs should not be exempt from being critical on their personal management demographics. MFIs are generally not headed and staffed with women, making it difficult to create meaningful policies that accommodate women.[97] Female clients may also find themselves uncomfortable working with a male loan officer, one who may carry their own socio-cultural prejudices, and therefore, may feel that they do not respect or understand their situations.

MFIs themselves should strive for more gender-inclusive practices in their own administration by using affirmative action policies in their hiring of female loan officers and promotions of leadership positions, as well as including empowerment indicators in their assessment of clientele and portfolio management, helping create resources for greater conversations about MFIs' role in promoting gender equity.

Finally, in terms of female empowerment, MFIs should actively generate conversations about gender equity in the greater community by executing external marketing campaigns for awareness of female entrepreneurship and

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[97] Cheston, Susy, and Lisa Kuhn "Empowering Women Through Microfinance" 2002.

empowerment.[98] These campaigns can influence men to hold more respect for women in business, but can also inspire other women to expand their autonomy and agency.

When it comes to effectively aiding indigenous populations, there may be more questions than answers. When I looked back at Mushuc ñan, I believe it fit into the discussion of the intersection of class and race. The two characteristics build upon eachother, and can create an even more difficult position for an individual. Why is it that an indigenous COAC is experiencing more difficulty than the other interviewed institutuions in the area? Maybe it is from a lack of infrastructure development in rural areas (potentially because they are perdominately indigenous rural areas) that has hindered an indigenous COAC from reaching more clients. Maybe it is the fact that a portfolio of almost exclusively indigenous clients is inherently riskier due to the combined failings of national services such as education and health initiatives?

MÑ tried to find unique ways to cater to the needs of their *socios* by providing credit for funeral services, a central cultural practice for indigenous people. 1 de julio also worked to accommodate clients in the Amazon by utilizing daily repayment schedules rather than the typical monthly amounts. It may be important, however, for COACs to constantly consider, and to try to predict the needs of their clients. It may be that it will take further efforts for Ecuadorian

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[98] Arunachalam, Ramesh S. "Microfinance and Innovative Financing for Gender Equality: Approaches, Challenges and Strategies" *Eighth Commonwealth Women's Affairs Ministers Meeting*. 2007.

MFIs to understand, and then callibrate to, the needs of their indigenous populations.

Conclusion

While microfinance is not a silver bullet solution to the economic problems of Ecuadorian citizens, or disadvantaged people around the world, it is a beneficial empowerment tool and a worthwhile endeavor. This thesis is a labor of admiration for the individuals I met in March of 2017. I wanted to document their voices to keep their stories alive. Much like with my education in economics and international relations, the conversation of financial inclusion has become centered on the overarching structures, theories, and trickle-down solutions to problems. The opinions and voices of the actual people that are affected have been pushed to the wayside. Socio-cultural equality cannot come without economic and political equity. I believe in the power of microfinance, and I hope that this work has convinced you to do the same.

APPENDICES

Figure 1: Summary of Visited Ecuadorian MFIs

	OSCUS	MUSHUC ÑAN	1 DE JULIO	VISIONFUND/ FODEMI
Number of Offices, and Locations Served	13, mainly in central Andean region	Salasaca and other central pueblos in Ambato, 2 in Galápagos Islands	4 in Ambato region and 2 in the jungle, serving some Amazonian communities	19
Borrower Type	Socios	Socios	Socios	Clientes
Default Rate (year)	7%	35%	0%	5.5%
P.A.R. more than 30 days (year)	8% (2016)	?	10% (2017)	4.54% (2016)
Write Off % (year)	1% (2016)	?	?	0.95% (2016)
Portfolio Size (year)	$180.7 million USD (2016)	?	?	$38 million USD (2017)
Number of Clients as of 2017 (Clients/Loan Officer)	200,000 (500)	8100 (35-50)	1800-7000 (200), does not include clients with savings	520,000 (540-600), does not include clients with savings
Credit Offered	Business, personal consumption	Business, death	Business	Business
Savings Offered	Normal, time	Normal, time	Normal, time	Normal
Insurance Offered	Package: life, accident, general medicine, funeral	No	No	No
Education Offered	Yes	Yes	Yes	Yes
Children Services	Yes	Yes	Yes	No
Other Services	No	No	Senior Citizen Account	No
Refinance Available	Yes	Yes	Yes	?

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