A socio-economic study of Microfinance in the Urban Informal Sector

A dissertation submitted to the University of Manchester for the degree of MSc International Development: Public Policy and Management in the Faculty of Humanities.

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2014

School of Environment, Education and Development
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<th>Description</th>
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<tr>
<td>BNF</td>
<td>(Banco Nacional de Fomento)</td>
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<tr>
<td>EPS</td>
<td>(Economia Popular y Solidaria)</td>
</tr>
<tr>
<td>GAD</td>
<td>(Gobierno Autonomo Descentralizado)</td>
</tr>
<tr>
<td>GDP</td>
<td>(Gross Domestic Product)</td>
</tr>
<tr>
<td>IESS</td>
<td>(Instituto Ecuatoriano de Seguridad Social)</td>
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<tr>
<td>ILO</td>
<td>(International Labour Organization)</td>
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<tr>
<td>MFI</td>
<td>(Micro-finance Institution)</td>
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<tr>
<td>NFS</td>
<td>(National Financial System)</td>
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<tr>
<td>NGO</td>
<td>(Non Governmental Organization)</td>
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<tr>
<td>RUC</td>
<td>(Registro Unico de Contribuyente)</td>
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<tr>
<td>SBS</td>
<td>(Superintendencia de Bancos y Seguros del Ecuador)</td>
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<tr>
<td>UIS</td>
<td>(Urban Informal Sector)</td>
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<td>USAID</td>
<td>(United States Agency for International Development)</td>
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ABSTRACT

This dissertation aims to demonstrate that micro-finance institutions are an important tool to eradicate poverty and promote social inclusion among the most vulnerable groups in society, especially in developing countries. By following the Grameen Bank model founded by Muhammad Yunus, awarded Nobel Prize in 2006 for his success in Bangladesh, the micro-finance mission has been to contribute to development by offering opportunities to small groups of people whom have never had access to formal financial services. This work show that microfinance has been important but not enough to impel the country economic growth and that the MFIs strategies are not connect closely with poverty reduction and social inclusion. The efforts to create social development and economic growth by allowing poor people borrow small amounts of money leads to the question if it could really help them to escape poverty? Or in our case could these loans allow someone informal to become a formal business? With this investigation our results indicate that microfinance activities among three different type of financial entities, private, public and NGO’s, still needs to improve to become a more participative macroeconomic policy within the National government. There is a need for injection of financial capital to develop more micro enterprises and to help more “informals” to become formal businesses. This sector (informality) suffers credit rationing by the private banks, ignoring the fact that informality contribute substantially to the GDP of the country.
ACKNOWLEDGMENTS

I give my special thanks to my God almighty, for giving me the strength and knowledge through this career. My deepest gratitude goes to my dear parents Agustin and Monserrate, for the support in my education and every part of my life. To my children Agustin Alejandro and Valentina who are my biggest motivation for everything that I do. To my sisters: Ana Patricia, Sandra, Veronica, Rosemary and Lorena for their constant encouragement without which this assignment would not have been possible accomplished.

To the lecturers and colleagues of University of Manchester whom were together in this journey by sharing all their knowledge and experiences. Especially thanks to my dissertation supervisor Dr. Armando Barrientos who guided me throughout this process and shared some valuable experience that will help in my future development as a professional in this field.

And finally thanks to the Ecuadorean Government who allowed me to be part of this unforgettable experience by providing me with a full scholarship. I am sure that our contribution to our society will be the most important input that we can give in return as citizens.
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I declare that the work in this dissertation was carried out in accordance with the requirements of the University of Manchester’s Regulations and Code of Practice for Taught Programmes and that it has not been submitted for any other academic award. Except where indicated by specific reference in the text, this work is my own work. I have identified all material in this dissertation which is not my own work through appropriate referencing and acknowledgments. Where I have quoted or otherwise incorporated material which is the work of others, I have included the source in the references. Any views expressed in the dissertation, other than referenced material, are those of the author.
CHAPTER 1-INTRODUCTION

This chapter presents the general background information, what the aim and objectives of the study are, along with the research question. Additionally, this section presents the outline of the dissertation, limitations for the investigation, and also contains the brief history of Portoviejo, the city where the empirical data was collected.

1.1. Introduction

In recent years, there has been increasing interest from governments to introduce favorable policies into their financial systems that allow the low-income segments of the population, the so called informal sector, to become small entrepreneurs. Informality is a phenomenon of increasing complexity and plays an important role at the macro and micro levels of the economies of developing countries. The informality incorporates other structural problems such as poverty, social exclusion, unemployment and social inequality. This dissertation discusses the social and economic impact of microfinance institutions (MFI) within the urban informal sector (UIS) in the province of Manabí, (Ecuador) specifically in its capital Portoviejo.

The role of MIFs in the financial market has become a central issue for the economic growth of developing countries. In recent years, microfinance institutions (MFI) in Ecuador have developed a mechanism that focuses on promoting development in the commercial and productive sectors. The rural and urban informal sectors currently have more access to the financial system in such a way that allows the poorest members of society to access credit, and therefore improve their standards of living.
1.2 Background Information

The development of MFIs in Ecuador, after the financial crisis in 1999, is a proof of the potential outcomes that these institutions offer to the informal sector and micro entrepreneurs. The World Bank (2012) established a high degree of informality and low economic growth tend to go hand-in-hand, although evidence shows that the relationship is likely to come from common determinants of (e.g., education, financial depth, and corruption). In the province of Manabí, the urban informal sector represents one of the key drivers on the economy since it represents an alternative to escape poverty, and allows its inclusion in the national financial system through the access to credit.

The Republic of Ecuador, despite the economic crisis in 2008, with a robust economic growth of an annual rate of 4.9% by 2013 (World Bank, 2014), is distinguished among the highest rates in the region with informal unemployment rates of 68% (INEC, 2012). Since 2007, the new definition of the informal sector is characterized by employers with less than 10 employees, without a RUC (Registro Unico de Contribuyente), or without any accountability registry. However, in recent years this index had declined based on a new policy that requires employers to affiliate their employees to the Social Security Institute (IESS).

1.3 Aims and Objectives

The purpose of the study is to analyze the social and economic impact of the MFIs in the city of Portoviejo, province of Manabí within the urban informal sector, using a comparative analysis of the different institutions included in this process. Likewise, this work intends to measure the effects of how different programs could increase family income; and eventually
improve their standards of living above poverty line, through the public, private, and NGO MFIs.

In Ecuador, when the new government took office in 2007, called the citizens for a referendum to elaborate a new Constitution, and approved under article 309, the establishment of the National Financial System (NFS). The NFS is composed of the public, private, and the popular sectors in solidarity (Senplades, 2013). Under this new financial system, the National Constitution establishes a series of principles and guidelines for social interaction, and seeks alternatives for accumulation, redistribution and regulation to primarily emphasize human beings over the financial capital.

These new reforms also established the Organic Law of Popular and Solidarity Economy. This law represents the economic organization. In this sense, its participants individually or collectively, develop and organize productive processes, commerce, exchange, finance and consumption of goods and services to satisfy and generate income opportunities based on solidarity relationships (Ministerio Coordinador de Desarrollo Social, 2014). Within this context, including the new reforms and regulatory framework from the Ecuadorean government, it will be critically analyzed how effective the MFIs are promoting social and economic upgrading for the UIS in the city of Portoviejo, province of Manabí.

1.4 Research Question

The proposed dissertation aims to research the importance of MFIs in the economic and social development of the urban informal sector in the Ecuadorian city of Portoviejo, province of Manabí. Through this initiative, the focus should allow the assessment of the social impact
and economic outcomes from complementary programs that the local government GAD (Gobierno Autonomo Descentralizado) of the Municipality of Portoviejo could implement within the new administration. Consequently, the main question for this research is the following:

- Does Microfinance have a positive or negative impact on the urban Informal Sector?

This dissertation will also seek to answer the latter by addressing three subsidiary questions, which are:

- How are microcredit programs influencing the social and economic status of the urban informal sector in the city of Portoviejo?

- What policies the new GAD of the Municipality of Portoviejo will implement to improve their economic and social performance?

- Why some urban informal sectors stay stagnant for longer periods than others?

By considering these questions, it is important to define what type of contribution the microfinance sector generates to the urban informal sector in Portoviejo, not only at the economic level but most importantly in terms of social inclusion, and the dynamics for the economic development of the city.

1.5 Outline of the dissertation
The following dissertation is divided into six chapters, outlining the relevant work that will help to observe the content of this study. Chapter 1 provided a brief description of the subject with some background information, establishing the objectives and aims of the investigation, and why this subject is interesting. In addition, this section considered the purpose of this work and the research questions along with some limitations that encounters this thesis. The next chapter, Chapter 2 refers to the literature review with different views about the Microfinance and the Urban Informal sector. Thus, the definition, objectives and evolution of the latter concepts will be underlined. Likewise, it will be assessed how the Microfinance sector has developed in Ecuador and other developing countries, and what is and who is considered into this sector. Furthermore, it will be explained what the MFIIs and poverty have in common in the city of Portoviejo, along with social inclusion and economic growth. Chapter 3 will present methodology, and the reasons why a qualitative approach are suitable. Therefore, the different types of interviews selected for the study and their preparation will be presented. The following Chapter 4 will provide an empirical case study about the SWOT analysis of the financial institutions in Portoviejo that are currently offering most of the loans to the UIS. Chapter 5 presents the analysis of the findings and the results of the responses about the accessibility for the UIS to microcredit with its social impact for the sector. These findings will also help to determine what type of gender patterns are found, as well the implications for poverty alleviation in the region. In the same context, some policy recommendations from the GAD of Portoviejo to assess the needs for the UIS will be discussed. In Chapter 6 some conclusions and suggestions for future research on what can be done in developing countries with similar cultural patterns will be presented.
1.6 Limitations of the study

The main limitation for this study will be the timeframe to complete it, along with the logistics required to finish the task given the broadness and complexity of the subject. The access to information through primary data, as the form of interviews with the different actors, could be manipulated by the participants because they may believe it will affect their interest. The access to financial statements within the MFIs, due to confidentiality demands the submission of a special request to perform the interviews and collect the proper statistics that will allow the analysis of the requirements for microcredit lending.

Due to the national scope of the public financial entities, which can be influenced by the officials in charge, an external consultant firm will be available to protect the results based on become self-selecting biases and testing generality of the findings (Miles, et al., 1994). The financial information could be asymmetric based on unregistered citizens on the credit bureau; another issue could be the deficient database in the tax office in the GAD of Portoviejo which collects fees from the UIS. Another limitation for this study could be the transference of information from the older administration to the new one, which took office on May 2014. In this sense, perhaps the different departments will manage and process information in a whole different way, not allowing the study to perform with accuracy due political influences or personal interest.
CHAPTER 2-LITERATURE REVIEW

This chapter contains microcredit and micro-finance related literature theories and previous research. This section of the dissertation defines concepts, objectives and the evolution of micro-finance institutions, not only in Ecuador but also in developing countries. It will discuss what or who is considered as part of the Urban Informal sector and the impact of micro-finance and Poverty in Portoviejo. Finally, it will be assessed how micro-finance institutions have influence on the social impact and economic growth in poor people’s life. These theories and the revision of literature are used to understand the thesis problem. Thus, based on these theories, a conceptual framework will be developed to shows the role of micro-finance institutions in social inclusion and economic growth for life improvement of poor people.

2.1 Micro-finance: Definition, Objective, and Evolution

Micro-finance has many definitions because of the wide range of services it provides. In the most simplistic way, Khandelwal (2007) defines it as “the bank for the poor”. Suggested by the name, most transactions under "microfinance" involve small amounts of money. However, the connotation of the term has a much wider meaning. It is claimed to be a powerful tool, which can be used effectively to address poverty, empower the socially marginalized poor and strengthen the social fabric (Khandelwal, 2007). Another definition from the International Labour Organization (ILO, 2014) establishes that micro-finance is an economic development approach that involves the provision of financial services through institutions to low income clients.
One of the key components of micro-finance is the provision of microcredit. A good illustration of microcredit, according to the definition adopted at the Microcredit Summit held in 1997, consists of “programs that extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families”. Nevertheless, another definition was proposed by the ILO that classifies microcredit as a strategy that provides savings, insurance and loans to help the working poor and their families to gain financial security and cope with risk (ILO, 2014).

In the past several years, the use of microcredit has been a tool for the improvement of the standards of living of the poorest members of society, especially in developing countries. In Ecuador, the Superintendence of Banks defines microcredit as the amount of credit conceded to a natural or legal person, or group of people with the purpose to finance small activities such as production, commerce, and services, whose profits are the main form of repayment due to sales generated by such business at small-scale (Superintendencia de Bancos del Ecuador, 2014). Many other definitions about micro-finance also establish a clear understanding of it a retail financial services that offers credit, savings, and other essential products. These services have the main purpose to reach millions of people who are too poor to be served by regular banks, because they are unable to offer sufficient collateral (Van Maanen, Oikocredit, 2004).

Micro-finance banking is also concerned with small financial transactions that deal with low-income households and micro-enterprises. These transactions could be in the urban or rural sectors, where the MFIs assume the risk of using asymmetric information about clients to provide credit (World Bank, 2004). However, as Meyer and Nagarajan (2006) state, these
concepts are far more inclusive. This is because it has reached a broad range of services—loans, savings, insurance, remittance services, even pensions offered to the rural and urban sectors in developing countries through a wide set of commercial banks, credit unions, NGOs, and even retail chains.

The lack of access to credit correlates with the poorest households. In fact, as Matin et al. (2002) states, people (including the poor) may save money as it goes out (taking a few coins from the housekeeping money) as well as when it comes in (deducting savings at source from wages or other incomes). There is little or no collateral at all, associated with the lack of access to microcredit for the poorest in society, and also the deficiency of proper financial education to promote savings. The provision of financial products can help poor people to alleviate poverty, and reduce the vulnerability associated with external shocks (personal lost, weather phenomena’s, job lost, etc.). In conclusion, Micro-finance is not a single remedy for the poorest members in society to escape poverty. However, if used properly, it could be a useful platform to do so (Matin et al., 2002).

Some scholars see micro-enterprise as a promising way to help the working poor, the unemployed, and those who receive public assistance (Balkin, 1989; Clinton, 1997; Friedman et al., 1988; Raheim & Alter, 1998; Soloman, 1992). The micro-finance industry started with the promise to lend money to the poorest without collateral. This goes back to the founders of microcredit in the 1970s, with the successful case of the Grameen Bank in Bangladesh. Described by Dowla and Alamgir (2003) as a very effective and successful program expanded around the world, it received a formal recognition later from the Parliament. The main objectives of the MFIs are the ability to reduce poverty through microcredit, generate
employment, contribute to the national economy, stimulate economic growth, and promote the private sector and entrepreneurship. Orellana (2009) defines the objectives of these MFIs as the ability to develop small economies, especially with the inclusion and democratization of the financial services of the most vulnerable groups in society into the traditional commercial banks.

However, micro-finance could be ineffective or even damaging for the financial position of the poorest. Based on another author’s perspective, Hulme (2000) stated how these financial activities could change people’s life financially. In this sense of, if not managed correctly, without proper savings, it would be difficult to sustain if there is an environmental or economic shock (sickness, flood, drought, theft and so on). Therefore, our question is whether MFIs are working towards their objective without incurring on any other negative social or economic impact for the most vulnerable groups in society or being useful for them to alleviate poverty.

The evolution of MFIs has been marked by its transformation within a relatively short time. These changes from the previous decade show a high watermark of international support. These institutions, such as World Bank and USAID, pushed for a shift, nonetheless, using the developing countries’ market as a subprime credit supplier, ensured short-term profitability but increased risk for the poorest (Ghosh, 2013). In the same work, Ghosh stated how promising examples in Bolivia, Morocco, Pakistan, Mexico, Nicaragua, India, and recently in Bosnia were followed by crises due to typical financial bubbles that burst and concluded that micro-finance in the developing world had no empirical evidence. Bateman and Chang (2012) also argued that the inappropriate adoption of this model is based on a neoliberal political
model application rather than successful cases of effectiveness and quality that contributes to poverty alleviation.

Micro-finance institutions can be informal, formal or semi-formal. Informal micro-finance can be illustrated by rotating savings and credit associations, and informal or family deposit takers. It is characterized by seasonality, covariance of yield risk and information gaps between lenders and borrowers (Lahimer et al., 2013). Formal institutions of micro-finance are represented by private or conventional banks. These institutions are mostly placed within the reach of urban people, which mean that the poorest are generally excluded because of their lack of collateral. In fact, the deficiency of such collateral gives the opportunity to the other semi-formal MFIs to be part of the financial system in the form of NGOs. Dichter (2007) argued that NGOs are a type of compassion form of lending. However, the aims of their outreach programs are not achieved due to lack of engagement in other activities to help them change their financial habits.

2.2 Micro-finance in Developing Countries

The example of micro-finance in developing countries has been gradually taken from the successful case of the Grameen Bank, in Bangladesh. The story of this bank is a suitable point to begin a discussion of microcredit and micro-finance. In 2006, its founder Muhammad Yunus, was awarded the Nobel Peace Prize for his efforts to reduce poverty in Bangladesh with the institution that he developed from his own knowledge. By providing small loans to the extremely poor, the Grameen Bank offers these recipients the chance to become
entrepreneurs and earn sufficiently high income to break themselves free from the cycle of poverty (Sengupta & Aubuchon, 2008).

However, it is worth mentioning other organizations that have been able to contribute to the poorest with new methods that they could afford to repay. For example, the Bank Rakyat Indonesia (BRI) was created with the support of the Indonesian government in the 1970s, with the main purpose of financing small farmers that were part of the agricultural development programs (Hartungi, 2007). The objective was to increase the rice production, and provide micro financing to purchase appropriate pesticides to grow the harvest, by subsidizing these credits as a government initiative to reach sustainability.

Within this perspective, in developing countries MFIs are classified in two types: Subsidized and Commercial programs.

Table 1. Micro-finance Programs

<table>
<thead>
<tr>
<th>Programs aspects</th>
<th>Subsidized programs</th>
<th>Commercial programs</th>
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<tr>
<td>Objectives</td>
<td>-Poverty alleviation&lt;br&gt;-Increase income levels among the poorest.&lt;br&gt;-Self-employment promotion.&lt;br&gt;-Credit as a tool for poverty alleviation</td>
<td>-Equal access to credit for the poorest in society.&lt;br&gt;-Improvement of the financial services.&lt;br&gt;-Financial assistance for micro entrepreneurs.&lt;br&gt;-MFIs with capacity to attract all type of clients.</td>
</tr>
</tbody>
</table>
| Market | -Participants according to objectives.  
- Most vulnerable groups among poorest. | -Micro entrepreneurs.  
- Everyone with low income levels without access to the formal financial sector. |
|---|---|---|
| Program Structure | -Credits and administrative training for the organizations.  
- Provide direct services to the clients.  
- Isolated and targeted projects. | -Diverse financial services.  
- Support for the local agencies.  
- Building upon successful MFIs.  
- Focus on targeted projects. |
| Financial Policies | - Subsidized and small credits.  
- Subsidized services.  
- Approval based on the need for credit.  
- Evaluation of cost-effectiveness | - Rates based on the market.  
- Services based on quotas.  
- Profit driven business focus.  
- Approval based on risk assessment.  
- Evaluation based on the profitability and coverage of the markets. |
| Financial Resources | - Donations and own financial resources.  
- Sponsors.  
- International Aid funding when available. | - Borrowing and Social investments.  
- Stakeholders and diverse funding.  
- Private sector partnerships. |
| Organizational Structure | - Development agencies.  
- Community involvement through local workers and administrative personnel. | - Institutions specialized on microfinance.  
- Economic development through microfinance. |
Within this context, it is necessary to compare and analyze how such differences in the structures of the MFIs in developing countries are applied in reality. Are the MFIs delivering to the poorest groups for what they have been created? Are they following their policies to provide credit? As Dunford (2002) described, some MFIs operate as traditional businesses, even NGOs, lacking of reaching the social objectives for what they were created. The development of social impact measurement systems has been a challenge for the MFIs, especially NGOs, which are mainly targeting growth through social improvement.

In Bolivia, there are two NGO MFIs, Freedom for Hunger’s and CRECER, within the specific social objective to alleviate poverty. These institutions offer credits to women via village banking, and information (via adult education through meetings) that will also help with chronic hunger, and malnutrition in their families (Dunford, 2000). One of the challenges for these MFIs is financial sustainability because the market niche is around poor communities. Nevertheless, it results relevant to donors and stakeholders that these social enterprises become not only social oriented but financially profitable to justify their investment.

The successful cases of MFIs in developing countries such as Indonesia or Bangladesh could not be a guarantee recipe for others. This could be the case, especially in Latin America where new governments (left-wing) in recent years have been reforming the financial sector with the state’s intervention, aiming to balance the social objectives and market sustainability. State-run banks and programs were notorious for being highly dysfunctional: cumbersome loan
procedures, poor internal control, unqualified and occasionally corrupt staff and clientele’s management practices (Bédécarrats et al, 2012).

2.3 Micro-finance in Ecuador

The micro-finance sector in Ecuador, after the election of the left united movement (Alianza País) leader Rafael Correa in 2007, established a new social solidarity and economic system (Economia Popular y Solidaria, EPS). The grounds for such a system rely on the belief that national economies should be focused on the human being over the financial capital gains. The Ecuadorean National Constitution establishes as a priority the promotion of sustainable development, equal redistribution of the resources to access the Good Living plan (Plan Nacional del Buen Vivir); arranging the financial system as social and solidary, and defining the economic stability as sustainable as possible within the legal framework of productivity and employment (Senplades, 2012).

The Ecuadorean government made the necessary changes to enable MFIs to deliver the purpose of the EPS. Such evolution was enacted by a new bill, on May 2011, seeking the concept of “popular finance” defined by the type of products and the poverty levels of the users (Bédécarrats et al, 2012). In Ecuador, based on data from the Central Bank, the majority of microcredit is often obtained from the following MFIs: Banco Solidario, Banco del Pichincha, and Procredit (all private entities), representing about 87% of the total volume of microcredit (Banco Central del Ecuador, 2014). All MFIs in Ecuador, are regulated and supervised by the Superintendence of Banks and Insurance (SBS), composed by public and private banks, Financial Corporations, Mutual and Credit Unions. The Non-governmental...
organizations (NGOs) that provide microcredit are regulated by the National Direction of Credit Unions (DNC).

Table 2. Micro-finance Institutions in Ecuador

<table>
<thead>
<tr>
<th>MICROFINANCE INSTITUTIONS IN ECUADOR</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MFIs</td>
<td></td>
</tr>
<tr>
<td>Public banks</td>
<td>1</td>
</tr>
<tr>
<td>Private banks</td>
<td>16</td>
</tr>
<tr>
<td>Financial corporations</td>
<td>6</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>36</td>
</tr>
<tr>
<td>Mutual Unions</td>
<td>2</td>
</tr>
<tr>
<td>NGOs</td>
<td>16</td>
</tr>
<tr>
<td>TOTAL</td>
<td>77</td>
</tr>
</tbody>
</table>

Author: Agustín Velasquez
One example of MFIs in Ecuador is the Center of Promotion and Employment for the urban informal sector (Centro de Promocion y Empleo para el sector informal urbano, CEPESIU). It was established to support the urban informal sector in Guayaquil, the city with one of the largest percentages of informality in Latin America (Todaro & Smith, 2012). CEPESIU’s mission is to support men and women to initiate their own business in the absence of employment, fostering sustainable development-equally implementing programs and projects to support small economic activities, in the urban and rural sector in Ecuador.

2.4 The Urban Informal sector: What is it? Who is part of it?

Informality definitions can be very broad. For instance, many authors (Bromley, 1978; and Mazundar, 1976) drawing on an extensive range of sources, set out the different ways in which informality can be conceptualized. Informality takes many forms in urban economies, especially in developing countries, presenting some form of division: formal and informal income opportunities. Unorganized and untraceable sector where no data is available to accurate measure their capacity. Mc Gee (1973) classifies them as one derived from capitalist forms of production (formal), and the other from the peasant system of production (informal) with the conclusion that depending of the production type these activities are labeled. Two factors affect why people look for these opportunities: one is based on the lack of training, and the other scarce of formal job availability (Brendan et al., 2014).

A study from the World Bank in 2012 defined informality as the economic activity that does not fully comply with all regulatory, tax, or legal requirements, but which otherwise would have been legal. In another definition, Bromley (1978) found the informal sector as
comprising the two sectors of activities, being economies and employment among the 
traditional (informal) and the modern (formal) sectors. In conclusion, both of these concepts 
share the type of activities which are characteristics in the UIS, such as the low barriers of 
entry, family ownership, small scale operations, labour intensive, unregulated and competitive 
movements, and the skills are acquired outside the formal school systems (ILO, 2002).

The informal sector has been recognized since the 1970s as unorganized, unregulated, and 
unregistered activities that fail to show up in statistics about employment rates (Todaro & 
Smith, 2011, p. 328). Another general definition for the urban informal sector (UIS) is stated 
by the International Labour Organization (ILO, 2011) as follows:

“The term "informal sector"... will refer to very small scale units producing and 
distributing goods and services, and consisting largely of independent, self-employed 
producers in urban areas of developing countries, some of whom also employ family 
labour and/or a few hired workers or apprentices; which operate with very little 
capital, or none at all; which utilize a low level of technology and skills; which 
therefore operate at a low level of productivity; and which generally provide very low 
irregular incomes and highly unstable employment to those who work in it”.

The definition of formality, by SENPLADES (2012), based on the Ecuadorean Government’s 
regulation and compliance, is measure by four sets of mandatory regulations: being registered 
with the tax authority and having a taxpayer number (RUC), having a municipal license, 
requesting formal receipts from their suppliers, and registering their employees with the 
Ecuadorian Institute of Social Security (IESS). In 2012, the World Bank published a report in 
which they described the informal sector in Ecuador, confirming it as one of the highest 
sectors in comparison with other countries in the region. The informal sector employed about 
37% of the total employed population in 2011. Nonetheless, workers without social security
affiliation were reduced from 75% in 2000 to a 62% in 2011, remaining the fourth highest in Latin America and the Caribbean region (World Bank, 2014).

The UIS is an important factor among all economic activities in the main cities in developing countries. To begin with, theoretically the UIS should be declining while development takes place in developing countries. However, there are complementary activities that enhance both (the formal and the informal sector) to continue with its expansion. The governments, especially in the East and South East Asia, consider informality as the opposite of modernization (Lubell, 1993) because it perpetuates underdevelopment through the use of traditional and classic production methods. Nonetheless, informality has been directly correlated with the urbanization phenomenon, and at the same time with, arising social problems such as opening markets for illegal commerce and drug trafficking (Servicio de Rentas Internas, SRI, 2012).

The question is why the informal sector persists in the economy? The answer would probably be because this sector produces goods and services at accessible prices for consumers. In recent years, many efforts have been made from governments and international aid institutions to regulate informality. Meanwhile, and as mentioned before, others try to eradicate it as any other illegal activity due to the problem caused in the cities. However, the ILO (1972) based on a study in Kenya, was able to recognize informality based on quantitative analysis. The latter allowed the organization to pressure Kenya’s government, and other African countries to include the informal sector in the economic agenda due to the relevance of increasing the standards of living on their population. In conclusion, informality
should be included on every economic system analysis, based on the social and financial implications that eventually could affect directly or indirectly the people’s standards of living.

2.5 Demographics of Portoviejo

Portoviejo is one of the oldest city of the Ecuadorian coast, founded on March 12th of 1535 by the Spanish captain Francisco Pacheco, who was part of the conquer army of Diego Almagro. The city of Portoviejo, also known as San Gregorio de Portoviejo, is the capital of the province of Manabí. The canton contains the following parishes: Abdon Calderon, Alajuela, Crucita, Pueblo Nuevo, Rio Chico and San Placido. The city is surrounded by forest of ceibos and guayacanes, with two weather stations: Summer and winter, with an annual average temperature of 24 ° Celsius, with mostly of the rain occurring during winter time and highest temperature (INEC, 2014).

The importance of knowing demographic information about the city, relies on the functional use to determine how the public policies will affect the decision making process. Some authors as Yepez (2012) determine that following the interpretation of these indicators we can know the social and economic behavior of the population. In other words, as other authors (Yepez, Modenes & Lopez, 2007, p.32) state that evidently the interconnection between these demographic variables and the social component, allows the governments to determine on a structured way the development of the people. Therefore, this information contributes to the strategic plan to reach those primary objectives to achieve economic and social development.

Under this concept, the city of Portoviejo has a population of 280,029 habitants. With the population allocated as follows: 206,682 in the urban side, and 73,347 in the rural areas.
Making a comparative analysis of the census of 2001 and the most recent one in 2010 (INEC, 2014), there is a noticeable increase of the urban population based on agricultural rural migration. For example, the rural population increased 9.38% compared to the urban one which doubles it (20, 27%), without having accurate data of why this phenomenon occurs. It can be assumed that this happens due to lack of support from the national government in rural areas, which are mainly agriculture oriented.

In Portoviejo, the commerce and the agriculture sector are recognized as the two main economic drivers of this canton. In this matter, commerce represents 27, 39% of the activities, while agriculture or the productive sector hold almost 50% (CLIRSEN, 2012). The main focus of this thesis will be to analyze the economic factors behind the commercial activities in the canton Portoviejo, especially the urban informal sector. The latter has become an issue for the urban and economic development of the city in the last 20 years. The new administration of the GAD of Portoviejo is in much concern regarding this social phenomenon. Thus, this project will disclose some important policies that are taking shape to reallocate, and eventually help them to become formal and legal commerce to promote economic and social change in the society.

2.6 Commercial activities and Micro-finance in Portoviejo

Commerce, as one of the key drivers in the economy in Portoviejo, represents around 55.20% of the total of the employed population (INEC, 2012). The city of Portoviejo, as the capital of the province of Manabi, is where the whole commercial activities and professional services take place. Graphic #3 shows Portoviejo’s commercial activities divided as follows: 54.32 %
commerce, 37.41% professional services, 8.09% agriculture and 0.17% represents the manufacturing sector which is underdeveloped as we can note based on these figures (CLIRSEN, 2012).

GRAPHIC #1 Economic Activity in Portoviejo

<table>
<thead>
<tr>
<th>Economic Activities</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerce</td>
<td>54.32%</td>
</tr>
<tr>
<td>Services</td>
<td>37.41%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>8.09%</td>
</tr>
</tbody>
</table>

Author: Agustín Velasquez


After reviewing these statistics, the commercial activities in the canton of Portoviejo, not only involves such commerce, but the buy-selling process of agricultural products such as rice, corn, fruit, meat, in agriculture centers, local markets, and fair trades. As part of the dynamics of the local economy, the reality shows that these activities are interconnected. In addition, these could not stay profitable if there were not agriculture production from the minor and middle producers. The producers visit Portoviejo to drop off their products but also support the economy by making purchases from the formal and informal sectors (CLIRSEN, 2012)
As far as financial entities are established in Portoviejo, they were allocated in three groups:

- Credit Unions
- Private Banks.
- Public investment.

Through the National Government, the National Institute of Popular and Solidary Economy (IEPS) provides credit in the form of small associations, which is named, the Human development associative credit program. This program has delivered 250 microcredit’s in the province of Manabí. The credit is for $840 to each participant as long as the organization has been legally established and willing to invest in a new business or venture. This program had benefited around 400 families in Portoviejo, with a total investment of $225,104 dollars to support different productive activities. For example, one small community in San Placido built a facility to produce different derivatives from cocoa, such as candies, creams, shampoos etc (CLIRSEN, 2012).

Another MFI “FINCA S.A.” provides credit to community partners, although if they do not belong to the participant’s community, they can still apply for a minimum credit of $150. One of the benefits from this MFI is the assistance with the business plan, advising through seminars, fair trades, and events to promote and innovate their products. This commitment from the MFI with the applicants enhances the proper follow up with clients culminating in delivery strategies. Moreover, FINCA, not only offer financial services such as credit, insurance or savings but also reaches out to a wide scope of post-credit activities.
There also are public institutions as one of the most important funding sources. The latter are represented by the Banco Nacional de Fomento (BNF), the main injector of funds for the commerce in the province. This entity offers the widest range of lines of credits, and for the most activities in the canton Portoviejo (SBS, 2012).

Table 3 Distribution of Microcredit in Portoviejo

<table>
<thead>
<tr>
<th>CANTON</th>
<th>SECTOR</th>
<th>AMOUNT</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>PORTOVIEJO</td>
<td>Commerce and services</td>
<td>8,715,683.00</td>
<td>71.94</td>
</tr>
<tr>
<td></td>
<td>Agriculture crops</td>
<td>963,077.00</td>
<td>7.95%</td>
</tr>
<tr>
<td></td>
<td>Agriculture machinery</td>
<td>224,559.00</td>
<td>1.85%</td>
</tr>
<tr>
<td></td>
<td>Planning developments</td>
<td>192,091.00</td>
<td>1.59%</td>
</tr>
<tr>
<td></td>
<td>Pasture and livestock</td>
<td>915,245.00</td>
<td>7.55%</td>
</tr>
<tr>
<td></td>
<td>Small industry and handcrafts</td>
<td>1,092,440.00</td>
<td>9.02%</td>
</tr>
<tr>
<td></td>
<td>Mobility of products</td>
<td>12,000.00</td>
<td>0.10%</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>12,115,095.00</td>
<td>100%</td>
</tr>
</tbody>
</table>

Comment [2]:
Based on Table 3, in 2010, 71.94% of the credits were for commercial activities related to small businesses such as clothing, fast food, bars, restaurants and travel agencies. In this context, the UIS in Portoviejo claim to be one of the largest sectors for micro-finance.

### 2.7 Social Impact and the MIFs.

According to Yunus the move out of poverty requires ‘creating an enabling environment’ where the poor are able to ‘unleash their energy and creativity’ (Yunus et al, 2010). Within this context, the relation between the social inclusion and the MIFs is fairly direct. The model from the Grameen Bank has been duplicated around the world as a tool for the alleviation of poverty. In terms of creating something relevant to unleash that energy and creativity from the poor, the microcredit has the potential to do so, enabling them to lift themselves from a though life up to a moderate life.

Within a social perspective, there was some evidence that microcredit may have had negative impacts on the client’s self-esteem, which may stem from stress relating to the pressure to repay loans. Moreover, from a policy perspective, there are findings related to gender. Specifically, female entrepreneurs tend to exercise more control over household and enterprise resources and also appear to save more consistently than male entrepreneurs (Dunn & Arbuckle, 2001). Female groups are also considered more responsive in terms of payments even though they carry more domestic responsibilities than men.

### 2.9 Economic Growth and Microcredit
One of the problems that, not only low income families have but also small and medium businesses owners have are the difficulties to access financial services. The barriers to entry the formal financial sectors (for example banks, investments, stock exchange) comes from a series of factors and issues that stop productive investments such as human capital, technology, and therefore excluding the majority of the population. This situation, limits the possibilities to increase the income of families, small and medium enterprises to invest, and the creation of new jobs.

Probably one of the major issues is the credit rationing. This term has been used based on the supply and demand behavior of the market. The theory behind this concept supported by Akerlof (1970), Spence (1973), Stiglitz and Rothdchild (1976) and Stiglitz and Weiss (1981) about the behavior of the market under asymmetric information, allow identifying two reasons for the rationing from the formal financial institutions: the moral risk and the adverse selection. The moral risk occurs when economic agents have the incentive to take the risk to new entrepreneurs and ventures. If the banks increase the interest rates, based on the risk, this implies that the borrowers will be assuming the larger investments to cover the financing fees and make a profit. This behavior increases the default of payments, and therefore minimizes the supply for microcredit. The adverse selection happens when the MFI’s apply the same interest rates for everyone. While increasing the demand for credit, trying to break even, the adverse borrowers will attract the riskier payers as well, provoking losses for the MFI’s, and therefore credit rationing takes place.

In conclusion, an economic growth has a direct connection with the access to microcredit that could allow people to escape the poverty cycle. One of the major constraints that poor people
have is the barriers of entry to the formal financial system. The MFIs should consider the review of their requirements to allow more people to join microcredit programs. Thus, economic growth will follow because these new members eventually will have better opportunities to increase their income.
CHAPTER 3-RESEARCH METHODOLOGY

This chapter presents the reasons why qualitative approach was adopted and justifies interviews as a suitable tool to implement this dissertation. Research is a process of planning, executing and investing in order to find answers to our specific questions (Ghauri & GrØnhaug, 2010, pg. 45). According to these authors it is very important to do the investigation in a systematic way in order to get reliable answers for the questions. In this way, the understandability and reliability of the report to the others will increase.

3.1 Choice of Method.

To maintain this theoretical approach, it is imperative to allow the participation of the UIS in Portoviejo in order to voice what is important for them in reference to their social and economic development. This was done by using qualitative research methods, which includes structured and semi-structured interviews with participants. Among the latter are, not only members from the UIS but also from the MFIs, as well as the mayor of the city who took office on May 15 2014. The interview with the mayor presents proposals from his new administration which includes a development project for the UIS to reallocate them and thus contribute to formalize their business.

In order to answer the research questions, the sample was chosen from the borrowers of MFIs in Portoviejo. These participants were selected from Chile Street, known as the mainstream for the informal sector in the city. For more than 20 years the UIS have been established in this street and the surrounding areas, leading the city centre to chaotic traffic and abnormal development of the formal sector. The other semi-structured interviews were conducted with
participants from the MFIs, such as the General Manager. Finally an interview with the mayor of the city took place.

A qualitative approach was more appropriate for this study because the data, usually in the form of words rather than numbers, can be more specific based on observation, interviews or documents (Miles and Huberman, 1994). This approach was essential for the integrity of the research, because it is relevant to understand what the impact of MFIs programs is in the promotion of socio-economic development of the community, especially when the information comes from the participant’s perspectives. It is important to mention that all interviews were in written, and then transcribed for the respective analysis according to emerging themes.

3.2 Data collection

3.2.1 Primary data collection

The collection of primary data allows the study to answer the research question, and also to deal with the problematic at hand. Some authors refer to primary data as more consistent and accurate to the research questions and objectives because they are collected for the particular project at hand (Ghauri & Gronhaugh, 2010). The collection of qualitative data, gathered primarily in the form of spoken or written language rather than in the form of numbers, serves as evidence for descriptions, clarifying human experiences as it appears in daily activities of people’s lives. The purpose of this study is to assess the social and economic impact of microcredit programs on the urban informal sector. In this case, the primary data were collected from the borrowers and some bank officials in charge of the microcredit lending by
conducting personal interviews in the branches of each MFI’s included in this investigation. Interviews were the best option to collect more information because they demand real interaction between researcher and respondents (Ghauri & Grønhaug, 2010).

3.2.2 Interviews

Interviews are the favorite methodological tool for qualitative research (Denzin & Lincoln, 1994). They are the art of asking questions to the respondents and listening answers from them. According to Ghauri & Grønhaug (2010) an interview is the best method for primary data collection. Structured and semi-structured interviews were the main tool used here for gathering data from the key actors in play, such as borrowers, bank officials, and government authorities such as the mayor of the city of Portoviejo. The semi-structured interviews allowed to drive the discussion through a selection of key questions and, at the same time, to give enough space to the interviewed to add further and not expected information (Desai and Potter, 2006, p.145).

3.2.3 Preparation

Interview preparation is the method that will generate the effectiveness and depth of the information gathered. According to Turner (2010), creating effective research questions during the interview process is one of the most crucial components of the interview design. (Turner, 2010, p.757). For this study in particular, the preparation of a structured interview and designed the questionnaire was directed by the following considerations: derived questions which allow the research to be explorative as much as possible narrowing down number of factors correlated to the Urban Informal Sector activities and the micro-finance programs.
Another consideration was the personal contact with the respondents to gain better understanding of both the hypothesis and of implementation processes.

The setting and location are equally important in the interview preparation as well as providing confidentiality parameters and standards. Thus, both, the interviewee and the interviewer are entitled to know how much time will be needed in order to complete the survey and have a correct data collection. McNamara (2009) applies eight principles in the preparation stage of interviewing which includes the following components: (1) choose a setting with little distraction; (2) explain the purpose of the interview; (3) address terms of confidentiality; (4) explain the format of the interview; (5) indicate how long the interview usually takes; (6) tell them how to get in touch with the interviewer if desired; (7) ask the participant(s) if they have any questions before starting the interview; and (8) do not count on memory to recall answers.

3.3 Types of Interviews

3.3.1 Structured

Structured interviews, in this study in particular, will complement this methodological approach towards the selected population of research. Using behavioral questions in an interview can reflect that the best predictor of the future performance is past performance in similar situations. MFI’s consider the applicant for a loan will be properly evaluated through specific information on their behavior and past experience; therefore questions in the structured interview was aimed to gather data that is able to show the impact in the results of the financial situation of the research population and its tendency to improve or decline.
The structural interviews held with the informal sector of urban Portoviejo, showed the behavior in the financial status and business of the area. The starting point was the amount of the credit lent, which shows that 50% of the loans oscillate in a middle range between one and five thousand dollars.

The relation between time and the type of business cannot be overlooked. The interviews held related to the impact of MIFs on the urban informal sector contributed to determine the main types of businesses. In this point, clothing (60%) was part of a basic need among the population and 40% of the businesses have remained through time stagnant.

### 3.3.2 Semi Structured interviews

Semi-structured interviews allow a broader approach on the financial situation for the investigation. This includes an improvement of social and economic status (77%) and knowledge of other financial products available (83%). This study can relate to this source to elaborate a comparative analysis of the impact of MFI's on the economic growth among the small businesses in the urban sector of Portoviejo and its direct and indirect benefits and improvement over the quality of life standards.

Using this data as an indicator of the financial situation and economic flow in the local market, and combining them along with population background, every day customs and habits and small business’ entrepreneurs and owners, MFI's achieve a wider path towards the destination of the loans delivered and the impact is more likely to reflect the results needed for the investigation.

### 3.4 Post Interview
The post interview stage intends to maintain diplomatic and formal relations with the interviewee in order to verify the data that has previously been collected. The latter will allow the clarification of any further information needed so it is possible to continue the process at a proper pace, development and control. This process also allows having extra information that might not be collected in a formal way because the interviewees will feel less pressure to answer any other concerns.

3.5 Secondary Data Collection

Secondary data contributed with specific information collected for the investigation through surveys and interviews. This information corresponded to official data issued by financial institutions or other organisms with statistical intentions; technical reports in additional developed projects and research, registration books and referential literature was also useful as secondary data.

Based on the information obtained from the secondary data collected specified on Table 1, the aim and impact of MFIs in developing countries corresponds to mitigate poverty levels on the population. In addition, they promote self-employment; improve financial services and increase income levels.

Secondary data collected from this study revealed that the policies used by MFIs led to the improvement and diversification of financial services. These policies include everyone in low income levels and are oriented to a profit business driven focus which encourage the UIS to continue economic flow under a strengthened work processes.

3.6 Trustworthiness
The analysis of secondary data and the information generated as a result of surveys and interviews, trustworthiness is an influencing factor in the conclusions and facts that surround every investigation. The need for transferable and reliable information is a very important factor within the conclusions that an investigation should produce. For this purpose it becomes necessary to include with unquestionable quality, the references consulted; official information from involved institutions and an excellent verification of the surveys held. MFI’s involved in this investigation, were exclusively selected according to their internal and external policies as well as their mission and vision applied to the private, public and non-government sectors in which they are able to represent a trustworthy source.

3.7 Conclusion

A lot of research has been done on microcredit, while this work focuses on the role of microfinance institutions and how it helps to improve the economic status and promote social inclusion among vulnerable groups in society. For this dissertation, it was considered how borrowers from the urban informal sector use the loans provided by the MFI’s, what kind of income generating activities they are adopting, how the microcredit has helped to reduce their poverty level, how to influence services other than credit offered by MFI’s such as savings program pension’s fund schemes and, social welfare services for the poor to improve their life status.

For this dissertation, the empirical data was collected from thirty borrowers of the following MFI’s: Banco Nacional de Fomento, Fundacion ESPOIR, and Banco Pichincha. This number is very small when compared to all the microcredit borrowers in Portoviejo. Therefore, it
would be wrong to claim that the findings of this study are applicable for all the borrowers, especially from the Urban Informal sector. However, there are not any reasons to determine that the findings would be substantially different among all the borrowers since all the borrowers have been selected from the same city area and the same socio economic conditions. Consequently, their motivation is to join microcredit programs that eventually will help them to improve life status by doing self-income activities.
CHAPTER 4-SWOT ANALYSIS OF FINANCIAL ENTITIES IN PORTOVIEJO

This section intends to apply the SWOT framework to help analyze of the strengths and weaknesses of the financial institutions in Portoviejo, specifically the case study of one private entity (BANCO PICHINCHA), one public entity (BANCO NACIONAL DE FOMENTO), and one NGO (FUNDACION ESPoir). In the late 1990s, Ecuador suffered its worst economic crisis that involved 16 banks, causing lack of confidence and trust among financial institutions and the domestic currency. This crisis led to the process of adoption of the U.S. dollar as the legal tender (Jacome, 2004, p. 4). Therefore, the study of financial institutions in the country is relevant to this project in order to confirm that new policies had improved regulation and overall performance of those entities.

The SWOT for MFIs with a range of action in the Urban Informal Sector in Portoviejo has been developed with a private, public and non-government financial institution to give a wider approach of the impact these organizations maintain.

4.1 SWOT Analysis

BANCO PICHINCHA

Strengths:
• Great experience in the Ecuadorian financial market
• A nationwide extensive geographic coverage.
• Good national and international corporative image
• Biggest ATM network in the country.
• Good operative structure, vast capacity in business generation.
• Traditional banking politics, which adjust to the economic environment and credit portfolio.
• Technological platform for an appropriate administration of Operative Risks and Data Security.
• Management of liquid assets.

Opportunities
• To study and go in depth at the banking business in Spain.
• To continue with the Pichincha Investment Project in Colombia
• To gain market with distribution coverage.
• Acquisition of GMAC (General Motors Corporation subsidiary) opens the possibility to work on this market niche

Weaknesses:
• The structure of the operative costs demand more resources to be maintained.

Threats:
• Debt with the financial system.
• Sensitive macro-economic situation towards external change.
• New regulations are a potential risk element that could affect the entire Ecuadorian financial system.

ESPOIR
Strengths:
• Fast and personalized customer service and high level of satisfaction, including credit assignment.
• Community bank credit products through Educational programs in health prevention, business management, gender and vulnerability risks.
• Human resource approach: motivated, experienced and constantly trained staff members, working through the institution’s main goals.
• Decentralized operations.
• Additional income generation by area of education.
• Horizontal management structure
• Flexibility in the definition and development of products.
• Wide range of offered micro financial products
• Knowledge of the target market (subsistence segmented entrepreneurs).

Opportunities:
• Access to the National Funding Program for Popular finances, entrepreneurship and social economy and portfolio.
• Inclusion of NGOs in the new law of Popular Finances, Entrepreneurship and Solidary Economy.
• Expansion in rural areas and gender patterns including male actors.
• Clients eager to receive flexible financial products regarding guarantees, interests rates and amount of loans.
• To gain market share through debt payment.
• Wide diversity of technologic products to distribute financial services to clients.

Weaknesses:
• High administrative and operational costs due to methodology, personalized service and organizational structure necessary to launch financial services.
• Institutional growth is limited by level of debt, which affects solvency indicators.
• Absence of analysis and portfolio payment.
• There are no formal post sales processes.
• There is a weak process of client selection for individual credits, high dependence of informatics staff to obtain information, limited proactive organizational culture.
• Insufficient follow up to supervising processes.
• High operative costs.

Threats:
• Increasing competition by public financial institutions specialized in microcredit.
• Possible extension of debt of clients.
• New demands by international financing institutions.
• Fragile stability of the national economy by dependence of high oil prices and migrant remittances, as well as few exporting products.
• ESPOIR staff members hired by the competition.
Slow judicial system in the country, holding back the recovery of client portfolio.

BANCO NACIONAL DE FOMENTO

Strengths:
• National bank network coverage
• Coactive jurisdiction for portfolio recovery.
• Judicial and official deposits correspondents
• Knowledge and experience in business areas.

Opportunities:
• Institutional strengthening process.
• Possibility to interact with cooperatives in coordination of the Central National Bank (Banco Central del Ecuador - BCE)
• Banco Nacional de Fomento is the current executor of national development politics.
• Availability of investment portfolio.
• High demand of credits for the productive sector, not attended by the traditional bank system.

Weaknesses:
• Administrative instability, limitation in a systematic process in planning and development.
• Fragile liquid position by increasing demand of government programs.
• Operative risks due to internal control weaknesses.
• Lack of financial information available “on line”, which shows a technological weakness.
• Continuous loss registrations that compromise patrimonial contributions.
• Technological platform in development.
• Human talent management problems.
• Market segment exposed to high credit risk situations.

Threats:
• Vulnerable macro-economic scenario set by an international financial crisis.
• Dependency on the fiscal situation to obtain state support.
• Deposits that do not generate interests should be transferred to BCE.
• State intervention to regulate the costs of financial services and investments.

4.2 Conclusion
This analysis leads to visualize the comparative differences in organizational structure and investment policies. The processes of the private and traditional banking institutions such as Banco Pichincha, lead to international recognition, reaching out to a target of market above poverty issues and projected to reflect economic solvency and a middle-high social status. Technology is part of the agility required for the expansion of businesses and improvement in customer service and data security. Banco Pichincha does not specialize in micro credit funding although it does grant them; as part of the traditional banking system does not possess the strategies that would bring the institution closer to the client at its geographic location.
The NGO ESPOIR, on the other hand, has processes focused on financial services and products towards the development of a community banking system. It reaches out to clients at a local level, generating decentralized operations with the knowledge of its target market, which promotes a closer approach towards clients and the expansion in rural areas with a portfolio eager to receive flexible products regarding guarantees, interests rates and amount of loans. Although ESPOIR is the closest example to a well leading micro financial institution according to its strategies, its weaknesses, include, high administrative and operative costs, an unstable process of client selection for individual credits, absence of analysis for portfolio payments as well as no formal post selling processes.

A public microfinance institution such as BANCO NACIONAL DE FOMENTO is able to find its strengths in jurisdictions supported by the country’s government and opportunities in being the leading executor of national development politics. With knowledge and experience in business areas and a high demand for credits in the productive sector, not satisfied by the traditional banking system, it is one of the most leading microfinance institutions nationwide. Technology is an important tool to achieve whole customer service and the security of information generated by client’s portfolio as well as the ability to offer customer and financial services on the geographic location closest to the client. MFIs that possess a clear vision and knowledge of their target market reach out to clients and develop policies focused in strengthening branch offices within local impact and functioning.

Weaknesses among investigated MFIs include complex organizational business structures causing high administrative and transaction costs, increasing a difficulty for sustainable
maintenance of processes which lead to less interests’ rates and slow benefits to poverty alleviation and the improvements of quality life standards.

A lack of defined policies for MFIs, the financial services as a business offer and its processes within the country lead to a competing scenario between the traditional banking system and the pursuit for innovative banking systems adapted to regional needs. Without a defined line of action, Banco Pichincha and Banco Nacional de Fomento are not specialized in micro financing *per se*, although it is one of the financial services offered to customers.
CHAPTER 5-ANALYSIS FINDINGS

In this chapter, all the data collected, statistical and descriptive statements about the qualitative and quantitative information will be used to address the research question, using tables, charts, and diagrams when appropriate. In this chapter, I synthesize and discuss the results using findings of patterns and themes on one hand, and ambiguities and inconsistencies on the other (MacQueen et al., 1998, p. 32). The findings will help examine the development of microcredit in the city of Portoviejo, evaluate financial institutions’ performances through the variables in question, and allow understanding of why the people are still trapped in the informal sector without incurring on any social and economic improvements.

5.1. Microcredit and financial access for the Urban Informal Sectors in Portoviejo

Portoviejo had experience higher rates of informality in the last 20 years, caused by an unorganized urban development. The urban informal sector has been in continuous renovation and updating the demand in the market where it develops. It has been growing under economic shocks and the potential development. However, the lawlessness, the insecurity, the lack of credit, barriers of entry, and little competition for the urban informality had failed to reach their destination properly. This reality shows an undeniable need for entrepreneurs among other actors in the UIS to acquire access to microcredit and other financial services.

According to Reina (2004), given the fact that in many countries the informal sector covers much more than 50% of the working population, the impact of microcredit over small business owners as well as over the general economy and on social conditions, is absolutely meaningful. According to one of the branch managers, MFIs are becoming more sustainable
and client oriented, although their operations still not covering some rural areas for the poor people’s improvement. The influencing factors on business functioning are economic, political, technological and social elements. (Reina, 2004, p.18).

Microcredit access for the UIS is based on policies and requirements aimed to evaluate, through interviews and background research, whether the incomes generated by the commercial activities held will be qualified as profitable. Nevertheless, according to Lacalle (2001) MFIs have modified traditional banking practices, eliminating the need for collateral guaranties and creating a bank system based on mutual trust, responsibility, creativity and participation. Therefore in comparison with traditional financial institutions, MFIs possess more innovating characteristics:

1) Focus on population in poverty levels

This is the most representative characteristic of micro financial programs in which the main objective is to attend and improve financial needs for the most disadvantaged.

2) Knowledge of the market

It is important that these institutions know the needs, preferences and limitations of its clients in order to satisfy them appropriately. Clients in these institutions have business capacity however, are still in a poverty level such that does not allow them to have access to a traditional bank system (Lacalle, 2001, p.127).

In order for MFIs to create microcredit and financial access for the UIS of Portoviejo, procedures to a credit evaluation and approval have been turned flexible, adapting to the conditions of the population; evaluating the risks for a loan using background research, experience and knowledge investigation and reducing the transaction costs by simplifying the
financial institution’s organizational chart and eliminating bureaucratization. This process leads to the reduction of internal administrative costs and a less complex business structure. Requirements may vary according to the financial institution by which they are demanded; for this study, according to Banco Nacional de Fomento, the leading micro financing institution on the public sector, the list of documents required to obtain a credit for the UIS include the following:

Identification card and voting certificate of client, guarantee holder and respective spouses.

Client’s and guarantee holder IRS document.

Basic service bill (client and guarantee holder)

Income and work certificate signed and sealed (in case the client is work dependant)

Legalized lease contract of the local to invest in.

Patrimonial and capital solvency certificate (client and guarantee holder)

One commercial reference.

Two family references (Client and guarantee holder)

5.2 Poverty alleviation and gender patterns

One of the main goals for MFI's to reach is poverty alleviation and the promotion of gender diversity within the sources of employment. Their strategies include organizational and administrative simplification, reduction in transaction costs, financial education and business planning for entrepreneurs, lower interests’ rates, among others elements in order to impact over the generation of profits from small businesses and generate financial benefits for their owners. This will influence employment opportunities at a local level as well as gender inclusion.
Based on my findings, Micro-finance institutions have been able to serve poor people but not extreme poverty groups. This means the MFIs should plan to develop new strategies to reach them, not only to serve the population which they believe would secure better record of payments but also help to alleviate poverty at all levels. For the Microcredit to serve as a tool to improve the socio and economic inclusion in our country (Ecuador), the National government should consider incorporating Microfinance as an important policy of the Economic plan, including programs to develop a new culture of savings that could lead to better access for credit to the poorest members of society.

It’s important to mention that Microcredit is not the only mechanism to help reduce poverty; nowadays it is necessary to include other socio-economic policies as strategies to reduce inequalities, thus boost an integral and equal development. In regards to gender patterns, the work and access to credit in relation with the urban informal sector, for women still underdeveloped and undermined, although inequality is also observed in the formal sector,

Graphic #2 Interview Results

<table>
<thead>
<tr>
<th>Improvement of social and economic status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

Author: Agustin Velasquez
not only in Ecuador but also in other countries. However, for women this problem becomes
more significant because besides their normal work they have to cope with family and
domestic issues. Whereby there is a significant concentration of women workers that fall into
low levels of income in the UIS, which differs with the men situation.

5.3 Social Impact in the UIS
The influence of the mechanisms of micro financing on small businesses and the possibility to
increase their acquisitive power is confirmed through cash flow and the diversity of products
placed in the market as a result to obtain a satisfied demand.

Brau, Hiatt and Woodworth (2009) suggest that in evaluating the impact of microfinance, a
question arises: What are the socio-economic dimensions that can be used to assess the impact
on the lives of clients? A number of measures have been used by the World Bank, the United
Nations, the Consultative Group to Assist the Poorest (CGAP), and other agencies to measure
the economic and social well-being of participants. Some socio-economic dimension
measures include food availability, family health access, and children’s access to education,
housing women’s empowerment, and women’s social capital status. (Brau, Hiatt and
Woodworth, 2009, p.954-955)

Such parameters have been useful in this study as indicators on social impact on the Urban
Informal Sectors in the city of Portoviejo. According to the results on the surveys and
interviews, social and economic status improved to 77%.

The social impact at this level extends furthermore from the urban area, being that the
majority of small business owners live outside urban perimeters. This shows that aside
poverty issues, there exists a more open experience towards family health access, children’s
access to education, and women’s empowerment. These are clear indicators of a strong social impact being that all of the previously mentioned have ways to improve.

Another indicator of social impact is a unanimous agreement to pay for better and secure locations of businesses; this shows safety awareness among the interviewed population and predisposition to offer a more secure environment for business clients.

Graphic # 3 Interview Results

| Would you pay for a better and secure location? |
|-----------------|-----------------|
| Yes             | 100%            |
| No              | 0%              |

Author: Agustin Velasquez

Social impact on the urban informal sector of Portoviejo, regarding MFIs and micro financial strategies, achieves, for citizens on a general level, a better understanding of the ways to improve quality of life standards due to social inclusion and gender empowerment.

5.4 Policy recommendations from the GAD of Portoviejo

In order to address the problems of street markets in Portoviejo city, the creation of other commercial districts for the UIS to reorganize, arrange and enhance them into the formal markets is required. The project should incorporate the informality through popular markets allowing the normal traffic on Chile Street and surrounding areas, especially sidewalks and
formal commercial portals. The Administration of the two most important cities in Ecuador, Quito and Guayaquil, has expedited their own policies about urban informality with the prohibition of use of public areas. Since 2003, the Municipalities have assumed control under the project of reallocation of the informals (about 5,500) clearing the Historic Center of Quito and other neighborhoods in Guayaquil. The opening of these new commercial developments called “Centros Comerciales Del Ahorro” (Commercial Saving Centers) allows the people to have another option to shop at lower prices and for the UIS to work under new rules and regulated (SBS, 2014).

To establish the arrangement of the UIS, the GAD of Portoviejo requires the formulation of this new project, with modern infrastructure that allows resolving the urbanity and social problems. Most of the issues come from the chaotic commercial activities. Among all of these activities are the insecurity, the unhealthy and inappropriate use of public space, traffic chaos, pollution, and trash. Within the social inclusion perspective, this movement to a new business area could be one of the first steps to help the UIS to rethink the classic way of doing business by helping them to reallocate to a more commercial sector, and where they can develop their business with better opportunities.

In the other hand, the GAD of Portoviejo needs more participation with the international aid funding agencies to allow microcredit to have a wider spread among the most vulnerable groups. The mayor of Portoviejo city, Agustin Casanova shows a concern related to the lack of participation to obtain these funds. The GAD of Portoviejo only used 0.41% of the total disbursement of the international aid funding of the total $24, 966.392 millions of dollars
($103,381.00). See the following table to explain the proportion of usage of the funding available.

Table 4 International Cooperation Distribution

<table>
<thead>
<tr>
<th>DELEGATION</th>
<th>NUMERO DE PROYECTOS</th>
<th>MONTO DE COOPERACION</th>
<th>PORCENTAJE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLAN INTERNACIONAL INC</td>
<td>12</td>
<td>4,518,018.01</td>
<td>18%</td>
</tr>
<tr>
<td>MINISTERO DE AGRICULTURA, GANADERIA, ACUACULTURA</td>
<td>1</td>
<td>4,187,866.00</td>
<td>17%</td>
</tr>
<tr>
<td>ALDEAS INFANTILES SOS ECUADOR</td>
<td>1</td>
<td>3,774,693.69</td>
<td>15%</td>
</tr>
<tr>
<td>CESAL</td>
<td>2</td>
<td>1,871,485.36</td>
<td>8%</td>
</tr>
<tr>
<td>SIDA MUNDIAL ECUADOR</td>
<td>2</td>
<td>1,634,206.12</td>
<td>7%</td>
</tr>
<tr>
<td>FUNDACION MADUFA OSHUN GRIC COMERCIALIZADO</td>
<td>2</td>
<td>1,634,225.49</td>
<td>7%</td>
</tr>
<tr>
<td>FUNDACION SEMBRIAR</td>
<td>1</td>
<td>1,358,190.00</td>
<td>5%</td>
</tr>
<tr>
<td>FUNDACION DE DESARROLLO LOIS MOREIRA - FOMA</td>
<td>2</td>
<td>1,317,029.00</td>
<td>5%</td>
</tr>
<tr>
<td>MINISTERO DEL AMBIENTE - MAE</td>
<td>2</td>
<td>1,257,142.84</td>
<td>5%</td>
</tr>
<tr>
<td>CARE INTERNACIONAL ECUADOR</td>
<td>1</td>
<td>460,795.75</td>
<td>2%</td>
</tr>
<tr>
<td>PASABLANCA'S REGISTER</td>
<td>1</td>
<td>442,159.85</td>
<td>2%</td>
</tr>
<tr>
<td>PROGRAMA DE FINANZAS POPULARES EMPRENDIMIENTOS</td>
<td>1</td>
<td>405,910.85</td>
<td>2%</td>
</tr>
<tr>
<td>COMITATO INTERNACIONAL PARA EL EVILUJO DE LOS POPOI</td>
<td>1</td>
<td>314,891.87</td>
<td>1%</td>
</tr>
<tr>
<td>FONDO ECUATORIANO PROGRESSIO - FEPP</td>
<td>1</td>
<td>309,703.05</td>
<td>1%</td>
</tr>
<tr>
<td>INSTITUTO NACIONAL DEMOCRATA - NOI</td>
<td>2</td>
<td>257,970.26</td>
<td>1%</td>
</tr>
<tr>
<td>COMISION DE TRANSICION HACIA EL CONSEJO DE LAS MUJERES</td>
<td>1</td>
<td>252,685.44</td>
<td>1%</td>
</tr>
<tr>
<td>PROGRAMA DE NACIONES UNIDAS PARA EL DESARROLLO</td>
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<td>1%</td>
</tr>
<tr>
<td>FUNDACION YUPANCA</td>
<td>1</td>
<td>127,210.44</td>
<td>1%</td>
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<tr>
<td>FREDOM PRIAM HUNGER</td>
<td>2</td>
<td>109,729.00</td>
<td>0%</td>
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<tr>
<td>GOBIERNO AUTONOMO DESCENTRALIZADO MUNICIPAL DE</td>
<td>1</td>
<td>103,381.00</td>
<td>0.41%</td>
</tr>
<tr>
<td>ASOCIACION SOCIOCULTURAL ATACUAY - ECUADOR</td>
<td>1</td>
<td>96,248.17</td>
<td>0%</td>
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<tr>
<td>FEDERACION NACIONAL DE ECUATORIANOS CON DISCAP</td>
<td>1</td>
<td>60,600.00</td>
<td>0%</td>
</tr>
<tr>
<td>CONFERENCION NACIONAL DE ORGANIZACIONES CAMPI</td>
<td>1</td>
<td>42,489.41</td>
<td>0%</td>
</tr>
<tr>
<td>COOPERATIVA DE AHORRO Y CREDITO SANTA ANA, COOP</td>
<td>1</td>
<td>15,645.33</td>
<td>0%</td>
</tr>
<tr>
<td>WORLDTEACH</td>
<td>1</td>
<td>11,800.00</td>
<td>0%</td>
</tr>
<tr>
<td>ASOCIACION DE PERSONAS SORDAS DE MANABI</td>
<td>1</td>
<td>3,700.00</td>
<td>0%</td>
</tr>
<tr>
<td>YMA ESPAÑA</td>
<td>1</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total General</strong></td>
<td>47</td>
<td>$24,966,362.42</td>
<td>100%</td>
</tr>
</tbody>
</table>

Author: Agustin Velasquez Source: Plan Internacional (2014)
CHAPTER 6-CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

How effective is socio and economic impact on the urban informal sector from the Microfinance perspective? Based on these findings, Microcredit appears to have both a positive and negative socio and economic impact on the UIS. Our evidence suggests that while some client’s breakthrough the poverty level after the loan is provided, others could suffer from stress because of missing payments or funding misuse. In most of the case it improves the participants’ life status by increasing their income, allowing them to have more access to assets that otherwise could not acquire previously. The microcredit has played an important role in the local economy, especially among the small traders and the farmers, which is reflected also in the increment of participation into the formal financial sector. On the other hand, small loans require a great amount of paperwork, many requirements, and transactions processes that delay the approval for microcredit programs.

The microcredit has created a fundamental tool for the creation of new jobs, improving the quality of life, and enables the private financial institutions to create more products for the increasing market. Particular emphasis should put on the requirement of the insurance products to ensure their loans and reduce vulnerability in case of loss due to external shocks. In recent years, the urban informal sector has contributed to the GDP increase even though after the financial crisis in 1999, while people still trust the financial sector with the new regulations and laws that the new President Rafael Correa had applied.
The society has been more economically active and dynamic, thanks to the amount of credit for the urban informal sector which generates the cash flow in the local economy of Portoviejo. Although entrepreneurship is not for everyone, the culture behind this activity requires special skills and the ability to assume financial risk to get in debt and become successful. The urban informal sector in general lacks financial education that could help them to escape the poverty trap and the permanent underdeveloped commercial profile. The financial institutions, especially the public ones, should encourage the entrepreneurship mindset thinking on the traders to help them succeed.

In the UIS, around 76% of our sample has been in the same business for a long time, including working in the same area where they operate, averaging between 6 and 17 years. Around 70% of the UIS does not pay any taxes, and only about 30% have some type of tax identification such as RUC and RISE which they contribute. More than 60% of the sample are business related to the sale of clothing, the rest of the population are divided among different activities such as cell phone (mobile phone) accessories, CDs and DVDs, scholar supplies, handcrafts, etc. The average cost of operation for the UIS is $162, 72 with an income average of $999, 76.

Empirical evidence from the data about the behavior between the informal sector and economic growth supports that urban informality presents a countercyclical process, which means where countries with steady economic growth the informality is absorbed by the formal sector and therefore is reduced.

Finally, why are some groups of the Urban Informal Sector still stagnant for longer period of time? Based on qualitative research and by talking with some borrowers it can be identified that some small groups of informal financing too. They called them “churqueros”. This group
manipulates them by selling the merchandise for their business, and charging high interest rates, which perpetuates them with debt. Whenever they can’t find credit they incur into this illegal activity. The results are in line with previous researches which established that microcredit contributes to boost the confidence of the UIS and therefore a positive impact of their well-being. From the reviewed literature, our empirical case study, and qualitative research, it is clear that micro-finance has made a positive contribution to poverty alleviation and will likely remain as one of the tools for social and economic inclusion. The analysis presented in this dissertation suggests that Micro-finance institutions need to create an overall social and economic inclusion program with better access to extreme poverty groups. The limit of interviews and financial institutions in this research limit accessibility to a wide range of variables that could facilitate data in future investigations. This information could allow the elaboration of better policies for the UIS improvement of life status, and not only for the GAD of Portoviejo but other developing countries.

6.2 Recommendations

For the Microcredit program to work as an essential tool in the social and economic development of the country, and help to alleviate poverty, the national government should implement the Micro-finance sector as part of its economic policy master plan. Therefore, it should incorporate micro-enterprises and self-employment programs, and increase awareness about savings that allow access to credit to the most vulnerable groups in the future. Based on our findings the MFI should continue empowering the entrepreneurship among the UIS by increasing financial services that suit their needs. Also recognize the consolidation of better
services by reducing costs, lowering the interest rate based on the real risk of the financial operation, and therefore establish a more dynamic private financial system for the informals.

The reallocation of the UIS could be the first step towards formalize their business by giving the option to a better location with the essential services such as electricity, security, storage, and other basic public services. Essentially move to a better location where the business could be exposed and generate more income, organize them as part of a slow process because no other administration has encouraged them to escape their trap of being stagnant for so long.

The research shows that there is not a simple recipe for success in other developed and developing countries (Bangladesh, Bolivia, Jordan, and Peru) who had implemented microcredit programs. Many challenges are faced by the cultural and education contrast among the participants in the study, however there is a potential to combine other activities along with the microcredit programs to help alleviate poverty, and make a significant difference into the life of the most vulnerable groups in society.

The MFIs should change their methodology to grant loans to protect the UIS from financial crisis and stress due to excessive debt. Sometimes the pressure from the credit officers to comply or reach their monthly quota could lead to mismanagement the real goal behind the grant of microcredit. The MFIs should increase their outreach (mostly offering credit service alone) by providing other human development resources such as training and access to health care. They should establish policies that enhance the sustainability of the investment from the commercials, the institutional capacity of the MFIs as a strong mechanism to produce better outcomes in the socio-economic development of Portoviejo’s society. It is recommended they have a response to generate better human talent to create a new culture of business that will
eventually perpetuate for generations to come. Finally, they should allow women to participate and contribute more into the financial process, which reflects in an equal perspective of gender, with the same rights and opportunities to access credit and social inclusion.

In regards to the need for education in relation to insurance, since informal workers do not realize the importance of protect their investment by acquiring insurance products. Most of the UIS because they are working on the street are vulnerable to accidents such as fire, theft, floods and other externalities that could affect their business. It should require from MFIs the insurance to protect them against any unfortunate incidents. The research was based on a limited number of people from the financial system of Portoviejo, so further studies on this subject can be conducted with a larger sample of borrowers, and also from different financial institutions. This would allow research to find out more details about how these microcredits could help the socio economic status, not only for the urban informal sector but also other groups as well.
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World Bank. (2014) Ecuador Overview. Available at:


Appendix A

Personal Data

Name:
Age:
Sex:
Marital Status:
Education Level:

Questions:

1) What was the purpose of the loan?

2) How much was the amount of credit (US dollars)?
   a) No more than $500
   b) 501-1,000
   c) 1,001-5,000
   d) 5,001-10,000
   e) More than 10,000

3) How long have you been in the business?
   a) 1-5 years
   b) 6-11 years
c) 12-17 years
d) 18 years or more

4) What type of business do you have?
a) Clothing
b) School supplies
c) Handcrafts
d) Cell phone accessories
e) Other

5) Has the bank provided other services to you other than the loan?
Financial education
Human development
Health
Business planning
Tax advice

6) Do you have more confidence in the financial system after the crisis in 1999?
Yes  No
Why?

7) How much monthly income do you generate with this activity (US dollars)?
a) 0-250
b) 251-500
c) 501-750
d) 751-or more

8) Has the credit helped you improve your social and economic status?
Yes  No
How?

9) Do you know about other financial products available such as insurance, savings, pension plans?
Yes  No

10) Do you have a commercial license or Tax ID?
Yes  No

11) Would you pay for a better and secure location?
Yes  No

12) Any additional information:
Appendix B

Interview Results

1.- Purpose of the loan

2.- How much was the amount of credit?

<table>
<thead>
<tr>
<th>Amount</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $500.00</td>
<td>5</td>
<td>17%</td>
</tr>
<tr>
<td>$501 - $1,000</td>
<td>7</td>
<td>23%</td>
</tr>
<tr>
<td>$1,001 - $5,000</td>
<td>15</td>
<td>50%</td>
</tr>
<tr>
<td>$5,001 - $10,000</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>&gt; $10,000</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

3.- Time in Business

<table>
<thead>
<tr>
<th>Years</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 yrs.</td>
<td>2</td>
<td>7%</td>
</tr>
<tr>
<td>6-11 yrs.</td>
<td>6</td>
<td>20%</td>
</tr>
<tr>
<td>12 - 17 yrs.</td>
<td>10</td>
<td>33%</td>
</tr>
<tr>
<td>&gt;18 yrs.</td>
<td>12</td>
<td>40%</td>
</tr>
</tbody>
</table>
4. - Type of Business
   a - Clothing 18 60%
   b - SchoolSupp 3 10%
   c - Handcrafts 2 7%
   d - CellPhoneAccessories 2 7%
   e - Other 5 17%

5. - Other Services
   FinancialEducation 8 27%
   Human Development 10 33%
   Health 8 27%
   Business Planning 2 7%
   TaxAdvice 2 7%

6. - Confidence in the financial system (since the 1999 crisis)
   Yes 25 83%
   No 5 17%
7.- Monthly income range

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00 - $250.00</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>$251.00 - $500.00</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>$501.00 - $750.00</td>
<td>5</td>
<td>17%</td>
</tr>
<tr>
<td>&gt; $750.00</td>
<td>25</td>
<td>83%</td>
</tr>
</tbody>
</table>

8.- Improvement of social status:

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>7</td>
</tr>
</tbody>
</table>

77% 23%
9.- Knowledge of other financial products:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>5</td>
<td>17%</td>
</tr>
<tr>
<td>No</td>
<td>25</td>
<td>83%</td>
</tr>
</tbody>
</table>

10.- Possession of commercial license:

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>9</td>
<td>30%</td>
</tr>
<tr>
<td>No</td>
<td>21</td>
<td>70%</td>
</tr>
</tbody>
</table>

Improvement of social and economic status

- Yes: 77%
- No: 23%

Knowledge of other financial products

- Yes: 83%
- No: 17%

10.- Possession of commercial license...
11. - Would you pay for a better location?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

11. - Would you pay for a better and secure location?

![Bar chart showing 100% for Yes and 0% for No]