



USAID
FROM THE AMERICAN PEOPLE

ECUADOR

CASE STUDY

Small Loans Boost Recovery

A small loan helped María Isabel Coral send her children to school



Photo: Jorge Vinuesa

María Isabel Coral, one of thousands of loan clients helped by USAID, expanded her small store into a profitable business.

“I had to live off loans from loan sharks before, and that was expensive for my business. I never had certainty! Now I’m able to satisfy my clients’ needs better,” says María Isabel Coral.

Telling Our Story
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Challenge

The 1999-2000 economic and financial crises in Ecuador left thousands of already impoverished Ecuadorians unemployed with no source of income. Between 1998 and 2000, the number of families living below poverty grew from 35 percent to 68 percent, real wages fell 40 percent, and unemployment jumped from 8 percent to 17 percent. Many Ecuadorians who lost their jobs had only one choice left — to start their own small businesses. In Ecuador, traditional banks offer few options for these kinds of borrowers, who turn to loan sharks that charge extremely high interest rates. This situation makes it difficult for aspiring entrepreneurs to get their businesses up and running.

Initiative

USAID launched a small loans project to encourage Ecuadorian banks and financiers to grant credit to these small entrepreneurs. Making small loans available to individuals with business sense and vision, but without a credit history, has proven to be an effective tool in the fight against poverty. This kind of small loans program helps people gain access to credit from banks that would normally refuse them. Establishing a formal credit history is the first step to starting and growing a small business, and these small businesses often give jobs to young or unskilled workers.

Results

USAID’s program almost quadrupled the funds available each year for small business loans, from \$86 million in 2001 to \$302 million in 2004. This helped provide loans for 302,000 small businesses. Today, 21 small loan institutions supported by USAID have become independently sustainable and profitable. Institutions that are part of a regulated financial system can better serve clients like María Isabel Coral, the owner of a small store and now a regular loan client. The market-rate loan helped her buy more and higher quality merchandise, and give jobs to her daughters and brother during the high season. Thanks to her store’s higher profits, María Isabel Coral can now pay for her two daughters’ higher education.