

## **ABSTRACT**

### **Expansion of a new microfinance institution to rural areas in Ecuador**

The project consists of granting a convertible subordinated loan in the amount of US\$1,500,000 with a seven-year term and nonreimbursable technical assistance in the amount of US\$165,000 to Sociedad Financiera Ecuatorial. Ecuatorial is a new microfinance institution that opened its doors to the public on 24 September 2001. Currently, it has offices in the southern section of Quito, in a district of low-income people, most of whom are employed in microenterprises and small businesses. Initially, the financing company will operate in Quito but, beginning in 2002, with MIF resources and technical assistance, it will open at least two branches to provide rural financial services.

The general objectives of the project are to: (a) Expand the coverage of the Ecuadorian formal financial system to small farms and rural microenterprises and small businesses; (b) Promote the creation of a formal private financial intermediary that is regulated and specializes in providing financial services to small economic units; (c) Facilitate productive investment in rural areas; and (d) Involve the Ecuadorian private financial sector in the microfinance sector.

The proceeds of the loan will be used to enable Ecuatorial to offer rural financial products and services to microenterprises (defined as enterprises with up to US\$40,000 in total assets and one to ten employees, in which the owner works in the enterprise) and small crop or livestock farms (defined as farms of less than 10 hectares that are worked by the owner and his family) in the areas of Ambato, Otavalo, Latacunga, and/or Cayambe. With MIF resources, Ecuatorial will be able to grant 1,000 microcredits per year at an average of close to US\$2,000 per entrepreneur or farmer. The microentrepreneurs will be able to increase their productivity and expand their businesses thanks to the financing of working capital and raw materials to carry out their craft, commercial, and service activities. The farmers will have access to working capital to finance their crop and/or other agricultural and livestock activities.

Ecuatorial's management team has proven and successful international experience. The MIF is supporting the replication of credit methodologies and technologies with which Internationale Micro Investition AG (IMI) has had excellent results in Financiera Calpia (El Salvador) and Caja los Andes (Bolivia), among others. When the MIF successfully sold its equity capital in the aforementioned institutions, they had managed to develop portfolios 13 and 7 times larger, respectively, than they were at the time of the investment. Both institutions also had notable success in expanding the portfolio of agriculture sector and rural customers. In the case of Caja Los Andes, the institution accumulated a portfolio of loans of US\$3.8 million from 1997 to 2000—approximately 15% of its total portfolio—and a total of 4,700 customers in the agriculture sector. Over the same period, Financiera Calpia was able to gain 2,100 agricultural enterprises as clientele.