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UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

ECUADOR

PROJECT PAPER

SMALL ENTERPRISE DEVELOPMENT

AID/LAC/P-350

Project Number: 518-0056

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add  
 C = Change  
 D = Delete

Amendment Number \_\_\_\_\_

DOCUMENT CODE

3

2. COUNTRY/ENTITY

ECUADOR

4. BUREAU/OFFICE

LAC

3. PROJECT NUMBER

518-0056

5. PROJECT TITLE (maximum 40 characters)

Small Enterprise Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY  
 1 | 2 | 3 | 1 | 8 | 9

7. ESTIMATED DATE OF OBLIGATION

(Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 8 | 6

B. Quarter 4

C. Final FY 8 | 9

8. COSTS (\$000 OR EQUIVALENT \$1 = )

A. FUNDING SOURCE	FIRST FY 86			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	665	895	1,560	1,850	2,650	4,500
(Grant)	( 665 )	( 895 )	( 1,560 )	( 1,850 )	( 2,650 )	( 4,500 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.				25		25
1. AID/W						
2.						
Host Country	-	10	10	-	2,045	2,045
Other Donor(s)						
<b>TOTALS</b>	<b>665</b>	<b>905</b>	<b>1,570</b>	<b>1,875</b>	<b>4,695</b>	<b>6,570</b>

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SD	713	840	-	-	-	4,500	-	4,500	-
(2)									
(3)									
(4)									
<b>TOTALS</b>									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

110 831

11. SECONDARY PURPOSE CODE

760

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BU PVOU PVON  
 B. Amount 3,195 1,260 1,850

13. PROJECT PURPOSE (maximum 480 characters)

To expand and improve the supply of credit, technical assistance, and representational services to the small scale enterprise sector.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY  
 0 | 8 | 8 | 8 | | | 1 | 1 | 8 | 9

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000  941  Local  Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PF Amendment.)

I concur in the proposed methods of implementation and financing for this Project, as summarized in Annex V.

*Robert K. Clark*

Robert Clark  
 Controller  
 USAID/E

17. APPROVED BY

Signature *Gerald R. Wein*  
 Title Gerald R. Wein  
 Acting Mission Director  
 USAID/Ecuador

Date Signed MM DD YY  
 0 | 7 | 31 | 86

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

**UNITED STATES AID MISSION TO ECUADOR  
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
QUITO. ECUADOR**

PROJECT AUTHORIZATION

NAME OF COUNTRY: Ecuador  
NAME OF PROJECT: Small Enterprise  
Development  
NUMBER OF PROJECT: 518-0056

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Small Enterprise Development Project for Ecuador, involving planned obligations of not to exceed Four Million Five Hundred Thousand United States Dollars (US \$4,500,000) in grant funds ("Grant") over a three (3) year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is three years and five months from the date of initial obligation.

2. The project ("Project") consists of assistance to expand and improve the supply of credit, technical assistance and representational services to the small enterprise sector through (i) the development of micro-enterprise credit programs and financial bridge mechanisms; (ii) the development of private sector sources of technical assistance and training; and (iii) the strengthening of representational organizations and improvement in the provision of policy-related information.

3. The Project agreements, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms, covenants, and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

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INTERNATIONAL MAIL ADDRESS:  
U. S. AID Mission to Ecuador  
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Agency for International Development  
Washington, D. C. 20523

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a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Grant shall have their source and origin in the United States or in Ecuador, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have Ecuador or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

  
Gerald R. Wein  
Acting Mission Director  
USAID/Ecuador

7/31/86  
Date

CLEARANCES:  
O/CONT: RClark Rlc 10/24/86  
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GC/LAC: MRiedy m Kj 7/29/86

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ECUADOR  
SMALL ENTERPRISE DEVELOPMENT  
518-0056  
PROJECT PAPER

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- B. "Analysis for the Technical Assistance Component of the Ecuador Small Business Development Project", Cressida McKean (October 1985)
- C. "Ecuador Small Business Development Project - Credit Component Study", Raundi Halvorsen (October 1985)
- D. "Credit Component Consultancy Report", Shari Berenbach, PFP International (March 1986)
- E. "Informe de la Investigación sobre Análisis de Necesidades Institucionales de los Organismos de Pequeños Productores, Artesanos y Comerciales Minoristas de Ciudades Secundarias", Asociación Latino Americana para la Promoción del Habitat, del Urbanismo y de la Arquitectura (April 1986)

## I. SUMMARY AND RECOMMENDATION

A. Recommendation. USAID/Ecuador recommends authorization of \$4,500,000 in Development Grant funds for a Small Enterprise Development Project for Ecuador.

B. Implementing Entities. The Grant funds will be obligated through three mechanisms: an A.I.D. Cooperative Agreement with a U.S. PVO for the credit component; an A.I.D. Cooperative Agreement with the Institute of Socioeconomic and Technological Research (INSOTEC), an Ecuadorean PVO, for the other Project activities; and an A.I.D. Personal Services Contract for a Project coordinator.

C. Summary. The small scale enterprise (SSE) sector plays a major role in generating employment and income among the poorer segments of the urban population in Ecuador. This sector, defined as consisting of firms with up to 20 employees and fixed assets of up to US\$170,000, accounts for more than two thirds of urban employment.

The sector benefited from the strong, general expansion of the economy during the 1970s, and unemployment rates remained low (around five percent). This demand-driven stimulus ended in the early 1980s, when rising interest rates and a weakening market for Ecuador's oil exports triggered a major recession. The recent collapse of oil prices has dealt another blow to the economy, and open unemployment rates have recently jumped to 12 percent. Underemployment is estimated in the 50-60 percent range. The prospects are for continued slow economic growth over the medium term. This reduction in growth on the demand side of the labor market coincides with a probably increasing rate of growth on the supply side due to a leveling out of educational attainment and an increasing rate of female participation in the labor force.

Under these conditions, SSE must assume a leading role in generating employment and incomes. Policies introduced by the Febres Cordero Administration which decrease effective protection for domestic industry and promote industrial development based on comparative advantages should favor labor intensive SSE. However, there remain a number of sectoral level constraints which must be addressed, including credit, firm-level technical constraints, and representational services.

The Project purpose is to expand and improve the supply of credit, technical assistance, and representational services to the SSE sector. By the end of the Project, an estimated 11,000 very small microenterprises will have received credit, 500 small enterprises will have received technical assistance, and 600 enterprises will be receiving improved services through their representational

organizations. These enterprises will be located in selected secondary cities where population growth rates are high and the needs of the SSE sector have traditionally gone unattended. The Project activities will generate an estimated 1,300 new jobs and S/. 570 million in value added (in constant 1984 terms) over the three-and-a-half year life of Project.

The Project will consist of four components. (1) The Credit Delivery Mechanisms component will: (a) strengthen existing, private microenterprise credit programs operated by local PVOs; (b) establish similar programs in six secondary cities; and (c) support the development of mechanisms (the FOPINAR small enterprise rediscount line and the Credit Guarantee Corporations) to facilitate graduation of microenterprises to the formal credit system. (2) Under the Technical Assistance Services component, INSOTEC will train and develop a pool of approximately 200 private consultants to provide technical assistance on an ongoing, commercial basis. The skills of these consultants will be improved, in large part, through their participation in direct technical assistance activities sponsored by INSOTEC. (3) The Representational Services component will strengthen the capacity of 10 national federations and provincial and local representational organizations to provide services to members and to represent their members' interests in policy arenas. The Center for Educational Research, Planning, and Technology (CIPTTE) will implement the organizational strengthening activities through a subgrant from INSOTEC. This component will also finance approximately 10 policy studies on topics related to the SSE sector. (4) The Project Coordination and Evaluation component will finance the Project coordinator, an Advisory Board to provide expert guidance on implementation, and on overall Project evaluation system which will provide periodic assessments of Project achievements at the output, purpose, and goal levels.

D. Summary Financial Plan

<u>Component</u>	(US\$000)		
	<u>A.I.D. Grant</u>	<u>Other A.I.D.</u>	<u>Counterpart</u>
1. Credit Delivery Mechanisms	1,885	-	1,620
2. Technical Assistance Services	840	-	300
3. Representational Services	470	-	100
4. Project Coordination and Evaluation	675	25	25
Contingencies	630	-	-
TOTAL	<u>4,500</u>	<u>25</u>	<u>2,045</u>

## II. BACKGROUND 1/

### A. Changing Economic and Policy Environment

Since the late 1970s, the small enterprise sector in Ecuador has had to adjust to a series of changes in the economic and policy environment. The sustained, high real growth of the 1970s, fueled by the oil boom and heavy external borrowing, created an economic environment in which small enterprises in manufacturing, commerce, and services multiplied and expanded. They supplied a growing domestic market protected by a tariff structure intended to encourage import substitution. A legal framework providing for economic incentives and institutional support also encouraged their expansion. The softening of world oil markets, rising interest rates, and restricted access to foreign bank credits in the early 1980s triggered a major recession in Ecuador. The recession seriously reduced domestic demand for consumer goods, housing, and services, thus curtailing the principal driving force for the sector's earlier expansion. As a result of stabilization measures introduced by the GOE in 1981-82, small industries and artisans had to adjust to shortages in credit and certain imported inputs, and a more inflationary environment. The current administration of President Febres Cordero has continued and accelerated the stabilization process and has taken further actions that seek to bring about structural adjustment over the medium term. This administration has further restricted credit and devalued the sucre, while moving toward a more outward and market oriented development model. This includes tariff and related policies aimed at reducing real protection levels for a broad range of products.

A second major blow to the economy - the sharp fall in oil prices - hit in the first half of 1986, just as Ecuador seemed to be reaching for the high growth path. As this PP is being completed (July 1986), the price of oil has plummeted to under \$9 per barrel. GDP projections have been reduced from six percent in real terms to zero, i.e., almost a three percent decline in real per capita income.

The short term consequences of these events are evident. There have been a significant number of closures and bankruptcies among small

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1/ The principal sources for Section II of this PP are the reports on small business economic and institutional issues in Ecuador produced from April to June 1985 by a Partnership for Productivity team as part of its Small Business Capacity Development Program, under contract with AID/S&T. These documents in turn relied on a small enterprise survey, interviews with entrepreneurs, public officials, and private sector leaders, as well as official statistics and secondary sources. The PFP documents contain additional references.

scale enterprises in the last few years. Even those firms which have survived the economic contraction have been forced to cut back on the number of employees. Manufacturing enterprises also maintained substantial levels of unused production capacity which have persisted up to the present.

Over the longer term, however, the basic shift to a more outward oriented policy approach involving less protection for domestic industry should benefit small enterprise. An industrial policy geared to comparative advantages should favor labor intensive small enterprises. Also, the import substitution policies of the past have heavily favored large industries which are more intensive in the use of imported machinery and raw materials. In sum, the changing economic and policy environment presents small enterprise with the challenge of expanding in a more competitive context and without the stimulus of high growth rates such as those recorded in the 1970s.

At the same time, the prospect of slower economic growth into the 1990s increases the significance of the SSE sector in Ecuador's development. As a result of the projected lower growth rates, employment generation in the large scale manufacturing sector, where labor-to-output ratios are low, will be restricted. Nor, presumably, will public sector employment grow due to fiscal constraints. This reduction of growth on the demand side of the labor market coincides with a probably increasing rate of growth on the supply side. Labor supply was somewhat curtailed in the 1970s by the rapid increase in educational attainment and by a still low rate of female labor force participation. Neither of these factors is likely to retain its dampening impact on labor force growth during the decade to come. This combination of circumstances places greater than usual importance on productive small enterprises for absorbing job entrants. Whether or not SSEs are able to expand, to raise productivity, and to modernize will be a major determinant of the rate of creation of productive employment and the income levels of the majority of the labor force.

#### B. The Present Role of Small Enterprise in Ecuador

There is no universally applied definition of the SSE sector in Ecuador. Moreover, the significance of firm size varies depending on the production activity, kinds of technology used, socioeconomic characteristics, and so on. Although precise definitions of the target group in each Project activity will be developed on the basis of baseline surveys, the sector may be regarded as consisting of three levels or subsectors roughly defined as follows:

<u>Level</u>	<u>Employees</u>	<u>Fixed Assets (\$US)</u>
1 (Microenterprise/artisan)	5 or less	Under 7,000
2	6 - 10	7,000 - 12,000
3	11 - 20	12,000 - 170,000

(These three levels will be referred to frequently in the following discussion.)

The SSE sector plays a major role in generating urban employment in Ecuador. According to the 1980 Economic Census, which covered most urban establishments in mining, manufacturing, commerce, restaurants and hotels, financial, business, and personal services, nearly two thirds of the 270,000 persons employed in these sectors worked in establishments of less than 10 workers.

As is the case in other countries, small enterprise was shown to be more labor intensive than other enterprises. For the sectors covered by the 1980 Economic Census, the amount of capital (fixed plus inventories) per worker was over 30 times higher in the establishments with 10 or more workers than in those with less than 10 workers. For manufacturing, it appears that small industry (excluding artisans) is about a quarter or a fifth as capital intensive as large industry, while artisan firms are, in turn, about a third as capital intensive as small industry.

The SSE sector also contributes to a more balanced geographical development pattern. Small scale manufacturing is disproportionately located in secondary cities and smaller urban areas. Whereas in Quito and Guayaquil less than 30 percent of recorded manufacturing employment in 1980 was in establishments of under 10 workers, in the intermediate cities of Ambato, Cuenca, Portoviejo, Manta, and Machala (taken together), the corresponding figure was 50 percent and in the rest of the country 68 percent.

### C. Constraints to Small Enterprise Development in Ecuador

Even under favorable macroeconomic growth and policy conditions, the further expansion of SSE would be restricted by a number of sectoral level constraints. The principal constraints are analyzed below.

#### 1. Credit Constraints

Small entrepreneurs in Ecuador are inclined to feel that access to credit is important and that inadequate amounts, terms, and timeliness constitute a major constraint. In 1984, SSEs appear to have received 2.0-2.5 percent of official sector credit to the private sector and 6.5-7.5 percent of credit to the manufacturing sector. At that time, establishments of less than 20 workers produced about 20 percent of manufacturing output in urban areas and accounted for 46 percent of urban manufacturing employment.

The most significant credit gap faces the smaller firms (corresponding more or less to levels 1 and 2). Of the smallest 25,000 to 30,000 urban manufacturing firms (with one to three workers), the data suggest that at most 2,000 to 4,000 have credit at any given time. The enthusiastic response of microenterprises to two A.I.D. assisted credit programs (PRODEM in Quito and PROCREDM in Guayaquil) substantiates the pent-up demand for credit at positive real, but not exorbitant, rates.

The reasons why credit institutions so poorly serve SSEs are not difficult to discover. The most important reasons are that the firms are often unprepared to write and submit an adequate request and that, with tight credit and legal interest rate ceilings, credit institutions naturally prefer larger operations with lower cost per unit lent.

As a result, small enterprises depend on so-called "street credit" (at rates oscillating around 10 percent per month), on family and friends, and on suppliers' credit. Furthermore, this credit is typically short term. Such terms are often acceptable to small merchants but not to productive microenterprises and artisans who require longer term credit for investments and bulk material purchases.

The gap between supply and demand for credit is clearly less wide in the upper ranges of the SSE sector. Survey figures indicate that a sizeable number of these firms do have access to credit from financial institutions. The Small Enterprise and Artisan Fund (FOPINAR), a second tier GOE institution providing funds through the National Development Bank (BNF) and commercial banks, has been important in improving access in this range in recent years

The shortage of credit is particularly severe in secondary cities. These cities tend to receive a lower share of BNF credit than their share of value added, even though the BNF is the most decentralized credit institution in the country. This virtually assures that the secondary cities' share of all formal sector credit is even further below their share of value added.

## 2. Firm-specific Technical Constraints

Firms in the sector are often typified by poor planning, inadequate financial management skills and systems, production problems (e.g., in areas of quality control, technology choice, product design, and access to raw materials), and marketing difficulties (e.g., market identification, promotion, and pricing strategies). Technical assistance to address these constraints is one of the services most desired by the small enterprise sector in Ecuador. In the Project baseline survey of 200 manufacturers in Quito and Guayaquil with a median size of 10 workers, 41 percent placed it among the three most important services for them. Recent surveys by the private, nonprofit Institute of Socioeconomic and Technological Research (INSOTEC) in various regions of Ecuador are even more definitive: of 208 firms interviewed, 81 percent wanted some form of technical assistance. Deficiencies in these areas appear to be the main firm-specific constraint to expansion and increased productivity of enterprises at level 3 and, to a lesser extent, level 2.

The demand for technical assistance services to address these constraints far exceeds the supply. INSOTEC studies (1981-1984) show that approximately 64 percent of the firms who indicate that they want technical assistance have never received it. In the specific area of marketing, INSOTEC surveys found that 23 percent of firms wanted to receive assistance, and only 3.6 percent had received any. The technical assistance needs of women appear to be particularly inadequately satisfied.

The supply of technical assistance, especially from noncommercial sources, is severely limited and concentrated in the major cities. The National Center for Small Industry and Artisanry (CENAPIA) in the Ministry of Industry is the main public institution providing these services. In 1984, it provided direct assistance to 610 artisans (of which 557 were in Guayaquil) and 48 small industries. As these figures suggest, CENAPIA is simply insufficient; only 6.5 percent of the firms in the Project baseline survey and 3.7 percent of those interviewed by INSOTEC had received services from CENAPIA. Several PVOs are providing assistance to SSE but, with the exception of INSOTEC, these programs are very small.

Private consultants appear to offer a viable alternative to these other sources. Surveys indicate that 50 percent of the small business owners receiving technical assistance in the last few years have done so through such consultants, more than from any other source. These consultants may be individual professionals, university faculty members, members of consulting firms, or frequently public sector employees working after hours. Their assistance often falls in the area of accounting or related activities and is typically of limited scope.

### 3. Representational Constraints

Several types of organizations represent, at least occasionally, the interests of SSEs on public issues and provide various services. These organizations include: provincial chambers and county cells of small industrialists and their national federation, FENAPI; trade or sectoral associations (e.g. the wood and leather associations); artisan associations; and small merchants associations and their federation, FENACOMI.

The majority of these organizations are relatively young, having been formed during the expansionist period of the 1970s. They have varying degrees of organization and cohesiveness, and significant portions of their constituencies are either not affiliated or not active. Thus, it is not surprising that, while organizations of larger enterprises do often participate in government decision making, the SSE sector organizations have been relatively ineffective in this regard.

The need for the small enterprise sector to influence public institutions is not limited to national agencies. Small entrepreneurs also have to deal with municipal authorities, the police, and public utilities; they need operating permits and licenses, a road paved, water delivered, a legalized title to the land they own or occupy, and so on. Small entrepreneurs call on their local representational organizations for assistance in this full range of private/public relations. There is a need to upgrade performance capabilities in this representational role as well.

An essential ingredient for effective representation of the SSE sector in the policy dialogue process is adequate information on the socioeconomic condition of the sector and the impact of policies. Such information is lacking. There are no up-to-date data on employment, output, and investment for SSE, or on labor and financial markets as they affect the sector. Considerable research has been done on artisans and to a lesser degree on some other types of small enterprises. However, there is little analytical work on the implications of trade and other macroeconomic policies on the sector.

#### 4. Lack of Technical Skills

An inadequate supply of technically skilled persons is a constraint, particularly for the somewhat larger and growing small industries. This inadequacy is related to insufficient training facilities, ineffective training methodologies, and weak coordination between training institutions and employers.

#### D. A.I.D. Strategy

This Project is consistent with A.I.D.'s goal of fostering "the growth of productive, self-sustaining income and job producing private enterprises" (A.I.D. Policy Paper, Private Enterprise Development, March 1985). In addressing the small scale sector it adheres to the preference for capital saving technology (p. 15), and resources are "channeled through the private sector rather than the public sector" (p. 13). The Project also conforms to the recommendations of the President's Task Force on International Private Enterprise (December 1984) which notes the importance of small business in A.I.D. countries and the need to develop programs of credit, technical assistance, and training for small business (p. 161).

A.I.D.'s approved CDSS for Ecuador specifically calls for efforts to strengthen small scale enterprise (p. 38). In addition, the Mission's approved (FYs 87-88) Action Plan identifies economic growth and improved equity as a major goal. The Action Plan calls for support to the small enterprise sector as one means to achieve this goal, particularly through the generation of productive employment (p. 5)

### E. GOE and Other Donor Activities

One of the three major planks in the campaign platform of President Febres Cordero was employment generation. Due to other, more pressing issues such as the debt rescheduling and the priority assigned to macroeconomic policy reform and low income housing, the administration did not move quickly in this area. However, during the past year, with clear evidence of rising unemployment, activities have been initiated. The most concrete action to date was the creation in January 1986 of a National Microenterprise Program, whose coordinating unit (UNEPROM) is located in the Ministry of Labor. The functions of UNEPROM include coordinating the activities of public and private agencies in support of the microenterprises sector, determining priorities in terms of geographic areas and types of microenterprises to receive assistance, and investigating ways to expand the supply of credit to the sector. The Project design team has met several times with the chief and staff of UNEPROM to discuss the Project and to share information that A.I.D. has compiled on the sector. A.I.D. has also invited UNEPROM to participate on the Project Advisory Council. UNEPROM's initial responses have been tentative, which probably reflect the early development of the unit, its lack of a clearly defined role and its concern about the relatively high effective interest rate (interest rate plus commissions) charged in the two existing A.I.D. assisted PVO credit programs for SSEs. However, A.I.D. will continue to encourage UNEPROM's participation and to provide it with information on Project implementation.

The IBRD has been financing credit lines and related technical assistance for small industry through a series of loans to FOPINAR. The most recent loan, for US\$30 million, was approved earlier this year. Under this loan, the incentives for participating financial institutions to provide credit to SSE at the lower end of the size spectrum have been significantly diminished. Thus, it may be more difficult for FOPINAR to channel increased amounts of credit to microenterprises. On the other hand, the IBRD loan does provide substantial new financial resources, plus support for strengthening FOPINAR's promotion unit. This Project will seek to build upon these resources to strengthen the role of FOPINAR as a "bridge" financing mechanism to facilitate graduation of microenterprises to the formal credit system.

The IDB has recently begun to appraise the possibility of financing micro credit programs in secondary cities in Ecuador. In preliminary discussions with the Mission earlier this year, the IDB expressed strong interest in this Project. The Mission believes that the successful demonstration of a model for micro credit programs in secondary cities under this Project could catalyze IDB financing for expansion of those programs or for replication in other cities.

### III. PROJECT DESCRIPTION

#### A. Goal and Purpose

The goal toward which the Project will contribute is to increase employment and income (measured as value added) in the SSE sector. Specifically, the Project will generate an estimated 1,300 new jobs and S/. 570 million in value added (in constant 1984 terms) over the three-and-a-half year life of Project. These are conservative estimates and take into account only the expected impacts of the new micro credit programs to be established under the Project. The bases for obtaining these estimates are contained in Annex III.B.

The Project purpose is to expand and improve the supply of technical assistance, credit, and representational services to the SSE sector. By the end of the Project, an estimated 11,000 microenterprises will have received credit, 500 small enterprises will have received technical assistance, and 600 enterprises will be receiving improved services through their representational organizations. These enterprises will be located in secondary cities.

#### B. Project Rationale and Strategy

The rationale for providing assistance to the SSE sector at this time derives from the projected slow or modest economic growth in the medium term and from the greater opportunities for SSE offered by the evolving policy environment. Slower growth bodes poorly for urban employment and income levels given the limited labor absorption capacity of large scale industry and the expected accelerated expansion of the labor force. With the public sector now no longer able to absorb significant numbers of new job entrants, a prosperous small scale enterprise sector is a viable option to relieve the pressure of a growing labor force and to maintain or improve income levels and distribution. At the same time, GOE policies oriented to opening the economy to the play of market forces should on balance be conducive to a strengthened small scale sector. In responding dynamically to these needs and opportunities, SSE will not be able to rely on the sheer strength of high economic growth, as was the case in the 1970s. Rather, the basis for long term expansion of the sector lies in a reduction or elimination of the sectoral level constraints identified above.

The Project will address three of the four key constraints: credit; firm-specific technical constraints (through the provision of technical assistance); and representation. (The fourth constraint, the supply of technical skills, is being addressed by A.I.D. and other donors through separate activities.) The Project will do this by relying primarily on private sector institutions and initiatives.

The Mission will focus Project activities on those constraints, types and sizes of enterprises, and geographic areas which appear to offer the greatest return on investment. In terms of constraints, major emphasis will be placed on credit and technical assistance interventions which promise the most direct and immediate economic impacts. In terms of type of enterprise, emphasis will be placed on nonagricultural SSE engaged in manufacturing and productive services which have strong potential for creating stable employment and value added. With regard to size, and in line with the Mission's constraints analysis (summarized above), credit availability will be increased primarily at levels 1 and 2 while expanded technical assistance will be directed to firms at the upper end of the scale (level 3 and, to some extent, level 2). Finally, with regard to location, both technical assistance and credit activities will take place in selected secondary cities. The main criteria for selection of specific secondary cities are population growth and unemployment trends, which indicate the potential demand and need for small enterprise support activities. Most of the cities which rate high on these criteria are in the Coastal region (see Annex VI).

The representational activities will, to a large extent, reinforce the main credit and technical assistance activities, although they will also have a somewhat broader reach. For example, the representational organizations selected for strengthening will for the most part be located in these same secondary cities although a small number of national federations will also be included because of their large memberships and importance in the policy process.

An approximate percentage allocation of A.I.D. Project funds by constraint (component) and firm size is shown below:

ALLOCATION OF A.I.D. PROJECT FUNDS BY COMPONENT AND SIZE OF FIRM (%)

<u>Size of Firm</u>	<u>Credit</u>	<u>Tech. Assist.</u>	<u>Representation</u>	<u>Totals</u>
Level 1	50	-	4	54
Level 2	8	13	6	27
Level 3	<u>-</u>	<u>13</u>	<u>6</u>	<u>19</u>
TOTALS	58	26	16	100

(Project Coordination expenses are not shown as a separate activity as they are assumed to be distributed in proportion to the levels of expenditures on other activities.)

In light of Agency-wide funding constraints and a desire to keep the Project manageable, the Mission proposes a fairly modest level of assistance at the outset. However, as the Project progresses the Mission will carefully monitor the effectiveness of the various activities and the demand for the expansion of services to other areas of the country. If these conditions are favorable and additional A.I.D. resources exist, the Mission will consider an add-on to the Project. For example, the micro credit model could be replicated to other secondary cities, especially if other donor financing for credit lines becomes available. A second possibility would be to increase the number of representational organizations to be strengthened, if evaluations demonstrate that the initial Project interventions in this area have had positive impacts on the organizations themselves and on the economic and financial condition of their member enterprises.

### C. Project Components

#### 1. Credit Delivery Mechanisms

##### a. Introduction

This component consists of two complementary approaches to expanding the supply of credit to SSEs which do not now enjoy access to formal sources. First, the delivery of credit to the smallest "microenterprises" will be expanded by strengthening existing programs and establishing new programs in selected secondary cities. The majority of the resources under this component will be directed to this first approach. Second, the Project will provide technical assistance to two "bridge" financing mechanisms - the Credit Guarantee Corporations and FOPINAR - to strengthen their role in providing credit through the commercial banking system to growing firms whose needs exceed the capabilities of the microenterprise programs. That is, the "bridge" mechanisms will help fill the gap between the micro credit programs and the regular commercial credit system, thereby facilitating "graduation".

A.I.D. assistance to this component will be channeled through a Cooperative Agreement with a U.S. PVO which has experience in small enterprise development, or a consortium of such PVOs. (Annex VII contains the scope of work for the Cooperative Agreement.) The applicants for the Cooperative Agreement will be required to propose detailed methodologies for the various activities within the component. The activity descriptions which follow focus on the general objectives of each activity and the issues and parameters which will guide their implementation. In the process of developing work plans for the various activities, the Cooperative Agreement recipient will formulate more specific objectives.

b. Existing Micro Credit Programs

Overview of programs. The Fundación Ecuatoriana de Desarrollo (FED) began its micro credit program in Quito in May 1984 with the support of a US\$460,000 OPG (No. 518-0040). The OPG has provided external technical assistance plus an initial operating subsidy and start-up capital.

The FED program targets two client groups using similar methodologies. The first group, microenterprises (defined by FED as productive or service firms with fewer than five employees), receives successive credits which increase incrementally both in value and maturity. Loan values begin at S/. 10,000 (about US\$60) and rise to a maximum of S/. 200,000 (US\$1,200). Maturities begin at four weeks and eventually extend up to 24 weeks. Loan guarantees consist of co-signatures. The primary inducement for prompt repayment is the potential to receive a subsequent loan of greater value and at more favorable terms. The second group comprises very small street and market vendors (comerciantes). To facilitate credit administration, the vendors form solidarity groups. Members of each group collectively assume the risk for the total credit amount delivered to the group. The solidarity groups also receive successively larger loans which do not exceed S/. 150,000 (US\$900) per group.

The key features of the FED program methodology include a portfolio of many short term loans which turns over rapidly and high credit charges (five percent monthly). Self-sufficiency depends on attaining high volume while maintaining delinquency rates and operating costs within reasonable bounds. The FED program places minor emphasis on complementary training for its clients, partly as a matter of philosophy (i.e., credit is seen as the chief constraint to microenterprise growth) and partly to hold down operating costs.

The FED program has achieved notable success in terms of reaching the targeted groups and attaining a significant volume of operations in a relatively short period. By late 1985, the program had attained a high degree of self-sufficiency, unparalleled by programs in other Latin American and Caribbean countries at a similar stage of development. The cumulative number of enterprises receiving FED loans reached 2,765 by May, 1986. However, rapid growth has brought problems: strained financial control and administrative systems; insufficient program planning; liquidity shortages reflecting the absence of other, non-A.I.D. sources of capital; and increased arrearages. These have been aggravated by a major internal shake-up from management on down. Consequently, performance has deteriorated somewhat in recent months, though the basic program remains, in A.I.D.'s view, essentially sound.

The Fundación Eugenio Espejo (FEE) micro credit program began one month after the FED program. The credit program was one part of an integrated community development project supported by OPG No. 518-0021. The FEE program targets micreenterprises and comerciantes in Mapasingue, a marginal community on the outskirts of Guayaquil. The methodology used is similar to that of the FED program, while placing greater emphasis on training of clients. The credit program began with virtually no outside technical assistance and with an inexperienced, but motivated, staff. As a result, credit administration and financial control systems were not adequately developed, and arrearages rose to 28 percent of the portfolio by October 1985. In recent months, the FEE has taken steps to restructure the program. These include installation of a computerized system for credit administration and financial management, new loan analysis methods, increased credit charges (to 6.7 percent monthly), and staff training. A.I.D. has extended the life and funding of the OPG to provide additional technical assistance and a small amount of operating subsidy, and has set targets for lending and self-sufficiency through 1986. Recent data indicate that these measures are having a positive impact, though much room for improvement remains.

A.I.D.'s experience to date with the FED and FEE programs highlights a number of methodological issues which are discussed in detail in the Technical Analysis section. These issues should be addressed as part of a plan for strengthening those programs, as well as taken into account in the development of new programs.

The Cooperative Agreement recipient will work with one or both of the existing programs to strengthen their operations. The general objectives of this assistance derive from the program status and methodological issues which have been identified. These objectives include the following:

- o Develop access to, and the capacity to manage, a variety of capital sources, including commercial banks.
- o Develop the internal program and financial management capacity needed for effective portfolio management and financial controls, thereby ensuring smooth lending operations and permitting an increased volume of operations.
- o Further develop lending and training methodologies to increase the economic impact of the programs.
- o Improve monitoring and evaluation systems to assess program efficiency and impact.
- o Strengthen mechanisms within the programs for promoting the "graduation" of clients.

The Cooperative Agreement recipient will conduct an initial assessment of the existing institutions and programs. The purpose of this assessment will be to better understand the situation, problems, needs, and prospects of each program as a basis for developing a detailed technical assistance workplan. It is expected that the Cooperative Agreement recipient will initiate assistance to both programs at an early stage of the Project. The assessment may, however, indicate that assistance to a given program is not useful at that time (e.g., if the FED's internal management has not stabilized). In that case, the Cooperative Agreement recipient may propose to delay or omit assistance to that particular program.

On the basis of the assessment, and if the program's prospects so warrant, the Cooperative Agreement recipient, in collaboration with the program staff, will prepare a detailed work plan for strengthening each program. The recipient organization will provide short term technical assistance and possibly short term training to the program staff to carry out the work plan. The work plan will include specific objectives and targets in line with the general objectives listed above, or others that may be identified in the course of the assessment.

#### c. New Micro Credit Programs

The Project will support the establishment of new micro credit programs in six secondary cities. By the end of the Project, these programs are expected to have achieved the following:

- o Establishment of secure sources of financing for their credit operations, including commercial sources;
- o A high degree of financial self-sufficiency (operating income covering 70 percent of costs is considered a reasonable average target within the life of Project);
- o Establishment of ongoing monitoring and evaluation systems (including baseline data) to support program management and to measure the social and economic impacts of the programs on client firms.

The new programs, combined, are expected to provide credit to approximately 11,000 microenterprises, either individually or through solidarity groups, over the life of Project. The programs may also offer modest amounts of training in areas such as basic cost accounting, bookkeeping, and marketing.

On the basis of the criteria discussed above, the Mission identified the following cities during intensive review: Manta, Portoviejo, Quevedo, Santo Domingo, Esmeraldas, and Ibarra. A rapid survey of

these cities yielded an estimated 22,500 microenterprises, including: 7,000 artisan enterprises (bakers, carpenters, tailors and seamstresses, mechanics/metal workers, shoemakers, and radio and watch repairers); 3,500 nontraditional enterprises (block makers, tire repairers, construction and electrical workers, textile producers, boat builders); and 12,000 commercial enterprises (vendors).

In order to establish the existence of potential implementing institutions in the selected cities, a consultant visited most of the cities during intensive review and interviewed representatives of 17 local institutions. The conclusion from these interviews is that there exist capable institutions that, with proper support and technical assistance, could serve as bases for effective micro credit programs in those cities. The types of institutions encountered included savings and loan cooperatives, civic organizations, gremial institutions, private training institutions, and religious institutions with development programs. These institutions possess, in varying degrees, the social motivation and financial administration capabilities which are key to successful micro credit programs. The Institutional Analysis provides further information and analysis of these potential institutions and recommended selection criteria. The Cooperative Agreement recipient will further analyze the institutional options and make selections early in the Project.

The Cooperative Agreement recipient will provide technical support for the development of the new programs. The detailed methodology and administrative arrangements to be employed by the recipient will be defined during the solicitation and negotiation process for the Cooperative Agreement. However, several guidelines have been established within which the recipient will perform. In preparation for the new programs, the recipient will carry out the following actions in-country during the first six-to-nine months of the Cooperative Agreement:

- o Assessment of ongoing micro credit programs in Ecuador, to ascertain lessons for the new programs and the possibility of using the former as training models.
- o Identification of probable implementing institutions in each city.
- o Surveys of the microenterprise population in each city to determine with greater accuracy the size, composition, and socioeconomic characteristics of the enterprises and their demand for credit and other services.
- o Assistance to the proposed implementing institutions to develop detailed workplans to establish their micro credit programs. These workplans will include identification of program beneficiaries, specific objectives and targets, administrative staffing and budgets, and overall financial plans.

On the basis of these preliminary activities, the recipient and A.I.D. may determine that it is not appropriate to work in one or more of the selected cities. Selection of alternative cities will follow the criteria outlined above.

Once the workplans are developed, the recipient will start providing support for development of the new programs. It is expected that all of the programs will be initiated during the first 12-15 months of the Project in order to provide each program maximum time to develop within the life of Project. Loans will be made at rates which are necessary to cover the cost of money obtainable on the local market and administration costs and to prevent decapitalization. In light of the existing programs, it is certain that these rates will be highly positive in real terms, and probably well above normal commercial rates of lending. The Cooperative Agreement recipient will also ensure that the programs take steps to promote the full participation of women owned/operated enterprises.

#### d. Financial Bridge Mechanisms

The Project will provide limited technical assistance support for two financial bridge mechanisms: FOPINAR and the Credit Guarantee Corporations (CGCs).

FOPINAR. FOPINAR's rediscount lending operations are the primary source of credit for small enterprise in Ecuador. Moreover, FOPINAR has shown strong interest in increasing the participation of smaller enterprises (level 2 and upper level 1) in its program; 48 percent of FOPINAR operations have been for firms with assets under US\$11,000. Thus, FOPINAR can play a key role in providing bridge financing to allow microenterprises to "graduate" to the commercial financial institutions through which FOPINAR channels its funds.

A key constraint in the FOPINAR system is the reluctance of the participating commercial banks to experiment with lending to the smaller enterprises. This constraint is especially evident in the secondary cities where the financial institutions tend to be more conservative in their lending. As part of its Third Loan to FOPINAR, the IBRD decided to eliminate the additional "incentive" percentage point of spread previously allowed to the banks on their loans to smaller firms. This change is likely to deter the banks even more, at least in the short run.

During intensive review, the Mission decided against providing additional capital to FOPINAR. It was felt that funding already available to FOPINAR from the IBRD and the Dutch Government was sufficient, and that FOPINAR's willingness to increase lending at the lower end of the SSE sector reduced the need for the kind of leverage afforded by large capital transfers. Rather, the Mission

concluded that significant gains could be realized through modest, short term technical assistance to FOPINAR to facilitate the participation of commercial financial institutions in scaled-down lending.

Specific objectives of A.I.D.'s assistance to FOPINAR include:

- o An increase in the number and amount of FOPINAR rediscounted credits for smaller enterprises (as percentages of the total FOPINAR portfolio), particularly those enterprises "graduating" from the new micro credit programs established under the Project.
- o Improved efficiency of FOPINAR's credit administration procedures.

It is expected that the A.I.D. financed assistance provided to FOPINAR through the Cooperative Agreement will be in two general areas:

- o Promotion. FOPINAR should encourage the commercial banks in its system to try innovative methods of channeling FOPINAR resources to smaller enterprises. For example, the micro credit programs could serve as intermediaries, packaging groups of their clients' loans, thereby increasing the total loan size and reducing the banks' administrative costs. The micro credit programs could also maintain loan supervision responsibilities and assist with loan recuperation from the individual borrowers. Also, FOPINAR should take a more active role in promoting the registration of banks located in secondary cities in the FOPINAR program. The Project financed technical advisors would work with FOPINAR's Promotion Program directed at participating financial institutions, which was established as part of the IBRD loans. These advisors would emphasize promotion activities in the secondary cities targeted by the Project and on behalf of smaller borrowers.
- o Procedures. FOPINAR has already made an effort to streamline its procedures for rediscounting loans made to smaller borrowers. However, the resistance of the banks could be due, in part, to cumbersome features of the FOPINAR program which persist. Short term technical assistance would be provided to review FOPINAR's administrative systems, make recommendations for streamlining them, and assist in implementing the changes.

CGCs. The CGC concept has been under study and development in Ecuador for several years. The CGCs will be set up on a provincial basis to guarantee commercial bank loans to small enterprise. Once

a guaranteed loan is disbursed, the CGC will assume responsibility for ensuring repayment, including loan supervision and technical assistance to clients. A Retroguarantee Fund, capitalized by the Central Bank, the BNF, participating private banks, and the various CGCs would cover 65 percent of the credit risk of each guarantee. The balance of the risk would be covered by the specific CGC and the bank involved in a given loan. The mechanism is intended to benefit primarily enterprises in the level 2 range. The legal basis for creating CGCs has largely been established and the Retroguarantee Fund has been partially capitalized.

Given the substantial progress to date and the potentially important role of the CGCs in stimulating increased commercial bank lending to smaller enterprises, the Mission believes that financing of technical assistance to help overcome remaining bottlenecks is warranted. The two CGCs ready for start-up are in Pichincha and Azuay provinces, which only marginally overlap with the secondary cities targeted for micro credit programs under the Project. However, there is potential for linkages between the Pichincha CGC and the existing FED program in Quito and the new program planned for Santo Domingo, which could serve as a model for future CGC/micro credit program bridging.

The main bottlenecks to initiating the CGCs include the following:

- o Internal regulations. Before any individual CGC can begin operation, internal regulations and operating procedures must be established for the operation of the Retroguarantee Corporation and the individual CGCs.
- o Capitalization of the CGCs. Both the Pichincha and Azuay CGCs will require annual contributions from members of S/.3 million over a seven year period in order to achieve guarantee funds of sufficient size to meet projected demand and cover costs. While both CGCs are prepared to initiate operations with their current guarantee fund levels, it is critical that the operations be carefully managed so that members' confidence is strengthened and contributions increased. There is also need for additional direct promotion among members to motivate contributions.
- o Capitalization of the Retroguarantee Fund. Commitments for capitalization of the Fund have already been received from the Central Bank and the BNF. However, the participation of commercial banks, which must contribute to the Fund in order to benefit from the guarantee mechanism, is lagging. Despite several inducements (contributions to the Fund are tax deductible; the minimum contribution level is modest; the individual CGCs will be required to maintain their own guarantee funds in the participating banks), only two banks have signed on so far. A strategy for increasing this participation is needed.

A.I.D. will assist the CGC mechanism to achieve the following by the end of the Project:

- o The operation of two CGCs, in Pichincha and Azuay provinces.
- o The participation of six commercial banks and financieras in the guarantee system (up from the current two).

The Project will provide two types of resources through the Cooperative Agreement for the CGC mechanism. First, the Project will finance salaries and local transportation costs for the four person technical team, attached to the Pichincha Chamber of Small Industry, which has been promoting the CGC concept for several years. Past funding of the team has been provided by the Konrad Adenauer Foundation and other sources. However, the Foundation considers that its objectives have been met and does not intend to provide further support. At this critical juncture in the development of the CGCs, it is important that the technical team continue its work, including the formulation of internal regulations, providing staff support to the Retroguarantee Corporation, providing technical assistance and training to the staff of the CGCs, and promoting the participation of commercial banks and the formation of new CGCs. It is anticipated that, by the end of the Project, the functions of the technical team will be assumed by the Retroguarantee Corporation.

Second, the Cooperative Agreement recipient will provide short term expatriate advisors to review the financial and administrative systems of the Retroguarantee Fund and individual CGCs, and to provide recommendations for improving them.

The Cooperative Agreement recipient will develop, in collaboration with FOPINAR and the CGC technical team, detailed workplans with specific objectives and targets. They will also develop a simple monitoring and evaluation system (including collection of baseline data) to assess the institutional and beneficiary impact of the programs.

e. Component Inputs. The Cooperative Agreement recipient will be expected to set up an in-country technical assistance team which is geographically decentralized to the secondary cities, rather than based in Quito or Guayaquil. The recipient will also be expected to make maximum feasible use of Ecuadorean nationals, particularly in long term advisory positions. In this way, local resources will be developed which can later promote the expansion of micro credit programs to other cities.

Total A.I.D. funding for the credit component is estimated at \$1,885,000. Of this total, \$1,260,000 will directly finance technical services from the Cooperative Agreement recipient. The structure, level of effort, and timing of the technical services will be better defined on the basis of the Cooperative Agreement proposals and the initial in-country assessments performed by the advisors. A reasonable configuration would include 36 person-months of a long term expatriate advisor (\$360,000), 32 person-months of short term expatriate assistance (\$352,000), two long term Ecuadorean advisors (\$120,000), 64 person-months of local technical assistance (\$108,000), foreign observational travel (\$70,000), and commodities, materials, and services for the in-country team (\$250,000).

In addition, the Cooperative Agreement will channel funds to the six new micro credit programs to cover initial operating costs, including staff, rental of office facilities, services, and capital goods (vehicles, microcomputer systems, office equipment). These subsidies will cover operating costs during approximately the first two years of each program. By the third year, it is expected that the programs' portfolios will be producing income to cover at least 70 percent of costs. To the extent that the programs are still running operating deficits at the end of the Project, they will have to find other sources of subsidization or make further adjustments in their cost structures and credit charges. The average subsidy is estimated at the equivalent of \$90,000 per program (\$540,000 total). Similarly, the Cooperative Agreement will include funding for salaries and travel costs of the CGC technical team for up to three years (\$85,000).

The counterpart will consist of seed capital for the new micro credit programs and the interest and fees paid by clients which help to capitalize the programs. The experience of micro credit programs in Ecuador and elsewhere has shown that donations, rather than loans, are the preferred source of seed capital. To add financial costs to administrative costs at the outset of the program when credit volumes and income are low can jeopardize the prospects of program survival and growth. The Mission will propose to the GOE the programming of ESF local currency funds to be disbursed to the new programs on a nonreimbursable basis for seed capital. It is estimated that the new programs will require, on average, the equivalent of \$130,000 apiece (\$780,000 total). The interest and fees paid by clients are estimated at the equivalent of \$140,000 per program (\$840,000 total). These counterpart estimates are based on the financial model contained in Annex III.A.

## 2. Technical Assistance Services

### a. Introduction

The Project will expand the availability of technical assistance services to SSE in selected secondary cities through the development of private consultant resources which will be able to continue providing technical assistance on an independent basis after Project completion. The development of these resources will take place, in large part, through the actual delivery of technical assistance to SSE. For purposes of this discussion, the term "technical assistance" refers to both group training and direct assistance to individual firms.

A.I.D. will award a Cooperative Agreement to INSOTEC, a private, nonprofit Ecuadorean foundation, to implement this component, as well as other activities described further below. Under this Cooperative Agreement, INSOTEC will develop its role in the training of private technical assistance providers while also directly delivering technical assistance to SSEs.

The technical assistance services provided under the Project will cover the general areas of management, production, and marketing, and will be focused on level 2 and 3 enterprises. INSOTEC will target its assistance to certain types of productive enterprises in order to maximize productivity and employment impacts. In general, assistance will be given to those types of enterprises which are intensive in their use of labor and local materials, which have significant forward linkages to other domestic industries, and for which there exists information on the technological needs and potential demand for technical assistance by the enterprises. The major lines of activity identified by INSOTEC as fitting these characteristics include food processing, clothing, wood products, and metalworkers.

On the basis of the criteria established for the Project plus more specific criteria related to this component (e.g., presence of a sectoral organization with which INSOTEC has a relationship and which could serve as a sponsor for INSOTEC's operations), INSOTEC has selected five cities in which to implement consultant development and direct technical assistance activities: Santo Domingo, Babahoyo, Manta, and Esmeraldas in the coastal region, and Ibarra in the highlands. It will be noted that these cities largely overlap with those identified for the new micro credit programs. Other cities may be substituted if deemed necessary after further survey work is performed in the selected cities.

### b. Development of Technical Assistance Providers

INSOTEC has identified a number of sources of individuals who are

providing or could provide technical assistance to SSEs. These include instructors at technical schools, university professors, professional consultants, and even small entrepreneurs themselves. INSOTEC will provide those who are interested and qualified with training and experience to form a pool of effective technical assistance providers who can market their services. Operating on an independent basis with no overhead, these individuals should be able to provide affordable technical assistance to all but the smallest SSE on a commercial basis.

The INSOTEC personnel in each secondary city will identify individuals, taking into account the nature of the demand for technical assistance in those cities (e.g., number of firms, predominant types of enterprises). INSOTEC will conduct a series of courses specifically designed for the potential providers. These courses will deal mainly with technical assistance delivery methodologies to SSEs, but may also cover technical content areas. An estimated four-to-six courses of approximately 25 hours each will be conducted in each of the secondary cities. Enrollment of about 20 persons per course is expected, and a given individual will probably attend two or more courses. Thus, an estimated 200 persons will receive formal training. As necessary, these persons may also participate as students in the direct technical assistance activities described below, to reinforce their knowledge of specific technical and administrative areas.

From among those receiving training, INSOTEC will select the best qualified to serve as instructors for the direct technical assistance activities during the middle and latter parts of the Project. This instruction will allow them to practice their technical assistance delivery skills under the guidance of INSOTEC staff. INSOTEC estimates that three quarters of its direct technical assistance activities will be conducted by outside consultants, though these may include some individuals who have not passed through the training regimen described above.

c. Direct Technical Assistance Delivery in Secondary Cities

INSOTEC's technical assistance methodology will consist of three stages: organization; training for groups of enterprises; and specific assistance to one or a small number of enterprises. The methodology is sequential: each stage serves to better define the needs of the enterprises and provides them with the capacity to move on to more specific forms of assistance, if they desire. Thus, it is expected that individual owners/operators will participate in two or more activities within the overall program offered by INSOTEC.

At the organizational stage, INSOTEC, with support from the local sponsoring organization, will carry out promotional activities and

visit enterprises to obtain a general understanding of their problems and technical assistance needs. On the basis of these activities, INSOTEC will organize groups of interested owners/operators.

These groups will then be invited to participate in one or more workshop/seminars and practical courses. The workshop/seminars will run about 25 hours over one week and treat themes of generic interest to the group, particularly in the areas of management, accounting, and marketing. Individuals who show interest and potential during the workshop/seminars will be re-grouped according to their lines of activity or special concerns and participate in practical courses. These courses will be more extensive (about 60 hours over four weeks). They will focus on problems which are specific to a given type of enterprise (e.g., in production processes) or provide more in-depth treatment of the general subjects covered in the workshop/seminars. The practical courses will take place in the enterprises of selected participants as well as in classrooms, and will make use of case studies presented by the participants. Out of these group sessions will come knowledge and recommendations that the participants can take back and apply to their own enterprises.

Finally, owners/operators who would like more direct assistance will be able to enroll in clinics or request individual technical assistance. The clinics will run about 35 hours during a week and involve a small number (up to four or five) firms with a shared interest. A generalist advisor will accompany the participants to their firms and assist them to assess the overall situation of their enterprises, identify specific problem areas, and develop recommended actions, including needs for further types of technical assistance. The clinics will be designed preferably - though not exclusively - for level 2 enterprises, where the capacity to absorb and pay for individual technical assistance is relatively low. The individual technical assistance will be plant-specific and require up to 100 hours over three weeks. One or more experts in the areas of production, administration, and marketing will conduct a thorough and detailed analysis of the firm and offer on-site assistance to resolve problems as well as recommendations for further technical assistance.

During the life of Project, INSOTEC will conduct a minimum of 180 technical assistance activities (not including the initial promotional efforts), benefitting some 500 enterprises. Actual levels of direct technical assistance resulting from the Project will likely be much higher, including the additional activities financed by the income INSOTEC receives from beneficiaries and the independent activities of the consultants who are trained by INSOTEC. On the basis of these technical assistance experiences, INSOTEC will prepare technical manuals to be used for similar

activities elsewhere and as a reference for the technical assistance consultants trained under the Project. It is expected that five manuals will be produced.

d. Administration

Unlike most other providers of technical assistance to SSEs in Ecuador, INSOTEC requires some payment by the beneficiaries. However, experience in Ecuador and other developing countries has shown that some subsidization of institutional technical assistance is usually unavoidable. For many SSEs, especially at the lower end of the scale, the full cost of the technical assistance is simply not affordable. More importantly, since the bottom-line results of technical assistance are often not readily perceived, owners/operators who do not have much experience with technical assistance are reluctant to pay the full cost. The subsidy, then, is necessary to overcome risk and uncertainty and to induce owners/operators to engage in technical assistance activities which presumably bring economic benefits in excess of the social costs. On average, INSOTEC expects to cover 40 percent of the technical assistance costs from users fees, except for the individual technical assistance where the beneficiary will pay 70 percent or more of the cost. The technical assistance consultants trained by INSOTEC will also pay the full costs of their training. Income from these fees will be placed into a separate fund managed by INSOTEC to finance additional technical assistance activities during the life of the Project.

INSOTEC will set up a decentralized structure to manage the technical assistance program in the secondary cities. The operations director and a technical advisor for the overall program will be based in Santo Domingo. Zonal consultants will be based in Manta, Babahoyo, Esmeraldas, and Ibarra. Some of these zonal consultants may also have administrative assistants if the workload demands. In addition, INSOTEC will contract a short term women-in-development advisor to assist in designing and implementing technical assistance interventions which address the special needs of women owned/operated firms. The technical assistance activities will be conducted partly by INSOTEC's zonal consultants and partly by independent consultants under contract, including those technical assistance providers developed under this component. It is expected that the INSOTEC staff will utilize the facilities and other resources of the sponsoring organizations in each city (e.g., the chambers of small industry), thus reducing overhead costs. By developing these linkages from the outset, it is hoped that upon completion of the Project the local organization will absorb the local INSOTEC staff and provide it with support to continue the technical assistance activities. A fuller description of INSOTEC's proposed administrative arrangements is given in the Institutional Analysis.

Given its experience and demonstrated capacity, INSOTEC will be able to implement the activities of this component largely on its own. However, on the basis of further analysis of INSOTEC carried out during intensive review, the Mission concluded that modest amounts of technical assistance and training should be provided to INSOTEC to support its institutional strengthening process. Key areas for technical assistance include program planning and information systems, as well as financial administration to help INSOTEC cope with the significantly increased budget entailed by the Project. INSOTEC will subcontract with a qualified U.S. or Latin American organization with experience in small enterprise technical assistance programs to provide these services. Key INSOTEC personnel will also make observational visits to successful technical assistance programs in the region.

#### e. Component Inputs

Total A.I.D. Grant financing for the Technical Assistance Services component is \$840,000. A.I.D. funds will finance INSOTEC field staff plus a project director, administrative/financial director, systems analyst (part-time), and a portion of the Executive Director's salary in Quito (\$370,000); the costs of the direct technical assistance activities, including subcontracting of consultants (\$115,000); publication of manuals (\$10,000); in-country travel and travel in the exterior for observation and short term training by INSOTEC staff (\$65,000); two vehicles, office equipment, and training equipment for the field staff (\$85,000); operating expenses of the field offices (\$65,000); and external technical assistance for INSOTEC (\$130,000).

The counterpart is estimated at the equivalent of \$300,000. INSOTEC will provide legal assistance, administrative support, in-house technical advisors, equipment and facilities, and vehicle operation, and will finance from other sources the portion of its overhead allocable to the Project (\$220,000). In addition, income will be generated from the fees paid by beneficiaries of the direct technical assistance activities and the training of technical assistance providers (\$80,000).

### 3. Representational Services

#### a. Introduction

In addition to the expansion of the supply of technical assistance and credit, it is important that the sector become better organized and represented so that SSEs can continue to articulate their needs and interests and obtain resources over the long term. Therefore, the Project will support an increase in the quality and quantity of representational services.

This will be accomplished primarily through direct assistance to strengthen the capacity of selected representational organizations to identify members' needs, provide services to meet those needs, and to participate in policy dialogue with the public sector. An expected by-product of the improved representational services is increased membership and a stronger financial base for these organizations. An estimated 10 organizations will be strengthened. In addition, this component will finance an estimated 10 policy studies on key issues facing the sector.

The organizational strengthening efforts will be implemented by the Center for Educational Planning, Research, and Technology (CIPTE), through a subgrant from INSOTEC. The justification for the selection of CIPTE is discussed in the Institutional Analysis. The policy studies will be undertaken by INSOTEC, in most cases through local subcontracts.

#### b. Organizational Strengthening

The organizational strengthening efforts will be directed at two levels of representational organizations. Consistent with the Project strategy, most of the assistance will be directed to provincial and local organizations in the secondary cities where the other Project components are implemented. These include the chambers of industry and artisan and small merchant associations. It is expected that eight such organizations will be strengthened. It is also considered important to develop the national federations, given their key role in the policy dialogue process and their potential to provide ongoing organizational development assistance to member organizations. The Project will assist FENAPI (as a continuation of an A.I.D. financed effort) and at least one other federation (artisans or small merchants).

CIPTE, in consultation with INSOTEC and A.I.D., will select the organizations during the initial stage of the Project. The selection will be based in part on a survey conducted during intensive review of 83 organizations in the targeted secondary cities. This survey (contained in bulk Annex IX) collected basic information on organization, membership, facilities, budget, and services. The selection criteria will include a permanent locale, a legal identity, an elected governing body, an adequate number of actual or potential members, an ability and willingness to dedicate resources to organizational development, and an acceptance of the concept of self-financing services. These criteria will be refined in the process of CIPTE's subgrant proposal preparation and negotiation. As a basis for selection, CIPTE will also consult with INSOTEC, which has broad contacts, and make visits to the more promising candidates. In selecting the organizations, it will be important to try to detect and avoid those which are strongly

partisan politically and those which take a paternalistic, protectionist attitude toward their members which would dispose them to advocacy of policies which may not be in the interest of the SSE sector as a whole.

The organizational strengthening efforts will fall into four categories which are, to a large degree, sequential in order. First, CIPTE will conduct general courses in motivation and organizational development, for both leaders and members of the selected organizations. These courses will assist the organizations to evaluate their institutional goals, both internally and in terms of services for members, and to begin to develop realistic work plans for achieving those goals. Baseline information, from which progress will be measured, will also be collected at that time.

Second, CIPTE will develop a package of simple business administration courses that the representative organizations can utilize for their members during the early stages of the Project. This package will serve as a pilot service delivery activity which gives the organizations experience in gauging the market for a service and managing its delivery. The package will also provide immediate income to motivate the organizations to accept more fully the service function concept. The content of the package will be more basic than the group training to be provided by INSOTEC. Also, whereas INSOTEC's activities will be limited to small industrial firms at primarily levels 2 and 3, the CIPTE package will reach artisan and commercial firms at level 1, as well. Therefore, there will be little, if any, overlap with the INSOTEC activities.

Third, CIPTE will assist the organizations to increase the number and variety of services they provide. Examples of these services include: core business administration training (an extension of the second activity described above); provision of information on policies, legal matters, market supplies, and technologies; assistance in resolving specific problems with local authorities; brokering technical, management, and in some cases export assistance from public and private sources; and lobbying for policies on behalf of members. These service development activities will be based on the work plans developed as part of the motivational courses. CIPTE will provide technical assistance and training to the organizations and assist in monitoring progress and revising the work plans as needed. In addition, CIPTE will administer "mini" seed grants to the organizations to help defray initial costs of developing service functions. These costs might include expanded office facilities and promotion activities. Subsidization of recurring operating costs will be minimized.

Lastly, CIPTE will ensure that resources for continued organizational strengthening remain after the Project ends. CIPTE

will, to the extent possible, select and train its project staff (trainers and promoters) from the local areas where the organizational strengthening activities take place. These human resources will continue to be available to representational organizations beyond the Project. CIPTE will also develop training materials that will be available to local organizations through CIPTE and the national federations. For example, CIPTE may adapt and disseminate the successful SSE organizational training materials developed by the Fundación Carvajal in Colombia.

#### c. Policy Studies

The Project will improve the information base for policy dialogue by the sector by financing approximately 10 studies. Some of the studies may primarily serve to compile information on the sector, which is badly lacking. Others will be analytical, focusing on the effects of trade, monetary, labor, and other policies on SSEs. The specific topics for the studies will be selected by INSOTEC in collaboration with the Advisory Council (see below) and taking into consideration concerns expressed by the representational organizations through their activities with CIPTE.

#### d. Component Inputs

Total A.I.D. Grant funding for the Representational Services component is \$470,000. This will cover the costs of approximately 150 person-months of professional personnel plus support staff (\$115,000), approximately 15 person-months of outside consultants (\$15,000), training materials and logistical costs (\$50,000), a vehicle, microcomputer, and office equipment (\$25,000), technical assistance to CIPTE including observational travel (\$65,000), 10 minigrants to representational organizations (\$100,000), and 10 policy studies (\$100,000).

The estimated counterpart contribution is equivalent to \$100,000. This will include staff, materials, and facilities provided by CIPTE (\$75,000) and physical resources and staff time of the beneficiary organizations (\$25,000). The individual work plans will include detailed counterpart budgets for the organizations.

### 4. Project Coordination and Evaluation

#### a. Coordination

Given the diversity of Project implementing agencies and limited Mission staff, the Project will require special mechanisms to ensure adequate coordination. Two formal mechanisms are proposed: a Project Coordinator and a Small Enterprise Advisory Board.

The Mission will contract locally for a Project Coordinator. The main responsibilities of the Coordinator will be to monitor and provide guidance on a day-to-day basis to the implementing agencies, help resolve routine implementation problems, promote coordination of the different activities at the field level to increase efficiencies and impact, and generally serve as liaison between the implementing agencies and the A.I.D. Project Officer. The scope of work for the Project Coordinator is included in Annex VIII.

A Small Enterprise Advisory Board will also be established. This board will be modeled after the Agribusiness Advisory Board which has played an active and useful role under the Nontraditional Agricultural Exports Project (518-0019). The Small Enterprise Advisory Board will consist of representatives of the Project implementing agencies, major sectoral representational organizations (e.g., FENAPI, FENACOMI), key public sector agencies (e.g., FOPINAR, Ministry of Industries, UNEPROM), A.I.D., and others whose participation may be deemed important. INSOTEC will serve as secretariat to the board and will take the lead in its initial organization. The board will have several functions. First, it will provide the implementing agencies and A.I.D. with continuing, expert assessment of overall Project progress, and serve as a sounding board for major Project management decisions. Second, it will provide the implementing agencies with the opportunity to meet on a regular basis to discuss coordination of their activities and to receive helpful guidance from other knowledgeable sources. Third, the board will assist in selecting the topics of the policy studies described above and provide feedback on the ongoing research. Finally, the board will serve as a continuing forum, now lacking in Ecuador, for dialogue between the public and private sectors on policy and other issues affecting SSE.

In addition to these formal mechanisms, INSOTEC, CIPTE, and the U.S. Cooperative Agreement recipient will be encouraged to work out innovative arrangements at the local level for coordinating the technical assistance, representational services, and credit activities in the secondary cities. For example, they may share office facilities, thereby reducing overhead costs. Or they may help promote each other's programs and provide cross-referrals of clients, particularly as microenterprises in the credit program grow and begin to identify needs for technical assistance.

#### b. Evaluation

The Mission attaches great importance to the evaluation of the Project, particularly with regard to socioeconomic impacts at the firm level. There are few examples of rigorous impact evaluations of small enterprise projects around the world. Therefore, the Mission expects that the evaluation of this Project will render

information that not only is useful for Project management and future A.I.D. program planning in Ecuador, but also makes a significant contribution to the body of knowledge on small enterprise development.

The various implementing agencies (the micro credit programs, INSOTEC, and CIPTE) will set up systems for collecting data on a continuous basis. The data collected will relate both to performance (e.g., number of credit clients and loans, number of participants in technical assistance activities and their feedback on those activities, increases in membership of representational organizations, degree of self-financing attained) and to impact (principally employment and income generation). A.I.D. financed consultants will provide expert guidance to the implementing agencies to ensure that their individual evaluation systems are methodologically sound and that the data collected by the different agencies, particularly related to impact, are consistent and comparable. The consultants will provide periodic supervision of the evaluation systems during the course of the Project, and will prepare periodic compilations and analyses of the data from all Project components. In this way, A.I.D. and the implementing agencies will have detailed information on Project progress, at the output, purpose, and goal levels, throughout the Project.

In addition, the Project will finance a rigorous ex ante - ex post evaluation, carried out by external consultants. Two or three of the targeted secondary cities will be surveyed at the outset and end of the Project. The surveys will encompass the small enterprise population as a whole in those cities and will assess general changes (e.g., the degree to which credit, technical assistance, and other needs are being met; levels of unemployment and underemployment; the structure of the small enterprise sector). By comparing Project beneficiary and nonbeneficiary (control) groups, this evaluation will attempt to determine the extent to which these changes can be attributed to the Project.

The Mission intends to obtain the evaluation services through buy-ins to two A.I.D. centrally funded programs: the Assistance to Resource Institutions for Enterprise Support (ARIES) Project; and the contract between PPC/WID and the International Council for Research on Women (ICRW). It is expected that the ARIES consultants will manage the overall evaluation program and be directly responsible for ensuring the integrity and institutionalization of the evaluation system in the individual implementing agencies. ICRW will focus on implementation of the ex ante- ex past evaluation, and will ensure that at the level of the implementing institutions sex-disaggregated data are collected and issues related to women's participation are properly evaluated.

The total A.I.D. Grant budget for Project coordination and evaluation is \$675,000. These funds will finance the Project Coordinator and secretary for the life of Project and a vehicle (\$250,000), expenses of the Advisory Board such as promotional events, publications, and some travel of members during the life of Project (\$25,000), and the evaluation services (\$400,000). It is expected that PPC/WID will contribute an additional \$25,000 in A.I.D. central funds for the ICRW activities. The counterpart contribution of the Advisory Board will consist mainly of the members' time and self-financed travel (\$25,000).

D. Summary Financial Plan

The total estimated cost of the Project is \$6,570,000. A.I.D. will provide \$4,500,000 in Grant funds for technical assistance and consultants, program support to implementing agencies, studies, the Advisory Board, the project coordinator, and evaluation. Additional A.I.D. central funds of \$25,000 for evaluation will also be made available. The counterpart contribution is estimated at the equivalent of \$2,045,000. (For purposes of future counterpart accounting, the counterpart budget has been converted to dollars at the rate of S/.165=US\$1.00.) A detailed budget by Project input and an A.I.D. expenditure plan are contained in Annex IV. A summary budget (in thousands of dollars) is shown below.

<u>Component and Activity</u>	<u>A.I.D. Grant</u>	<u>Other A I.D.</u>	<u>Counterpart</u>
1. <u>Credit Delivery Mechanisms</u>	<u>1,885</u>	<u>-</u>	<u>1,620</u>
- Existing micro credit programs	200		
- New micro credit programs	1,440		1,620
- Financial bridge mechanisms	245		
2. <u>Technical Assistance Services*</u>	<u>840</u>	<u>-</u>	<u>300</u>
- Development of technical assistance providers	335		10
- Direct technical assistance	505		290
3. <u>Representational Services</u>	<u>470</u>	<u>-</u>	<u>100</u>
- Organizational strengthening	370		100
- Policy studies	100		
4. <u>Project Coordination and Evaluation</u>	<u>675</u>	<u>25</u>	<u>25</u>
- Project coordinator	250		
- Advisory board	25		25
- Evaluation	400	25	
<u>Contingencies</u>	<u>630</u>	<u>-</u>	<u>-</u>
<u>TOTAL</u>	<u>4,500</u> (68.5%)	<u>25</u> (0.4%)	<u>2,045</u> (31.1%)

\* It is estimated that INSOTEC's staff will devote 40 percent of its time to the development of technical assistance providers and 60 percent to direct technical assistance activities.

#### IV. PROJECT ANALYSES

##### A. Technical Analysis

This section analyses the appropriateness of the technical approach selected for each of the three Project components and identifies potential issues to be monitored during implementation.

##### 1. Technical Assistance Services

The basic issue regarding the approach to increasing the supply of technical assistance services was whether to use a public or private sector mechanism. The latter alternative was selected, with the focus on using a private organization (INSOTEC) to develop individual consultants who can provide quality services on a commercial basis. From a technical standpoint, this choice of approach is justified by the greater cost-effectiveness of private sector services, relative to the public sector, as indicated by the demand and supply situation in Ecuador. Despite the proliferation of government agencies providing services, generally at no cost, SSEs have tended to rely on private sources for their technical assistance needs. Surveys by FOPINAR and INSOTEC conclude that private sources, including technicians, consultants, industry and trade associations, and suppliers, provide on the order of 60 percent of technical services received by SSE.

The strengths of the private sector approach, as designed in this Project, vis-a-vis existing public sector programs can be classified into several categories.

(a) Coverage. Due to recurring budget constraints, public sector programs lack the resources to reach SSEs on a wide scale, especially outside of the major urban areas. For example, CENAPIA, the primary GOE institution responsible for providing technical assistance nationwide, has only seven professional technical resource personnel. The Project will improve coverage in previously neglected areas by training local suppliers of technical assistance.

(b) Quality of personnel. Low salaries in the public sector agencies too often translate into poorly qualified and undermotivated personnel. CENAPIA's professionals are generalists who are not well prepared to provide the wide variety of specific assistance services required by many SSEs. That institution has also suffered from high rates of staff turnover. In contrast, the consultants trained under the Project will improve their skills in areas for which there is demand and will market their services in a competitive environment where the incentives will be to provide the best services at lowest cost.

(c) Responsiveness. The public sector agencies typically plan their technical assistance services on a highly centralized basis. Decisions on what services are to be provided and where are usually based on budget constraints, the skills of the personnel on hand, political factors, and bureaucratic inertia which tends to dictate simple continuation of what was done before. The delivery of services also tends to be managed from a centralized level, thus inhibiting field level adjustments in resource allocation based on local conditions. As a result, surveys of SSEs have revealed widespread dissatisfaction with the content of public sector services. A particular complaint is that they tend to be too general. Under the Project, technical assistance services will be planned and delivered in response to local demands. In each city, INSOTEC will base its program on an initial needs assessment, followed by group activities designed, in part, to identify more specific technical assistance needs to be addressed in the future. A parallel approach will be used to identify priority skill areas for the training of consultants. The application of fees for both direct technical assistance and consultant training will provide a further assurance that there is real demand for the services offered by INSOTEC.

(d) Overhead. The public agencies, due to the shortage of personnel and centralized management styles described above, operate on an "extension" model, involving relatively large administrative structures (less than 10 percent of CENAPIA's staff are technical resource personnel) and much travel by the service providers. This model obviously carries high overhead costs. The Project approach will minimize the amount of overhead required to deliver services in the short term by decentralizing management and in the long term by increasing the supply of private consultants who function locally and do not depend on a central administrative apparatus.

Within the realm of private sector organizations, the technical assistance services component could be implemented either by a representational organization which is the locus of demand for the services (e.g., FENAPI) or by an organization which supplies the services (e.g., INSOTEC). In principle, there are sound reasons for placing implementation responsibility with those who demand the services. These reasons relate primarily to sustainability. The demand-driven approach helps ensure that the services provided are responsive to actual needs and that a mechanism for continuing to channel services to member firms exists beyond the Project. For practical reasons, however, the supply-side approach was selected for Ecuador. No single representational organization, or even a small group of organizations, could provide the desired targeting of the technical assistance activities. Furthermore, INSOTEC, by its nature, is not simply a disinterested party that supplies technical

assistance on request. As shown in the Institutional Analysis, INSOTEC was created to serve the small and medium enterprise sector, and its methodology involves working with and through representational organizations, including FENAPI and the provincial chambers. INSOTEC has been a key actor over the past six years in helping the representational organizations to assess the needs of their members and provide appropriate technical assistance. INSOTEC will undoubtedly continue to act as a service arm to the sector's organizations after Project completion and, in particular, to provide technical assistance services using the methodology developed under the Project. In addition, the individual technical assistance providers trained by INSOTEC will continue to provide their services in response to demands. Thus, the Mission feels confident that the technical assistance activities as designed are sustainable.

## 2. Credit Delivery Mechanisms

The main thrust of the credit component consists of establishing private micro credit programs in several secondary cities.

In broad terms, these programs will be patterned after the two existing A.I.D. supported micro credit programs which, as described above, have in general proven successful. However, the experiences of FED and FEE have raised several methodological issues that will be addressed in the design of the new programs as well as in the strengthening of the existing programs themselves.

(a) Loan term structure. The methodology of awarding short term and successively larger loans is ideally suited to the nature of commercial, and to some extent service, enterprises with high inventory turnover and liquidity. On the other hand, short terms and low amounts may contribute to inefficiencies in manufacturing enterprises which prefer to purchase raw materials in bulk and which have longer production and marketing schedules. Moreover, a system of constantly increasing loan amounts may not be appropriate for all types of enterprises, if it has saturated its market or reached its maximum administrative or production capacity. In fact, program promoters have noted that some clients have sought multiple loans of the same amounts. A more flexible loan term structure, geared to the needs of the program clientele, may be warranted.

(b) Portfolio management. Both the FED and FEE programs have operated in a demand responsive mode. Credit has been available more or less on a first-come, first-served basis. As programs grow, a more conscious strategy for portfolio management is required. This strategy should include closer attention to the timing, amounts, and maturities of loans issued, to avoid liquidity problems. Closer supervision and enforcement of loan repayments

should also be considered. It may also be desirable to introduce some selectivity of clients in terms of economic activity to increase the economic impact of the credit programs.

(c) Diverse credit needs. The two existing programs lend to established businesses for working capital. As programs develop and the client enterprises grow, there will be increasing pressure to lend for fixed assets or business start-ups. The latter type of lending entails greater risks as well as greater sophistication in portfolio management and significantly larger capitalization levels. It also would detract from short term goals of self-sufficiency. On the positive side, fixed asset and start-up lending would have a strong economic impact and further facilitate the enterprise growth and "graduation" process. This factor needs to be taken into account in shaping the longer term growth objectives of the programs.

(d) Capitalization. To date, the two programs have depended almost exclusively on donated funds to capitalize their lending. The limited availability of these funds has placed a constraint on program growth, particularly in the FED case where the size of the portfolio has grown faster. Clearly, the continued viability of the programs requires diversification of capital sources and greater reliance on commercial sources. The FED and FEE have obtained a small amount of funds from a local bank (basically, through an overdraft facility). Also, the PRE Bureau and Acción International/AITEC have created a guarantee mechanism to leverage local bank lending to micro credit programs. Programs in Ecuador should have access to this mechanism. Other options need to be explored.

(e) Self-financing. A basic objective of the micro credit programs is to achieve financial self-sufficiency, i.e., earn enough income from their credit (and possibly training) operations to cover operating expenses, including financial costs. All of the other issues identified above imply some negative effect on the balance sheets of the programs, through increased administrative costs, increased costs of obtaining money, or reduced earnings from a portfolio of more selective and longer term loans. In developing the programs, attention must be paid to the trade-offs between various objectives, and realistic time frames for attaining self-sufficiency should be set. Some continued reliance on concessional financing and operating subsidies, beyond that provided under this Project, may be necessary.

(f) Graduation. The FED and FEE experiences to date demonstrate the limited ability of micro credit programs alone to "push" enterprises into the formal credit system. For example, of the FEE's 500 client firms, only five had been referred to commercial banks as of March 1986. The micro credit programs can

take some steps which might improve their clients' opportunities, such as lending for fixed assets to build up collateral and assisting the clients to fill out bank loan applications. However, knowledgeable financial sector representatives doubt that these efforts would bring the desired results in the absence of a strong motivation on the part of banks to "pull" growth oriented microenterprises into the formal system. For that reason, the Project includes technical support for two mechanisms which can potentially provide the necessary incentives to induce private bank lending at the microenterprise level. With its substantial resources as leverage, FOPINAR may be able to encourage banks to try innovative approaches, such as accepting "packaged" loan applications from groups of microenterprises, or group guarantees of individual loans. The CGC addresses what is widely cited as a key constraint - the lack of a formal guarantee system for small enterprise lending. Conceptually, therefore, the design of the component adequately addresses the graduation issue. In practice, however, there has been little documented success in promoting graduation anywhere in the world. Thus, the selected technical approach to graduation remains open to testing.

### 3. Representational Organization Strengthening

The organizational strengthening activity has purposely been kept to a small scale and is intended to validate the pilot, A.I.D. financed activity with FENAPI. That activity produced positive results in terms of increasing FENAPI's participation in policy dialogue. Under this Project, similar organizational strengthening efforts will be undertaken in a cross-section of representational organizations, both national and local, and from different subsectors (small industry, artisans, commercial enterprises). The local implementing institution, CIPTE, will follow the same basic methodologies used with FENAPI, including motivational training of the organizations' leaders and members, needs identification, and structuring of organization specific training programs to address those needs and develop service capacities. CIPTE will also incorporate into its methodology elements of successful programs in other countries (e.g., Fundación Carvajal in Colombia), via observational visits, technical assistance, and purchase of training materials from those programs. In order to assess the efficacy of the technical approach to organizational strengthening, the Mission will insist that CIPTE establish clear, measurable objectives and adequate systems to evaluate progress.

#### B. Summary Financial Analysis

The financial analysis, contained in Annex III.A., consists of a spreadsheet analysis of a model micro credit program and assessments of the financial status and management systems of the two local implementing agencies, INSOTEC and CIPTE. This section summarizes the findings.

## 1. Micro Credit Programs

The spreadsheet analysis was carried out to examine the financial feasibility of establishing micro credit programs in the secondary cities. An income and expenditure model for a single program covering five years was set up. The data on costs and loan size were based on the FED and FEE programs, with adjustments for the smaller scale of the secondary city programs. Three basic cases were defined by the one key variable that remains largely out of the control of the programs: number of clients. The high case assumed 240 members in year one with increments of 240 in each of the next two years, leveling off at 720 clients. The cumulative clientele size assumed in this case is close to the average microenterprise population in the selected cities, as estimated by consultants. That is, for this case to hold a program would have to achieve near market saturation. The middle case starts out with 100 clients, rising to 300 in year two, and leveling off at 540 in year three. The low case starts with 240 and remains at that level throughout. Seventy percent of the clients were assumed to be solidarity groups, with each group or client consisting of five individual firms. In line with the Project design, it was assumed in all cases that operating costs were fully subsidized in the first two years (with no subsidy thereafter) and that the seed capital necessary to finance the full portfolio through year three was donated.

A series of sensitivity analyses was conducted on the three cases, with the self-sufficiency rate (total inflows divided by outflows) as the dependent variable. Three factors which are, to one degree or another, within the control of the programs were found to have the greatest impact on self-sufficiency: monthly loan charges (interest and fees); bad debt rate; and average term of the loans. The first two are particularly important. For example, in the best case, with charges at four percent monthly and a 15 percent unrecoverable rate, the self-sufficiency rate peaks at 138 percent in year three, then declines to 90 percent by year five. Raising the loan charges to 4.7 percent, which is less than that charged by FED and FEE, results in 151 percent self-sufficiency in year five. By also assuming a reduced bad debt rate of 10 percent, which is reasonable, the self-sufficiency rate reaches 177 percent in year five. It should be noted that, in each of the last two cases, the self-sufficiency rate declines slightly from a peak in year three. This reflects the assumption that the size of the program's clientele stabilizes in year three, thus removing the positive impact of portfolio growth. Evidently, further increases in the loan charges and/or reductions in the bad debt rate would be necessary to ensure long term viability under this assumption of limited portfolio size.

In the medium case, a four percent monthly charge is not enough to achieve self-sufficiency. However, raising the loan charge to 6.5 percent produces a self-sufficiency rate of 173 percent in year five. In the low case, which was the case chosen for estimating the Project's employment and income impacts, operating costs were reduced significantly to reflect the smaller portfolio size. Even so, loan charges on the order of 5.5 percent monthly are needed to get the program into the black.

In conclusion, potential market size is a critical factor for the success of the micro credit programs in secondary cities. The Cooperative Agreement recipient will have to conduct a careful survey of the microenterprise population in each targeted city to determine whether and under what conditions a credit program should be administered there. Assuming that the populations are of the size indicated in the preliminary surveys conducted earlier, or larger, the programs should be financially feasible. If the populations are somewhat smaller (on the order of the medium case tested), program variables could be adjusted within reasonable bounds to make the program viable. Neither would the inability of the program to make a significant market penetration (the low case) be disastrous, if the program could keep its administrative costs and bad debt rates low. As a final note, the importance of the initial operating subsidy and capital donations should be mentioned. Even in the best of cases, without this subsidy, the program will never achieve 100 percent self-sufficiency. On the basis of this analysis, a reasonable expectation is that, by the end of the Project (approximately three years after start-up), the new micro credit programs should have achieved, on average, 70 percent of financial self-sufficiency.

## 2. INSOTEC

The financial analysis of INSOTEC is favorable. A review by both the Mission financial analysts and an independent audit firm found INSOTEC's accounting procedures to be consistent with generally accepted accounting practices. INSOTEC's financial statements at end-of-year 1984 showed a satisfactory debt-to-equity ratio (0.79:1). INSOTEC's liquidity situation weakened in 1984 due to the purchase and financing of fixed asset acquisitions (office space expansion and office equipment). However, the situation improved in 1985 and the fixed assets will strengthen INSOTEC's balance sheet in the future, particularly if inflation runs high.

## 3. CIPTE

CIPTE's financial management system is rudimentary. It is in the process of being computerized which should facilitate management of the substantial resources to be provided under the Project. Internal controls, such as the separation of bookkeeping and cashier

functions, voucher approval procedures, and certification of financial statements, need to be tightened up before A.I.D. funds are recieved. It is also recommended that an independent review of CIPTE's systems and books be conducted. A preliminary review indicated that CIPTE's financial situation is strong, due to sound, conservative financial managment practices including good cost containment, minimum debt financing, and investments in real estate.

CIPTE will be responsible for channeling the "mini" grant funds to selected representational organizations. CIPTE will have to verify the adequacy of those organizations' financial management systems before disbursing the funds. It is expected that CIPTE will obtain external professional assistance to make those verifications.

### C. Economic Analysis

The economic analysis of the Project (see Annex III.B.) focuses on the credit and technical assistance delivery components. These components account for the bulk of the Project resources and can be expected to produce direct, measurable, firm-specific economic impacts. The third component, representational services, should also have economic impacts, but of a more general and diffuse nature that is difficult to specify a priori. Therefore, that component is excluded from the analysis.

With regard to the credit component, a formal cost-benefit analysis of the new micro credit programs was possible on the basis of data available on the economic impacts of three ongoing programs: FEE, FED, and the microenterprise operations of FOPINAR. These data are summarized in the table below.

SUMMARY OF ECONOMIC IMPACTS OF  
THREE MICRO CREDIT PROGRAMS  
(1984-85)

<u>Program</u>	<u>Annual Real Change in Value Added*</u>	<u>Annual Real Change in Per Capita Income**</u>	<u>Annual Average Change in Full- Time Employment per Firm/Year</u>
FEE-Microenterprises	+ 94%	+ 88%	+ 0.90
FEE-Solidarity Groups	+ 35%	+ 11%	+ 0.16
FED-Microenterprises	+ 46%***	+ 9%	N/A
FED-Solidarity Groups	+ 26%***	+ 26%	N/A
FOPINAR-Microenterprises	+ 99%	N/A	+ 0.91

\* Measured as value added (sales less cost of inputs plus net change in assets) in last month of the 12-month period (Month 12) divided by value added in the same month of the previous year (Month 0).

\*\* Measured as annual per capita income during the 12-month period divided by the estimated per capita income for the previous 12-month period.

\*\*\* The calculation of value added for FED excludes net changes in assets.

N/A - Not available.

Two caveats should be mentioned with regard to these data. First, there are no control group or "before intervention" data for comparative purposes to isolate the effects of the three credit programs. It can be noted, however, that during 1985 (the year which most closely coincides with the three separate data sets), overall GDP in Ecuador grew by 3.75 percent and the services sector by three percent, while the industrial sector declined by 1.84 percent. Thus, the growth rates observed in the three credit programs are well above the general rate of economic growth. Second, these observations may be influenced by complementary technical assistance provided by the programs. The FEE provides more intense technical assistance than the FED, which may account in part for the higher FEE impacts, although it must also be recalled that the FED data exclude net changes in assets. In conclusion, although the data are less than perfect, they do indicate that the micro credit programs do have a significant positive economic impact.

These results have several important implications. First, the substantial, real increases in value added point to the high marginal productivity of capital in these firms which have historically faced a severe credit constraint. These high returns to capital (including working capital) help explain why the FEE and FED clients have, in general, been able to repay their loans at the relatively high rates charged by those programs. Thus, the new micro credit programs should not be hesitant about charging similarly high interest rates and fees. Second, micro credit programs do have a positive impact on beneficiary income, although the impact varies widely among the programs. Finally, the programs also have a significant employment generation impact at the microenterprise level, while the employment effects at the solidarity group level appear to be marginal. This is not surprising. The microenterprises in these programs tend to be involved in production activities and, in order to expand production, more employees are required. Solidarity group members, on the other hand, are largely engaged in commerce and can easily increase their volumes of purchases and sales without significantly increased labor inputs.

The cost-benefit analysis was conducted for a prototypical, new micro credit program. Benefits were measured as the net increment in value added resulting from the program. The annual increments in value added were derived from the FEE data which are the most complete. Costs included estimated operating costs, fixed asset investments, credit funds, and the costs of external technical assistance to be provided under the Project. Two extreme cases, which correspond to the high and low membership cases developed for the financial analysis, were analyzed. The analyses were run for a period of five years at a discount rate of 10 percent. The following key assumptions were made:

(a) The real net growth in value added observed for the FEE clients is assumed to be entirely attributable to the credit programs. As noted above, the data do not permit isolation of the credit impact. It is likely that the FEE clients would have experienced some real growth even without the credit program, and that the incremental value added figures used for this cost-benefit analysis are therefore overstated. On the other hand, if it is assumed that, in the absence of the credit program, the microenterprises would have expanded at the same rate as the general economy during that period, the overstatement of value added is not great. The sensitivity analysis examines the impact of lower value added increments.

(b) It is assumed that that firms which stay in the program for more than one year achieve the same increments in value added in subsequent years. In fact, if a firm does not increase its productive capacity (fixed assets and employment) and if there is limited space for market growth, that firm may not be able to continue to expand at the same rate. On the other hand, if the above conditions are reversed, the rate of expansion could be maintained or increased. In the absence of more specific information, the stated assumption appears reasonable, at least for the two or three years maximum that a firm would be expected to remain in the program.

(c) It is assumed that there are no benefits in the first year of the Project. This may be conservative. Some programs could initiate operation within the first year.

The cost-benefit analysis yields a discounted benefit/cost ratio of 1.77 for the low case and 3.00 for the high case. The sensitivity analysis shows that, in the low case, benefits would have to fall to roughly 60 percent of the observed FEE levels before costs exceed benefits. In the high case, benefits could fall as low as 33 percent and the program would still be economically justifiable.

A quantitative analysis of the technical assistance component could not be conducted for lack of data. Neither INSOTEC nor other Ecuadorean organizations providing technical assistance to SSEs have measured the economic impacts of that assistance. As an alternative approach to the economic analysis, a literature review of technical assistance interventions covering 23 studies and some 14 developing countries was undertaken. The results are mixed and sometimes not definitive due, again, to the absence of adequate evaluation systems. They do suggest, however, that well designed programs can be justified on a cost-benefit basis. Critical design features appear to include: specialized and properly targeted assistance; trainers who are competent in the areas they teach; representation by recipients in the management of the program; and charging of market based fees for services as a test of their usefulness. The proposed program through INSOTEC incorporates all of these features.

One technical assistance program, in Panama, for which good evaluation data do exist shows highly positive results: a 17 percent increase employment, a 30 percent increase in sales, and 26 percent rise in total assets. Another indication of the possible benefits of technical assistance is found by comparing the FEE and FED micro credit programs. As noted above, one important difference in the programs is the greater attention which the FEE has given to collateral technical assistance for its credit clients. This may help account for the larger increases in value added attained by the FEE beneficiaries, as shown above.

In short, the INSOTEC program, as designed, should avoid many of the problems which have hampered SSE technical assistance programs elsewhere. With these features in place, there is good reason to expect that, in addition to meeting felt needs in the SSE sector, the INSOTEC program will produce positive economic benefits.

#### D. Summary Institutional Analysis

The Institutional Analysis (see Annex III.C.) examines the two Ecuadorean implementing agencies identified at this time, INSOTEC and CIPTE, and discusses various considerations in selecting local organizations to administer the new micro credit programs. This section summarizes that analysis.

##### 1. Institute for Socioeconomic and Technological Research (INSOTEC)

INSOTEC was selected to implement directly the Technical Assistance Services component based on a survey of SEE technical assistance providers in Ecuador conducted as part of the sector study for this Project, followed by in-depth analyses of the principal institutions identified. The selection of INSOTEC was justified in the PID for the following reasons:

- o INSOTEC is the principal private organization now providing technical assistance to SSEs in Ecuador, as well as performing related research and training. INSOTEC's approach places strong emphasis on the development of institutional and human resource capacities to deliver the assistance, which closely coincides with the strategy of this component.
- o INSOTEC has an established relationship with many small industry and some artisan associations, which will facilitate the technical assistance activities.
- o INSOTEC has demonstrated its capacity to mobilize financial and human resource support from a variety of internal and external sources, thus helping to ensure that the technical assistance services developed under the Project can be expanded and replicated.
- o INSOTEC has shown a strong interest in expanding its technical assistance program.

INSOTEC was established in 1980 as a nonprofit organization, largely at the initiative of a group of small industrialists and technicians and researchers linked to the SSE sector. INSOTEC consists of 15 full time employees distributed among management and staff functions and two program divisions: the Center for Small and Medium Enterprise Development (CEDEPI) and the Center for Educational and Behavioral Research (CIEBC). The two divisions work closely together to implement a variety of activities in support of small and medium enterprise, including: organizational development of national and provincial small industry associations and artisan groups; sectoral surveys and needs assessments; technical assistance; and publication of technical manuals.

INSOTEC's approach to providing technical assistance is to work through the national and provincial representational organizations, and develop their capacities to mobilize financial resources and to manage the technical assistance activities. In this way, INSOTEC seeks to strengthen the organizational capacity of the sector to broker services and participate in the policy process. For the technical assistance activities, INSOTEC often operates on a subcontracting basis, bringing in external resources to meet specific needs rather than building up a large, permanent, and costly staffing structure. This coincides with the consultant development strategy contemplated under the Project. INSOTEC also maintains a policy of charging fees for technical assistance services from the sponsoring organization and the individual enterprises. These fees vary from a nominal amount to about two thirds of actual costs. The remaining costs are covered by donations obtained from various sources, principally the German

Konrad Adenauer Foundation, as well as the Canadian Institute for International Development and other GOE and foreign donors. INSOTEC has developed a good reputation among beneficiaries and donors alike which helps to ensure that it will continue to receive substantial grant funding.

The technical assistance activities to be directly implemented by INSOTEC under the Project entail an annual infusion of A.I.D. resources equivalent to about twice the size of INSOTEC's current budget. On the other hand, staff will be increased by less than 100 percent (seven professionals and up to eight support personnel some of whom will be part time or temporary). This comparison clearly indicates the need for INSOTEC to increase the efficiency of its operations. This will be accomplished through both organizational and management changes.

Organizationally, INSOTEC has created a special project unit within CEDEPI. A director has been named from INSOTEC's existing staff to act as a Quito based link between INSOTEC management and the technical assistance activities in the field. Implementation will be decentralized, with an Operating Unit based in Santo Domingo and local technical consultants in the other secondary cities. This structure, coupled with the delegations of management authority discussed below, will help ensure that decisions are made and resources delivered in a timely manner, while allowing close, constant oversight of the use of those resources. To ensure adequate accounting of the Project funds, INSOTEC has upgraded its administrative and accounting office by contracting an accounting firm to audit its systems and recommend improvements, and by installing a personal computer to automate its accounts as well as assist in tracking program activities. INSOTEC also plans to add a highly qualified Administrative/Financial Director who will be personally responsible for the Project activities.

The INSOTEC Executive Director will delegate considerable authority to facilitate implementation. The Operational Director based in Santo Domingo will be responsible for preparing the semiannual work plans and disbursement schedules. The Operational Director will also have authority to identify and select potential subcontractors to provide consultant and other services in the field and will issue contracting orders to the Administrative/Financial Director who will be authorized to execute the contracts. The Administrative/Financial Director will also procure commodities based on requests from the Operational Director, with the exception of petty cash purchases for which the Operational Director will have authority. This arrangement, although less decentralized than for contracting services, is reasonable given the relatively small number of commodity procurements contemplated and the availability of more suppliers in Quito. Finally, the Operational Director will have

authority to request disbursements of funds directly from the Administrative/Financial Director in accordance with approved disbursement plans.

2. Center for Educational Research, Planning, and Technology (CIPTE)

As noted above, a central feature of INSOTEC's approach to assisting the small and medium enterprise sectors is to work through and strengthen representational organizations. In principle, therefore, it would have made sense to assign INSOTEC direct responsibility for implementing the Representational Services component, in addition to the Technical Assistance Services component. However, the Mission and INSOTEC agreed that the addition of the former component would unduly tax INSOTEC's administrative capacities. Instead, it was decided that INSOTEC would enter into a subgrant with another local organization which would manage the representational organization strengthening activities. The subgrant mechanism is appropriate, rather than a subcontract or separate A.I.D. grant. A subcontract would entail a significant degree of INSOTEC involvement, which would partially defeat the purpose of using a separate organization. On the other hand, a separate A.I.D. grant would make it difficult for INSOTEC to share with the implementing organization its valuable experience and contacts with SSE representational organizations. The expected forms of INSOTEC collaboration through the subgrant mechanism are discussed below.

Based on survey work done for the Project baseline studies and further discussions with INSOTEC, two private, nonprofit organizations (CIPTE and the Equatorial Technological University) and one consulting firm were identified as being qualified. The nonprofit organizations were preferred because of the greater likelihood that they would institutionalize the experience of the Project and continue to provide organizational strengthening services as part of their regular programs. Of the two nonprofit organizations, INSOTEC has proposed to execute the subgrant with CIPTE, for the following reasons:

- o CIPTE's experience is more directly relevant to the requirements of the Project. Its services are mainly in the areas of organizational development, motivational and leadership training, training of trainers, curriculum development, and project design, administration, and evaluation.
- o CIPTE has a closer working relationship with INSOTEC, thus helping to ensure fluid coordination.
- o CIPTE, which was formed in 1980, has a far more established track record than the alternative.

It should be noted that neither of the nonprofit organizations identified has much experience with the SSE sector. For this reason, the relationship with INSOTEC is considered all the more important.

CIPTE is small but well respected institution. The permanent staff numbers seven, including four professionals and three support personnel, and the budget to support that staff runs on the order of \$75,000 to \$100,000 per year. In addition, however, CIPTE has an advisory council consisting of a dozen professionals in a variety of fields who are brought into specific projects as needed and are funded by the resources available for those projects. This "project based" management structure allows CIPTE to maintain a larger program than its permanent staff and budget would suggest. It also allows the institution considerable flexibility in adjusting its program to new demands and opportunities, and, combined with CIPTE's modest physical facilities, results in low overhead. That is, CIPTE uses funds in a relatively efficient manner to produce its services.

The representational organization strengthening activities will be incorporated into CIPTE's administrative structure as any other project. The CIPTE executive director will provide general supervision and quality control. Given the magnitude of the Project activities relative to CIPTE's other programs, the executive director will spend one third of his time on the former alone. Supervisory responsibilities for day-to-day implementation will be delegated to a project coordinator. The coordinator will supervise the development of the organizational workplans, plan the training activities, develop and adapt training materials, train the field personnel, monitor implementation, and design and implement an evaluation system. The coordinator will supervise a team of approximately four promoters, based in the secondary cities. The promoters will have direct, continuing contact with the beneficiary organizations to identify training needs and organize training events, as well as provide direct technical assistance. CIPTE will also contract and train trainers to give specific courses to the organizations in such areas as organizational development, policy promotion techniques, methodology of adult education, and business administration. CIPTE may also contract consultants to provide specific expertise on organizational strengthening activities for the SSE sector. One possible source would be Fundación Carvajal. The project coordinator will be assisted by a financial/administrative director who will manage the Project funds (including the "mini-grants" to organizations), prepare contracts, procure commodities, and prepare financial reports. This director will probably be assigned full time at the outset but move to part time as systems are refined.

The Mission has identified three issues related to CIPTE's proposed staffing and management structure. First, although the degree of redelegation of authority appears adequate, there is some question regarding the appropriate degree of geographical decentralization. CIPTE proposes to station the project coordinator in Quito, rather than in one of the secondary cities, as in the case of INSOTEC. There is a stronger argument for CIPTE'S project unit to maintain a Quito presence, including the fact that the national federations to be assisted have their headquarters there and the need to use CIPTE's central facilities to develop and adapt training material. This issue will be further analyzed in the context of CIPTE's subgrant proposal preparation. Two options would be for the coordinator to move to the field after the initial materials development phase is completed, or for the coordinator to divide his or her time between Quito and the field.

Second, close attention must be paid to CIPTE's administrative capacity. In relative terms, the Project implies a larger growth in the level of activity for CIPTE than for INSOTEC, and CIPTE's administrative systems are clearly less developed. INSOTEC has offered to assist CIPTE in the design of improved administrative systems and procedures, and in other administrative matters. CIPTE will also acquire a microcomputer with Project funds to automate its financial accounts. CIPTE's capacity to absorb the growth in its program will be aided by the gradual start-up plan which includes an initial 6-12 month period of preparatory work (materials development, selection and training of field staff, etc.). A.I.D. will analyze this situation further and, if deemed necessary, will finance technical assistance during this start-up phase to strengthen CIPTE'S administrative capacity.

The third issue concerns the academic orientation of CIPTE's staff, a reflection of CIPTE's substantial involvement in education projects. To enable CIPTE to interact more effectively with the SSE organizations, the project coordinator and promoters should have extensive experience with the private productive sectors, preferably including small and medium enterprises.

Consistent with the concept of a subgrant relationship, INSOTEC's involvement in CIPTE's activities will be minimal, but designed to take advantage of the special expertise INSOTEC has to offer. At an administrative level, INSOTEC will review and have the opportunity to comment on CIPTE's operating plans, budgets, and reports, and will certify CIPTE's payments requests. However, to minimize complexity and delays, it is expected that A.I.D. will disburse funds directly to CIPTE. At a programmatic level, INSOTEC will assist CIPTE in selecting and developing contacts with representational organizations and has offered to share field facilities with CIPTE staff. In the area of technical assistance to

SSEs, INSOTEC could "upgrade" CIPTE's basic business administration training package to apply to its target firms. And, to the extent that the representational organizations seek to develop technical assistance service functions for their members, CIPTE could facilitate linkages to the INSOTEC resources. CIPTE can also assist INSOTEC's consultant development efforts by offering training in communications and nonformal education techniques, to complement INSOTEC's more technical training of the consultants.

### 3. New Micro Credit Programs

A survey was conducted of 17 organizations in four of the six cities targeted for the new micro credit programs. These organizations can be grouped into five categories: civic; gremial; training; religious; and savings and loan coops. The conclusion of the survey is that there exists sufficient institutional capacity to serve as a base for effective programs. However, no single organization appears to possess at this time the full range of characteristics which are the hallmarks of successful program administration.

Micro credit institutions by their nature require an unusual mix of social and financial objectives. The majority of micro credit programs in the world, including the FED and FEE programs in Ecuador, have begun with socially oriented institutions seeking to alleviate poverty. The main advantage these institutions offer is familiarity and good working relations with the client population. There are few examples of financial institutions initiating micro credit programs. Those which have done so because of strong leadership or a perception that micro enterprise lending is in their self-interest, generating potential markets for regular lending. A mixed institutional strategy has proven successful in several countries (e.g., Malawi, Botswana, Thailand). This strategy assigns promotion and outreach roles to a socially oriented institution which collaborates with an established financial institution. Its success depends on strong leadership, clearly defined roles, and mutual institutional respect.

The U.S. Cooperative Agreement recipient will perform a more in-depth assessment of the existing institutions and make a recommendation to A.I.D. regarding selection. Criteria which should be included in this decision include:

- o A close fit between the established goals of the institution and those of the micro credit program.
- o Institutional stability, including leadership stability, clarity of goals, and insulation from political interference.

- o Strong, unified leadership.
- o Financial management capacity.
- o Familiarity with the target population and a relationship of mutual trust and respect with that population.
- o Internal discipline, that is, the capacity to adopt unpopular measures (e.g., bad debt collections) and maintain the loyalty of staff and clientele.
- o Ability and willingness to provide financial or in-kind support from non-A.I.D. sources.

In the absence of organizations which fully meet all of these criteria, the Cooperative Agreement recipient will have to decide on the proper approach to take in a given city and then tailor programs of assistance that focus on the weaknesses of each individual organization (or mix of organizations).

#### E. Summary Social Analysis

The primary beneficiaries of the Project consist of: the owners/operators and employees of an estimated 11,000 microenterprises in secondary cities who obtain increased access to credit; 500 small enterprises (primarily levels 2 and 3) in secondary cities who receive technical assistance services; 200 individual consultants who improve their ability to deliver technical assistance services to SSEs; and 10 national and local representational organizations which are strengthened in their capacities to deliver services to members and to participate effectively in policy dialogue. The growth and increased productivity of the target group enterprises will indirectly benefit farmers and local firms which supply inputs and services to those enterprises, medium and large scale firms which in turn obtain inputs from those enterprises; and consumers in the target areas who will have access to increased quantities and quality of goods and services produced by SSEs.

The social analysis (see Annex III.D.) focuses on the technical assistance and credit components which have the most direct impact on individual SSEs, as well as certain cross-cutting issues.

##### 1. Technical Assistance Issues

- o Capital/labor bias of technologies. Due to the common perception of entrepreneurs that labor costs in Ecuador are high, there may be a tendency to demand technical assistance that helps the firm to increase productivity but which has negligible (or even negative) employment generation effects. As discussed in the

social analysis, INSOTEC has a strong social orientation and has focused its research and technical assistance activities on capital-saving technologies. Therefore, INSOTEC can be depended on to strongly promote appropriate forms of technological change. Also, the evaluation systems established by INSOTEC and for the overall Project will closely track the employment impact of the technical assistance interventions and indicate whether adjustments by INSOTEC are needed to improve the impact.

o Absorptive capacity. INSOTEC has traditionally directed its technical assistance activities to small industry at the upper end of the sector (level 3 and to some extent level 2). The type of technical assistance offered by INSOTEC has tended to be oriented to production technologies and requires a certain minimum level of sophistication, both in the firm (size, level of existing technology) and in the entrepreneur (education, technical skills). However, in the secondary cities targeted by INSOTEC, the SSE sector is characterized by a small proportion of firms at these levels, relative to INSOTEC's traditional markets (Quito, Guayaquil, Cuenca). Therefore, there is an issue as to the ability of the predominantly upper level 1 and level 2 firms in the target cities to absorb and make effective use of the technical assistance offered through INSOTEC. INSOTEC is aware of this potential difficulty and has adjusted its methodology to include a more intensive needs assessment process and more group activities which address general subjects of greater relevance to the smaller firms (e.g., cost accounting, basic concepts of administration and marketing, simple product designs). Also, through INSOTEC's subgrant with CIPTE, the latter will be available to assist INSOTEC to develop technical assistance delivery methodologies which are more effective with the smaller firms.

o Effective demand. The other side of the issue of absorptive capacity (i.e., can the enterprises technically utilize the technical assistance?) is the question of effective demand (i.e., do they want it and can they afford it?). At one level, the effective demand issue is one of attitudes. Small entrepreneurs in Ecuador, especially at the lower end of the spectrum, often lack confidence in the utility of technical assistance, whose investment value may not be as immediately perceived as that of credit. There is also a traditional resistance to change and perceived risk; small entrepreneurs in Ecuador tend to imitate, rather than innovate. To help overcome these attitudes, INSOTEC, in cooperation with local representational organizations, will have to undertake strong promotional efforts. The recent experience of FOPINAR in sponsoring technical assistance for SSEs has demonstrated that strong promotion can get owners/operators into the courses and that, once exposed to new ideas, they often want further assistance. INSOTEC's phased methodology, evolving from general, group training to more specific, individual assistance, should similarly facilitate gradual acceptance and increased demand for these services.

At another level, effective demand is simply a matter of capacity to pay. Years of heavily subsidized technical assistance from government agencies have nurtured an expectation that little, if any, fee will be charged. One objective of INSOTEC's program is to strengthen the concept of users fees and thus encourage entrepreneurs to analyze their technical assistance needs more carefully. Thus, INSOTEC will charge for its services although the fees will be geared to capacity to pay. This means that the fees will not always fully cover the costs of the technical assistance, especially for the smaller firms. Calculations included in the social analysis indicate that the latter firms could afford a large share of the financial costs of group level assistance but not the more specific, individual assistance. Consideration must also be given to the opportunity costs of taking time off from work for training. These costs will be higher for the entrepreneur from a level 1 or 2 firm who plays many roles in the firm (manager, accountant, laborer, buyer, seller) than for the owner of a larger enterprise.

In the event that, despite INSOTEC's best efforts, the absorptive capacity and effective demand conditions in the target cities are found to be resulting in less than desirable diffusion of the technical assistance services, consideration will be given to switching INSOTEC's activities to other locations.

## 2. Credit Issues

The main social issues identified in the credit component involve the feasibility of graduation of microenterprises to the formal credit system. The analysis recognizes that banks' acceptance of graduating firms is a critical element for success and that loan guarantee mechanisms have a potentially useful role to play in providing banks with incentives. However, there is a question of whether the CGC guarantee mechanism supported under the Project would reach the intended target group. Since the provincial CGCs will be sponsored and partly financed by the small industry chambers, access to the guarantees could, explicitly or implicitly, be restricted to chamber members. Most of the chambers are comprised by firms at the upper end of the SSE scale. Smaller, graduating firms may encounter barriers to membership (dues, high opportunity costs, bureaucratic opposition) or may simply perceive the chambers as not representing their interests. A second question is whether the CGC model, even if it proved successful in Quito and Cuenca, could be replicated in the secondary cities where the Project supported micro credit programs operate and where there will be a need for financial bridge mechanisms. The chambers in the secondary cities tend to be small and administratively weak, and may be unable to assume the responsibilities of a CGC. The Mission recognizes these potential weaknesses in the CGC model and, partly

for this reason, has decided not to finance a major intervention at this time. The limited A.I.D. financed technical assistance to the CGC technical team will, however, help ensure that these issues are closely examined during the formative period, when adjustments in the model can still be made.

From another angle, graduation can be impeded if microenterprises develop an overdependence on the micro credit institution. This can occur if, as is the case with the FEE to some degree, the institution grows to provide services other than credit (e.g., social organization; marketing assistance). While these additional services may be useful, they could foster a psychological dependence as well as detract from the institution's efficiency and integrity as a credit facility. To deal with this issue, the Mission will carefully assess the methodologies for selecting the micro credit institutions and for developing the programs, as proposed by the U.S. PVOs, to ensure that the institutions maintain their focus on credit and provide adequate incentives and preparation for clients to graduate.

### 3. Cross-cutting Issues

Two cross-cutting issues involve the impact of the Project on women and migration. Women have high participation rates in the SSE sector, especially in microenterprises. There are several concerns which must be satisfactorily addressed to ensure that firms owned/operated by women benefit to the same degree as those of men. First, both the technical assistance and credit components should encourage women's involvement in businesses other than those which are traditionally female dominated (e.g., clothing, food processing) and which generally have lower earnings. Second, efforts to promote the participation of women in the technical assistance and credit activities should take into account the fact that women often have less access to public information than men and may be discouraged by male members of their households from developing their own businesses. In addition, the multiple roles of the women in the household (housekeeper, mother, economic supporter) may restrict the amount of time or distance that she can be away from the home for technical assistance (and possibly credit) activities. Third, the educational levels of women tend to be lower than men. Therefore, technical assistance methodologies and manuals and credit application procedures should be adjusted accordingly. Finally, women owned/operated enterprises, on average, have fewer assets than those of men, which argues for continuation of the solidarity group or similar mechanism for providing loan guarantees. The Request for Applications for the U.S. Cooperative Agreement specifically requires that methods and resources for dealing with these issues in the credit component be included in the applications. Also, as noted previously, INSOTEC plans to contract an advisor to work exclusively on increasing women's participation in the technical

assistance activities. The monitoring and evaluation systems set up under the Project will incorporate appropriate indicators and collect sex-disaggregated data which will allow measurement of female participation and benefits. The Mission intends to obtain specialized evaluation assistance from the International Council for Research on Women (ICRW) to ensure the adequacy of these systems.

Typical of many developing countries, Ecuador has experienced during the past decade or longer a high degree of step-wise migration, with people moving from rural areas to secondary cities and from the latter to the major urban areas of the country. By targeting activities in secondary cities with high population (including in-migration) rates and providing more jobs and better incomes there, the Project should help stem the flow of people toward Guayaquil and Quito. On the other hand, an unintended effect of the Project could be to attract increasing numbers of migrants from the rural areas to the secondary cities, thus aggravating the already sharp rural-urban inequities in Ecuador. The possibility of this phenomenon should be closely monitored and, if it appears that the Project activities are drawing people from the rural areas, consideration should be given to extending the activities, especially the credit programs, to rural enterprises in the regions surrounding the secondary cities.

#### F. Environmental Considerations

The PID recommended a categorical exclusion for the Project from A.I.D.'s environmental impact analysis procedures. The LAC Chief Environmental Officer concurred in this recommendation on April 11, 1986. Annex III.E. contains the environmental decision documentation.

## V. IMPLEMENTATION ARRANGEMENTS

### A. Pre-implementation Activities

In order to speed up Project implementation, the Mission has taken several pre-implementation actions during the intensive review period. First, shortly after PID approval, the Mission requested that INSOTEC begin drafting its application. The Mission, with assistance from technical advisors, has reviewed and provided detailed, critical commentary on a series of drafts. As a result, the application has evolved to a stage which the Mission considers adequate for negotiating and awarding the Cooperative Agreement immediately following Project authorization. This process has included the participation of CIPTE for the representational organization strengthening activities which it will implement through a subgrant relationship with INSOTEC.

Second, the Mission, with assistance from the Regional Contracting Officer, developed the Request for Applications for the Cooperative Agreement for the credit component. The RFA was sent to 15 U.S. nonprofit organizations with experience in small enterprise development identified by S&T/RD/ESE. A conference of prospective applicants was held in Washington in June. The closing date for receipt of applications is August 31, 1986.

Third, the Mission advertised locally for the Project Coordinator position. Some 20 expressions of interest were received and evaluated. Negotiations will proceed after the Project is authorized and funds become available.

Finally, the Mission has discussed the evaluation component with the AID/W project offices for the ARIES Project and the PPC/WID-ICRW contract, and has received a preliminary joint proposal as well as indications from PPC/WID of its willingness to jointly fund the ICRW activities. The details of the evaluation services will be firmed up after an initial reconnaissance visit by ARIES and ICRW representative early in the Project.

### B. Project Schedule

The target dates for key Project implementation actions are as follows:

#### Start-up actions

Project Paper approved and  
Project authorized

July 30, 1986

INSOTEC Cooperative Agreement signed (initial obligation)	July 31, 1986
Project Coordinator contracted	September 1986
Cooperative Agreement with U.S. PVO signed	October 1986
<u>Credit Component</u>	
Cooperative Agreement recipient sets up in-country operations, assesses ongoing micro credit programs, selects local implementing institutions, conducts surveys of SSEs in secondary cities, and assists in development of work plans for each local institution	November 1986 - July 1987
Cooperative Agreement recipient signs subagreements with local micro credit institutions and begins assistance to individual micro credit programs	June 1987 - January 1988
<u>Technical Assistance Component</u>	
INSOTEC contracts project personnel, establishes field operations, and initiates search for technical assistance providers	September - December 1986
Organization of SSEs in secondary cities initiated	January 1987
Technical assistance to SSEs initiated	April 1987
<u>Representational Services Component</u>	
INSOTEC executes subgrant with CIPTE	September 1986

Evaluation

Process	August 1988
Final	November 1989
<u>PACD</u>	December 31, 1989

C. Administrative and Procurement Responsibilities

The Project will be implemented by a number of private entities. This is in keeping with Agency policy that, to the extent practical, assistance to the private sector should be provided through private sector channels. Thus, the Mission does not consider it appropriate to attempt to obligate Project funds through an agreement with the GOE. Nor does the Mission believe that all of the funds should be obligated to one of the private implementing agencies since the scopes of their respective activities are limited and largely exclusive of one another. On the other hand, the Mission recognizes the need to reduce administrative complexity and increase flexibility in the management of A.I.D. funds, and therefore has sought to keep the number of obligating documents to the minimum necessary. Three obligating documents are proposed: the INSOTEC Cooperative Agreement; the Cooperative Agreement to a U.S. PVO or consortium; and the contract for the Project Coordinator.

The Mission will request an ad hoc redelegation of authority to sign the INSOTEC Cooperative Agreement. In addition to the activities contemplated under the Technical Assistance Services component to be implemented directly by INSOTEC, the Cooperative Agreement will include the A.I.D. funding for the Representational Services component, the Small Enterprise Advisory Board, and the overall Project evaluation. Inclusion of each of these elements in the Grant is deemed appropriate from the standpoint of INSOTEC's institutional structure and program. INSOTEC's methodology for providing technical assistance to SSEs is based on first developing the capacity of provincial and local representational organizations to provide services to their members. Thus, INSOTEC has considerable experience, contacts, and expertise in the area of strengthening SSE representational organizations. However, the Mission and INSOTEC agreed that it would be counterproductive to assign INSOTEC the responsibility of directly implementing the representational strengthening of the Project. Rather, INSOTEC will execute a subgrant with CIPTE and will provide general guidance during implementation. Similarly, INSOTEC has conducted extensive research on policy and other issues affecting SSEs and has considerable experience in developing and applying evaluation methodologies in the sector. These were major factors in the decision to subcontract INSOTEC for the local applied research phase

of the A.I.D. centrally funded Entrepreneur and Small Enterprise Development Project. INSOTEC will use funds from the Cooperative Agreement to subcontract local consultants for the policy studies. Given the fact that the Project evaluation services are to be obtained through AID/W central contracts, the Mission intends to procure these services directly with the funds provided under the INSOTEC Cooperative Agreement. Finally, the Mission has proposed that INSOTEC serve as secretariat to the Small Enterprise Advisory Board in view of INSOTEC's broad knowledge of the SSE sector and strong links to both private and public institutions involved in the sector. Therefore, INSOTEC will administer the A.I.D. funds for Advisory Board expenses, including procurement actions and direct disbursement of funds. The Mission has consulted with the RCO regarding these proposed Cooperative Agreement administration procedures.

Under the INSOTEC Cooperative Agreement, the Mission will reserve the right to prior approval of key personnel and their deployment in the field, semiannual work plans, changes in the secondary cities where the activities are implemented, the CIPTE subgrant, and the selection of representational organizations.

The U.S. Cooperative Agreement will be negotiated and executed by the RCO. A.I.D. will retain the right of prior approval of key actions under the Cooperative Agreement, including the selection of long term, in-country personnel, selection of local implementing institutions for the new micro credit programs, and workplans. In addition to providing technical support services, the Cooperative Agreement recipient will administer A.I.D. funds for initial operating expenses of the new micro credit programs and for the CGC technical team. It is expected that the recipient will enter into subagreements with the micro credit institutions and the CGC technical team which will establish budgets, terms, and conditions for use of the A.I.D. funds, and procurement and disbursement procedures. A.I.D. will also give prior approval to these subagreements.

The amount of the long term personal services contract for the Project Coordinator is expected to be within the \$250,000 approval authority of the Mission Director. Otherwise, the contract will be executed by the RCO.

Annex V contains the Methods of Implementation and Financing analysis required by A.I.D. Payments Verification Policy.

At this time, the Mission foresees one contract with an 8(a) firm, ICRW, for an estimated amount of \$100,000.

#### D. Monitoring and Audit

The Mission's Private Sector Development Office (PSD) will manage the Project. The office currently consists of the chief, an assistant project officer, a part time agribusiness advisor, and a secretary. The PSD portfolio include the Nontraditional Agricultural Exports Project (\$6.4 million) and several OPGs. In addition, the Office is actively developing an investment promotion add-on to the exports project scheduled for authorization in the first quarter of FY-87 and a major Capital Markets Project scheduled for obligation in the third quarter of FY-87.

These circumstances limit the extent to which PSD staff will be able to manage the Project directly. The contracting of a Project Coordinator under the Project is intended, in part, to provide the needed monitoring. The Coordinator will be responsible for keeping in close touch with all Project activities at the field level and bringing to the attention of the PSD chief any major implementation problems which require the latter's attention. PSD will also receive quarterly progress reports from the various implementing agencies. These reports will include data on key output and purpose level indicators which are tracked under the evaluation system, thus facilitating Project management. Finally, the meetings of the Advisory Board will provide the PSD staff with the opportunity to review progress and discuss problems directly with the main participants. The Mission believes that these arrangements will allow the PSD to monitor the Project effectively.

A overall end-use audit of the Project will take place at the end of Project implementation. It will be conducted by a local firm using Project funds (from the contingencies line item). In addition, the U.S. Cooperative Agreement will include funds for audits of the new micro credit programs. These audits will be scheduled by the Cooperative Agreement recipient, in consultation with A.I.D., on an as-needed basis.

#### E. Proposed Waiver

Under the INSOTEC Cooperative Agreement, both INSOTEC and CIPTTE will require access to advisors and training materials of successful SSE technical assistance and organizational strengthening programs elsewhere in Latin America and the developing world. In addition, there is a possibility that the U.S. Cooperative Agreement recipient may wish to subcontract an organization from a Latin American country other than Ecuador which has experience in implementing micro credit programs.

Both Cooperative Agreements are covered by Handbook 13. Pursuant to Handbook 1B, Section 5Ald(1)(d), Handbook 13 type agreements with a total procurement element in excess of \$250,000 have as their

authorized source, origin, and nationality Geographic Code 000 (U.S.). Therefore, waiver to Geographic Code 941 (Selected Free World) would be needed.

However, at this time, it is not possible to specify the nature, suppliers, or costs of the goods and services to be procured from Code 941 countries. Therefore, individual waivers, with full justifications, will be executed on a case-by-case basis.

INS-457-86

Quito, 16 de julio de 1986

Señor  
Gerald Wein  
Director Encargado  
USAID  
Presente

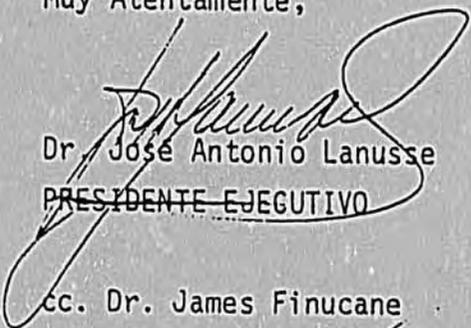
De nuestras consideraciones:

La presente tiene por objeto oficializar ante usted nuestra solicitud para que USAID financie mediante una donación el Proyecto "DESARROLLO DE LA PEQUEÑA EMPRESA EN ECUADOR", que fuera presentado a consideración de la oficina del Sector Privado de USAID en la persona del Dr. James Finucane el 25 de junio pasado.

El monto de la donación es por la suma de US\$.1.533.444,00 que engloba el monto del Proyecto de asistencia técnica a la pequeña industria y el Proyecto de fortalecimiento gremial a la pequeña industria, artesanía y pequeños comerciantes.

Agradeciéndole desde ya la atención que sepa dispensar a la presente, aprovechamos esta oportunidad para saludar a usted.

Muy Atentamente,

  
Dr. José Antonio Lanusse  
PRESIDENTE EJECUTIVO

cc. Dr. James Finucane  
Randall Roeser ✓

JAL/lc

"Por una sociedad y una técnica a la medida del Hombre"



CENTRO DE INVESTIGACION  
PLANIFICACION  
Y TECNOLOGIA EDUCATIVAS

CARTA DE INTENCION

0. DATOS DE IDENTIFICACION:

PRESENTADO A: A.I.D., Misión en Quito, Ecuador

PRESENTADO POR: Centro de Investigación, Planificación y Tecnología Educativas  
C.I.P.T.E.

SOBRE: Participación de C.I.P.T.E. en la ejecución del Componente "Fortalecimiento Institucional" del Proyecto de apoyo a la Pequeña Empresa, dirigido a la Pequeña Industria, a la Artesanía Productiva y Utilitaria, y a Pequeños Comerciantes minoristas.

FECHA: Veinte y cinco de Junio de mil novecientos ochenta y seis.

1. ANTECEDENTES:

La Agencia Internacional de Desarrollo (A.I.D.), Misión en Quito, Ecuador, desea apoyar al Subsector de la Pequeña Empresa Privada del Ecuador, para mejorar los ingresos y generar puestos de trabajo.

El C.I.P.T.E. presenta esta carta de intención, relacionada con uno de los componentes del Proyecto, y con el trabajo conjunto que ejecutará con I.N.S.O.T.E.C., encargada del otro componente del Proyecto.

2. DESCRIPCION DEL C.I.P.T.E.:

.1 Naturaleza del C.I.P.T.E.

El C.I.P.T.E. tiene personería jurídica como consta por el Acuerdo Ministerial N° 22656 del 10 de Diciembre de 1980, publicado en el Registro Oficial N° 340 del 18 de los mismos mes y año. El C.I.P.T.E., una entidad de derecho privado con finalidad social no lucrativa, ha venido apoyando al cambio cualitativo y tecnológico de la formación, capacitación y perfeccionamiento de los recursos humanos que necesita el país.

2.2. Líneas de Acción de C.I.P.T.E.:

El C.I.P.T.E. ha venido ofreciendo sus servicios a través

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de los siguientes canales:

- a. Investigación: por medio de los productos de la Red Latinoamericana de Información y Documentación en Educación de la cual es el centro ecuatoriano;
- b. Asesoría a unidades formativas en lo administrativo y en lo académico;
- c. Seminarios y cursos taller de capacitación y perfeccionamiento a directivos, administrativos y ejecutores de procesos de formación de recursos humanos.
- d. Diseño y creación de materiales instruccionales.
- e. Al haber venido trabajando con adultos, el C.I.P.T.E. ha creado y probado una metodología apropiada para, a través de seminarios, cursos y talleres, permitir y asegurar el desarrollo de competencias específicas para la resolución de problemas en campos determinados, y para la ejecución eficiente de las tareas propias de trabajos cuyo perfil se establece previamente. Esta metodología permite ligar los procesos de formación, capacitación y perfeccionamiento de recursos humanos con las necesidades de la demanda ocupacional.

.3 Actividades realizadas:

Aunque estamos convencidos de que lo que diferencia a las instituciones es su capacidad de resolver problemas nuevos, y de transferir sus competencias a campos similares y aun distintos de aquellos en los que incursionó antes, presento a continuación el camino recorrido por C.I.P.T.E..

- a. Listado cronológico de actividades: Ver Anexo 1
- b. Actividades realizadas que se relacionan más directamente con el proyecto:

ACTIVIDAD	BENEFICIARIOS	LUGAR Y FECHAS
- Elaborar Plan quinquenal Asesoría	Federación Nacional de Cooperativas de Ahorro y Crédito, F.E.C.O.A.C.	Quito: Marzo 17 a Abril 4 de 1986
- Taller sobre Motivación Liderazgo, Organización	Ejecutivos de Cooperativas de Ahorro y Crédito.	Guayaquil: 24 a 26 de Abril de 1.986
- Taller: Programación,	Ejecutivos de Coope	Guayaquil: 24 a 26 de Abril



ACTIVIDADES	BENEFICIARIOS	LUGAR Y FECHAS
Manejo de Grupos, Evaluación, Construcción materiales instruccionales audiovisuales.	rativas de Ahorro y Crédito.	de 1.986
- Taller sobre técnicas de comunicación	Capacitadores de Cooperativas Agrícolas: Instituto Ecuatoriano de Formación Social.	Quito: 4 a 8 de Noviembre de 1985
- Desarrollar organizacional y Plan Institucional: Taller	Directivos de la Unidad Educativa "Gevallos"	Ambato: 9 a 13 Septiembre de 1.985
- Administración y evaluación escolares	Ministerio Educación: Rectores de Colegios	Ibarra: 17-22 Mayo 19-30 Marzo de 1.984
- Planificación institucional.	"	Ibarra: 2 a 6 Abril de 1.984
- Desarrollo institucional	Dirección Provincial de Educación de Pichincha	Quito: Enero 3 a Febrero 11 de 1983
- Integración personal e iniciación cooperativista.	Cooperativa de Producción Téxtil "Jessica"	Quito: Abril 21, Mayo 8, 15, 22 de 1982
- Desarrollo comunitario	Grupos de trabajadores, pequeños comerciantes, Sector "El Camal" y "Ferroviaria".	Quito, Anecoramiento continuo.
- Elaboración de un modelo de administración financiera de Escuelas.	Contratado por UNESCO-OREALC.	Julio-Septiembre de 1985
- Estudio evaluativo del Plan Formativo de Facultades Ecuatorianas de Ciencias Agropecuarias.	Contratado por Fundación "Olmedo" para A.I.D.	Enero a Junio de 1985



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3. COMPONENTES DEL PROYECTO:

Tres componentes conforman el Proyecto en mención:

- .1 Asistencia técnica dirigida principalmente al pequeño industrial y a los artesanos con estilos y líneas de producción de tipo pequeño industrial. De este componente, que se relaciona con el tercero, se ha encargado I.N.S.O.T.E.C.
- .2 Promoción de mecanismos e instituciones de crédito orientados a las empresas más pequeñas del proyecto.
- .3 Fortalecimiento Institucional orientado a desarrollar y consolidar institucionalmente a los gremios: Cámaras y Núcleos de Pequeños Industriales, Federaciones y Asociaciones de Artesanos, Organizaciones de Pequeños Comerciantes generalmente afiliados F.E.N.A.C.O.M.I.

Este tercer componente tiene, a su vez, tres campos o áreas de acción:

- a. Fortalecimiento organizativo, dirigido a las organizaciones de las ciudades secundarias pre-seleccionadas y a las Fed raciones Nacionales; busca fortalecerlas organizacionalmente por medio de seminarios de motivación y de organización, ofrecidos a dirigentes y miembros activos de los organismos locales y nacionales.
- b. Fortalecimiento de los servicios que prestan las organizaciones gremiales a sus miembros, en lo representativo y en lo operacional. Esto implica organizar los servicios y capacitar al personal que los prestará.
- c. Fortalecimiento gerencial y administrativo, por medio de cursos ofrecidos al personal directivo y administrativo de las organizaciones locales y nacionales, empresarios y mandos medios.

4. PLANTEAMIENTO DE C.I.P.T.E.:

- .0 El Centro de Investigación, Planificación y Tecnología Educativas C.I.P.T.E. está interesado y en capacidad de encargarse del Tercer Componente y de sus tres áreas de acción. El C.I.P.T.E. puede, pues, responsabilizarse de la elaboración del proyecto, de su ejecución y de su evaluación interna. El C.I.P.T.E.

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está interesado, además, en formalizar la experiencia, y en estudiar las condiciones de su transferencia a otras situaciones socio-económicas similares.

4.1 Lineamientos Generales de acciones:

- .11 Selección de beneficiarios del programa, según criterios previamente estudiados que considerarían las siguientes variables entre otras:
  - a. Ubicación geográfica permanente.
  - b. Constitución legal
  - c. Dirigencia legalmente nominada y en actividad
  - d. Número de miembros que justifique el ser beneficiario del proyecto. Se considerará:
    - Número total de miembros
    - Número total de miembros activos
    - Potencialidad de crecimiento de sus miembros.
- .12 Desarrollo de Seminarios de motivación con dirigencia y membresía de organizaciones para dinamizar a las organizaciones y para detectar necesidades para priorizar acciones de capacitación y de servicios.
- .13 Selección y entrenamiento a capacitadores por un lado y a los promotores que desarrollarán su acción en las ciudades secundarias preseleccionadas.
- .14 Estudio de los diseños instruccionales de la Fundación "Carvajal" adaptación y/o formulación de los mismos, y elaboración de otros diseños instruccionales exigidos por la situación ecuatoriana.
- .15 Cursos de capacitación en gestión administrativa ofrecidos a unidades de producción y pequeños comerciantes. Estos cursos se desarrollarán bajo la coordinación de los promotores locales, quienes harán luego el seguimiento, refuerzo y evaluación de resultados (Fortalecimiento gerencial y administrativo).

Estos cursos utilizarán la experiencia de la Fundación "Carvajal" y tratarán los siguientes temas, entre otros, según las necesidades:

- Principios de contabilidad
- Costos



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- Proyectos
  - Administración de personal
  - Producción
  - Administración de negocios
  - Análisis financiero
  - Mercadeo
  - Control de calidad
  - Ventas
  - Legislación e incentivos
- .16 Cursos de capacitación en planificación, organización, dirección, comunicación, legislación, visión macroeconómica, cabildeo, formulación de proyectos, etc. Estos cursos serán ofrecidos especial, pero no exclusivamente, a la dirigencia de los gremios. Los promotores locales coordinarán los cursos, harán el seguimiento y evaluación de resultados (Fortalecimiento organizativo).
- .17 Los servicios que puede ofrecer una organización gremial a su membresía serán eficientes en tanto y en cuanto estos sean el resultado de un proceso que cubra las siguientes etapas:
- Identificación de necesidades, oportunidades o alternativas de servicios.
  - Formulación de proyectos.
  - Evaluación de costos y beneficios para el oferente del servicio y para el usuario.
  - Implementación.

5. RECURSOS HUMANOS:

Puesto que ésta es una carta de intención, no adjuntamos aún ni la programación detallada de actividades y tiempos, ni el dimensionamiento de los recursos requeridos, ni la distribución de los recursos en el tiempo, ni la estructura organizacional, ni los currículums del personal en los cuatro niveles previstos.

Sin embargo, C.I.P.T.E. está en capacidad de presentar todo esto a juicio de A.I.D. cuando se nos solicite formular el programa.

6. RELACIONES OPERATIVAS "I.N.S.O.T.E.C."-C.I.P.T.E.":

La relación entre las dos instituciones se dará en la coordina



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ción de las acciones respectivas que se desarrollarán con la Pequeña Industria.

Esto quiere decir que:

- a. C.I.P.T.E. informará a I.N.S.O.T.E.C. sobre las necesidades de asistencia técnica directa, detectadas en los seminarios-taller de capacitación.
- b. I.N.S.O.T.E.C. informará a C.I.P.T.E. sobre las necesidades de capacitación detectadas en la asistencia técnica directa.
- c. C.I.P.T.E. e I.N.S.O.T.E.C. se informarán permanentemente de los avances logrados en sus respectivos componentes, con el propósito de estudiar reajustes al Proyecto.

Quito, Junio 25 de 1986

Dr. Leonardo Izurieta Ch.  
DIRECTOR GENERAL C.I.P.T.E.

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: Carl Duisberg, O/DR 

DATE: November 12, 1985

SUBJECT: Issues Paper for the Small Enterprise Development Project  
Identification Document (PID), Project No. 518-0056

A Mission review of the subject PID has been scheduled for November 14, 1985, at 10:00 a.m. in the Fifth Floor Conference Room.

The purpose of the proposed five year Project is to expand and improve representational services, technical assistance, and credit to the small enterprise sector; and to improve the flow of information on the sector to policy makers. The Project will contribute to a sectoral goal of increasing income and employment in the small enterprise sector.

To accomplish this purpose, the Project proposes to undertake the following activities: 1) strengthening representational organizations in order to increase the availability of services and increase their members' influence on policy decisions; 2) strengthening technical assistance services through consultants, information and guidance in export development; 3) expanding access to, and availability of credit; and 4) strengthening policy information.

The total cost of the project is estimated at \$15.8 million, of which A.I.D. Grant funds would finance \$6.9 million and A.I.D. Loan funds would finance \$4.0 million. Approximately \$4.9 million will be provided from host country sources.

A project summary of a proposed \$3.2 million grant Project was included in the Mission's FY 1986 Action Plan. The Action Plan Guidance cable authorizes the Mission to review and approve the PID for this Project in the field.

This project qualifies for a categorical exclusion from environmental examination procedures. As such, no IEE checklist is included in the PID.

The Mission review will address the following issues:

1. Project Design.

A. Geographic and Technical Scope. The proposed Project design seeks to address a series of constraints inhibiting the growth of the dynamic small enterprise sector in Ecuador. Among the constraints identified are the following: the representational structure of the sector, management practices requiring technical assistance, credit

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availability and inadequate policy information. Although much of the credit and technical assistance will be focussed on secondary cities, it does not specify which secondary cities. What is the comparative advantages of different secondary cities? Alternatively, why are specific areas not identified?

All of the other components appear to be aimed for the country as a whole. Is this a rational approach to solving the problem? Should activities be more focussed, either by technical area or by geographic location so that Project impacts are more tangible?

B. Target Group. The target group is defined as enterprises with less than 20 employees. Since this definition encompasses over 75% of all the employees in the enterprise sector throughout the entire country, we have to assume that it encompasses most of the enterprises of the nation. Should there not exist specific criteria for inclusion in the Project? For example, while the PID states that the project will focus on manufacturing firms, should there be greater focus on one level over another in order to achieve greater impact? Does the Project try too hard to be "everything to everybody"?

C. Credit. The Project also proposes three levels of credit programs (i.e., three different credit strategies): funds for microenterprise credit (similar to FED and Eugenio Espejo), funds to be provided through Credit Guarantee Corporations, and funds to be provided through the FOPINAR rediscount credit line. Can three diverse credit programs be effectively implemented under this Project and still achieve a significant impact? If the focus of the Project were narrowed, would assistance provided through three diverse credit mechanisms be necessary?

1. Credit Guarantee Corporations. What is the experience of credit guarantee corporations? Have they been successful? AID/W already has a program working in Ecuador to strengthen credit guarantees at the microenterprise level. This Project proposes to strengthen this concept for the benefit of level two corporations. Has the experience to date in Ecuador or other countries successful enough to warrant replication now? Alternatively, what information exists to explain why the AID/W project does not treat second level enterprises?

2. Credit Funds. The budget proposes loan financing for capital to be provided through FOPINAR and CCCs. AID policy states that to the extent that loans are provided to "private enterprises producing goods and services for sale in commercial markets" the actual terms of the loan will be determined by "prudent banking practices", in no case to exceed the longest period authorized for direct loans to the government. Interest rates will be set by two requirements, one of which is "the AID policy objective that interest rates for private borrowers should not be less than the prevailing local interest rates or a rate which approximates the opportunity cost of capital in the individual developing

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country".....and "at a minimum, the interest rate to ultimate private borrowers must be significantly positive in real terms, i.e., when adjusted for inflation." What are the effective interest rates charged on loans to small businesses by FOPINAR and the CGC? Has the \$4 million of proposed loan funding been planned with these considerations in mind?

D. Institutional Strategy

1. FOPINAR. Fopinar receives major assistance from IBRD. Does AID need to get involved with FOPINAR?

2. FENAPE. What evidence do we have that the assistance to FENAPE is having its intended effect? What is the rationale for such a large (1.8 million) grant for TA to organizations of small producers? What is the purpose of the proposed grant of \$500,000 to these organizations?

3. Project Implementation. The project proposes to implement an array of activities that will help small enterprises throughout all three levels, as defined in the PID; e.g., support for representational organizations, provision of technical assistance to a variety of institutions with very different purposes (financial institutions, promotional organizations, etc.), and the establishment of specific credit lines. However, there is no apparent Ecuadorean institution that will promote or take responsibility for the entire project. Should we conclude, therefore, that the Project is inherently an A.I.D. project; i.e., will it lack the overall Ecuadorean commitment necessary to avoid A.I.D. becoming the primary project implementor for both the USG and the host country? Would narrowing the Project's focus encourage an Ecuadorean entity to take a larger role in overall Project implementation?

II. Financing

A. Grant Budget. This Project was proposed in the 1986 Congressional Presentation with a total life of project grant funding at \$3.2 million. Subsequently, the preliminary project description was reviewed in formal Mission Review and approved for inclusion in the FY 1986 Action Plan at the \$3.2 million level. AID/W reviewed this proposal, and subsequently re delegated authority, to the Mission to approve both the PID and the PP in the field. Why does the proposed Project so exceed this original proposal? What are the implications of more than doubling the grant budget to the Mission's OYE and mortgage? Should the scope of the Project be scaled back to the originally proposed level of activity?

B. Loan Budget. Ecuador, with a per capita income of \$1,210 is classified in country group III (\$806 - \$1,670 per capita income) under FY 86 operating guidelines. A.I.D. policy clearly states a presumption in favor of loan funding in Ecuador (including technical assistance).

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Yet, loan funding is only proposed for two of the three credit funds. Technical assistance to FOPINAR, for example, is proposed for grant funding. Should this element of the budget be loan funded? Are there other elements of the budget which should be considered for loan funding?

What is the rationale for utilizing A.I.D. funds for credit, especially A.I.D. Grant funds? A.I.D. policy favoring loan funding of capitalization of financial intermediaries is quite clear throughout A.I.D.'s policy papers: both the one on loan terms and the one on private enterprise development. However, if a loan to a private sector institution is not guaranteed by the GOE, the Project is subject to AID/W review. It should also be pointed out that AID/W approved redelegation of authority to the field of this project based on the assumption that DA (neither loan nor grant) funds would not be utilized for credit. Should the Mission consider alternatives to AID Grant funding for capitalization of the microenterprise credit fund? Should the Mission consider alternatives to any DA funding for credit, such as ESF or PL-480 local currency, as originally proposed in smaller quantities?

### III. Project Development.

A. Data Base. The Project "will build upon the experience of A.I.D. supported Quito and Guayaquil programs" directed at microenterprises. The PID proposes to evaluate these programs during the early stages of project implementation. Would it not be wise to evaluate these programs during PP development and incorporate the "lessons-learned" into the PP? Can/do micro enterprises really graduate to the "formal banking system"? Can this "graduation" process be documented?

B. Funding. Is the level of proposed costs for design work sufficient and have FY 86 PD&G funds been set aside?

V. A.I.D. Project Management. The PID proposes a large number (6 to 7) of separate obligating actions for Project Implementation, each of which would have to be amended each time incremental funding is provided. Is this a rational approach to Project management or would it be administratively unruly?

Drafted by: O/DR:CDuisberg:RC (1792p) (11-12-85)1792p  
Cleared by: ODR: CGiusti (In draft)  
ADIR: Gwein (In draft)

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# memorandum

DATE: O/DR-85-261  
November 15, 1 985

REPLY TO  
ATTN OF: Randy Roeser, O/DR

SUBJECT: Results of Review of Small Enterprise Development PID

TO: DISTRIBUTION

This memo outlines the decisions - both substantive and editorial - which resulted from the subject review on November 14, 1985. I am circulating this to participants of that meeting now to ensure that there is full agreement on what was decided. These points will serve as the basis for redrafting the PID and will be incorporated (in shorter form) into the Action Memorandum to the Mission Director recommending approval of the PID.

Please quickly review the memo. If you have any additions, corrections, or questions, please let me know by COB Monday, November 18. Thank you.

## I. Project Design

- A. Scope. The PID should mention that the micro credit and technical assistance activities will be carried out in 5-6 secondary cities each (not necessarily all the same cities) and list the criteria for selecting those cities.
- B. Target group. The PID needs a clearer statement of the rationale and strategy for working with different levels of small enterprises in the different components.
- C. Credit
  1. CGCs and FOPINAR. The PID will describe actions and an order of preference that will be followed during intensive review to determine the most

- 2 -

appropriate means for financing any capitalization needs under these two mechanisms. In the case of the CGCs, the PRE Bureau will be consulted on the possibility of PRE putting up money for the CGC guarantee fund. At the same time, the Mission will obtain advice from AID legal counsel regarding the feasibility of using AID funds for such a guarantee mechanism. In the case of FOPINAR, we will first follow up on the results of the third IBRD loan to see if it includes credit for the lower end of the small enterprise scale. If needed, we will continue lobbying for such a provision to be incorporated.

If (a) neither PRE or IBRD money appears to be available, (b) further analysis of these two mechanisms indicates that capitalization is an important constraint, and (c) there are no AID legal or policy restrictions, we would first consider proposing the use of ESF local currency. Presumably, a local currency programming decision in this regard would be reached by the time of the PP. If ESF is not available, then as a last resort we would consider DA funding. The PID will indicate that, if DA funding were recommended, the Mission would consult with AID/W regarding the need to have the PP reviewed in AID/W.

The PID will show no AID funding for capitalization for these two mechanisms. However, AID funding of technical assistance to them is acceptable.

2. Micro. The PID will state that it is expected that the credit funds for the microenterprise programs will be financed with ESF local currency. This use of the local currency should be programmed by the time of PP approval. The PP will indicate that, should the ESF not be available, consideration will be given to use of DA funds.

D. Representational Organizations. This section of the Project Description will be rewritten to:

- (1) State a clear strategy for developing the organization, including general institutional strengthening and development of services.
- (2) Specify objectives (e.g., in terms of membership, financial self-sufficiency, services offered).

- (3) Describe a somewhat reduced and more focused target group of organizations, including: about four national federations, the chambers in the secondary cities where the credit and T.A. activities will be conducted, and a limited number of other "targets of opportunity". In all, perhaps 15-20 organizations will be assisted.
- (4) Describe in greater detail the nature of the grants to be given, as needed, to the organizations. These should be for seed capital and preferably not recurring operating expenses. These grants will be channeled through the technical assistance contract for this component.

E. Technical Assistance (INSOTEC). The description of this component will give greater detail on what inputs AID will finance for INSOTEC.

## II. Project Financing

Given the agreed upon changes in the design, the DA cost of the project will be substantially reduced. Moreover, it was decided that this will be a three year project which will result in further reductions in some budget items. In all, it expected that the DA funding will be in the neighborhood of that previously specified in Mission programming documents.

## III. Project Development

A. Evaluation of micro programs. The PID will clarify the nature of the "evaluation" of the two existing micro programs which will take place in the initial stages of the project. This evaluation is intended to provide the selected technical assistance organization with insights that will assist it in the development of new micro programs in secondary cities. The PID will clarify that the existing micro programs have been evaluated during project development, to the extent that we are convinced of the viability of the general concept.

- B. Funding. The PID will present updated estimates of project development funding needs, both PD&S and OE. Mission management expressed confidence that the required levels of funding can be met.
- C. Pre-implementation actions. The RCO will be contacted to discuss procedures and timing for soliciting: (a) a technical proposal from the 8(a) firm for the representational organizations component; (b) a grant proposal from INSOTEC; and (c) expressions of interest/proposals for technical assistance for the credit component. The PID will describe these procedures.

#### IV. AID Project Management

There was agreement that, with the reduced scope and number of obligating documents entailed by the above changes and with the help of a full-time coordinator, the project would be manageable from the Mission's standpoint.

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5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:  
B.1. applies to all projects funded with Development Assistance loans, and  
B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

- |   |   |
|---|---|
| <p>1. <u>FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.</u> Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.</p> <p>2. <u>FAA Sec. 611(a)(1).</u> Prior to obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?</p> <p>3. <u>FAA Sec. 611(a)(2).</u> If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?</p> | <p>1. A Congressional Notification was submitted and the waiting expired on June 26, 1986.</p> <p>2. A Project financial plan, with reasonably firm estimates of the costs to A.I.D., is contained in Annex IV of this Project Paper.</p> <p>3. No legislative action by the Government of Ecuador is required.</p> |
|---|---|

4. FAA Sec. 611(b); FY 1986 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the principals, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962 et seq.)? (See AID Handbook 3 for new guidelines.)
4. N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?
5. N/A
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.
6. The Mission does not consider this Project to be susceptible to execution as part of a regional or multilateral at this time. However, efforts will be made under the Project to draw upon the successful experiences of other small enterprise programs in the region. Also, the Mission has consulted with the IBRD and IDB regarding their actual and planned small enterprise activities in Ecuador, and has identified areas for possible future collaboration.

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

7. (a) This Project will not contribute significantly to increased international trade; most of the increased production by small enterprises will be directed to domestic markets.
- (b) The Project will strengthen the private small enterprise sector, including the capacity of private agencies to provide services to the sector.
- (c) Savings and loan cooperatives may participate in the credit component to develop their capacity to deliver credit to microenterprises.
- (d) By strengthening small enterprises, the Project will contribute to a broadening of the productive base of the economy.
- (e) Technical assistance provided under this Project will increase the efficiency of the beneficiary enterprises.
- (f) The strengthening of free labor is not an objective of this Project.

8. This Project will assist the small enterprise sector of Ecuador which, for the most part, obtains its inputs from, and produces for, the domestic market. There is not known to be any appreciable interest by U.S. investors in this sector. Some technical assistance from U.S. small business development agencies may be obtained under the Project.

9. FAA Sec. 612(b), 636(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
  10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
  11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
  12. FY 1986 Continuing Resolution Section 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?
9. The host country will provide local currency resources to finance 31% of total Project costs.
  10. No, the U.S. does not own excess Ecuadorean currency.
  11. The Project will buy-in to existing contracts awarded by AID/W for evaluation services. The contract for the Project Coordinator will be awarded on the basis of full and open competition. The Mission will also execute two Cooperative Agreements in accordance with applicable rules regarding competition.
  12. N/A

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?  
13. The Chief Environmental Officer for the IAC Bureau has determined that this Project qualifies for a categorical exclusion under Section 216.2(c)2 of A.I.D. Regulation 16.
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?  
14. N/A
15. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?  
15. No.
16. ISDCA OF 1985 SEC. 310. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organization which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?  
16. An estimated \$100,000 will be used to buy-in to a central AID/W contract with an 8(a) firm (women controlled) for evaluation services.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project  
Criteria

- a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?
1. a. (a) The Project will benefit the poor in secondary cities of Ecuador by increasing the access of small enterprises (whose owners and employees are generally in the lower income strata) to credit and technical assistance. The technical assistance will promote labor-intensive technologies. A U.S. PVO with experience in small enterprise development in LDCs will provide technical support for the Project's activities.
- (b) One or more savings and loan cooperatives may be selected and assisted to develop a capacity to provide credit to (and mobilize savings from) micro-enterprises.
- (c) The Project will help develop the capacity of the indigenous private sector to meet the needs of small enterprises on a continuing basis, through self-financing credit delivery mechanisms, commercial providers of technical assistance, and strengthened representational organizations.
- (d) Women have high rates of participation in the small enterprise sector in Ecuador. The Project will pay special attention to ensuring that credit and technical assistance delivery mechanisms allow full participation of women owned/operated enterprises in the Project activities and benefits.
- (e) Though not an explicit objective of this Project, regional cooperation may be promoted to the extent that interchanges of information on successful small enterprise programs in other Latin American countries are carried out.

- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?
- c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, costsaving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?
- d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?
- e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?
- b. This Project conforms to the criteria of FAA Section 106., which specifically provides for funding of small enterprise development projects
- c. Small businesses generally use labor-intensive technologies. The credit and technical assistance activities of the Project will promote the further adoption and more efficient use of these technologies.
- d. The host country will contribute an estimated 31 percent of total Project costs, calculated at the approximate current free market exchange rate of S/. 165 = US\$1.00.
- e. The Project will increase the productive capacity of small enterprises in secondary cities.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

f. The Project has been designed to ensure that all benefits go to small enterprises and, more specifically, that at least half of A.I.D.'s funding goes to the smallest "micro-enterprises". The Project will include extensive monitoring and evaluation systems to identify the socioeconomic characteristics of the beneficiaries, and to measure changes in their conditions as a result of the Project activities.

g. The Project's credit and technical assistance activities are intended to address unmet needs in the small enterprise sector which have been identified through surveys and the experiences of A.I.D. and other donors in the sector. The Projects will make use of experienced Ecuadorean PVOs to strengthen representational organizations in the sector. Civil education and training will not be addressed.

2. Development Assistance Project  
Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

3. Economic Support Fund Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the maximum extent feasible, is this assistance consistent with the policy direction, purposes, and programs of part I of the FAA?
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?
- c. ISDCA of 1985 Sec. 207 Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons of the Treaty for the Prohibition of the Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

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d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

5C(3) - STANDARD ITEM LIST

Listed below are the statutory items which normally will be covered routinely in those provision of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?
  2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?
  3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?
- A. 1. The only major U.S. procurement action will be a Cooperative Agreement for technical services in support of the credit component of the Project. Proposals were requested from a large number of U.S. PVOs with experience in small enterprise development in LDCs. The Cooperative Agreement recipient will be required to acquire commodities through competitive means which permit participation by U.S. small businesses.
  2. Procurement will be from the U.S. or Ecuador, as authorized for A.I.D. Grant funds. Any exception will be approved in accordance with Agency regulations and delegations of authority.
  3. Ecuador does not so discriminate.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) 4. N/A
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? 5. N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.? 6. Shipping is not excluded from these requirements.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

7. All technical services will be procured from private sources.

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

8. Yes.

9. FY 1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

9. Yes.

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used?

B. 1. N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? 2. N/A
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? 3. N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? C. 1. N/A
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? 2. N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? 3. Yes.

4. Will arrangements preclude use of financing:
  - a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?
  - b. FAA Sec.488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated?
  - c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?
  - d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?
  - e. FAA Sec. 662. For CIA activities?
4. The Project will preclude financing of all items listed below.

- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?
- g. FY 1986 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?
- h. FY 1986 Continuing Resolution, Sec. 505. To pay U.N. assessments arrearages or dues?
- i. FY 1986 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?
- j. FY 1986 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology?
- k. FY 1986 Continuing Resolution, Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights.?
- l. FY 1986 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

LOGICAL FRAMEWORK

Project Title & Number: SMALL ENTERPRISE DEVELOPMENT, 518-0056

Life of Project:  
From FY 1986 to FY 1989  
Total US Funding: \$4,500,000  
Date Prepared: 7/16/86

NARRATIVE	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Program or Sector Goal:</u>  Increase employment and income in the small scale enterprise sector.	1,300 jobs created in 1987-1989. S/. 570 million (constant 1984) increase in value added in 1987-1989.	Project evaluations.	Expansion or at least no further contraction of aggregate domestic demand through rest of 1980s.

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NARRATIVE	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Purpose:</u></p> <p>Expand and improve the supply of technical assistance, credit, and representational services to the small scale enterprise sector.</p>	<p><u>EOPS:</u></p> <p>11,000 microenterprises have received credit.</p> <p>500 small enterprises have received direct technical assistance.</p> <p>600 small scale enterprises in secondary cities receiving improved services through their representational organizations.</p>	<p>Project evaluations. Contrator and implementing agency reports.</p>	<p>The GOE does not undertake a major effort to expand public sector credit and technical assistance services on a subsidized basis.</p> <p>Entrepreneuers attach a high enough value to technical assistance to create demand for services.</p> <p>Representational organizations are able to provide services at a price which members can afford.</p>

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NARRATIVE	OBJECTIVE VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Outputs:</u>			
Micro credit programs established in secondary cities and progressing steadily toward self-sufficiency. Credit Guarantee Corporations operational.	6 new programs with average self-sufficiency of 70%.	Project evaluations. Contractor and implementing agency reports.	Cost-effective models for micro credit programs can be developed based on previous experience in Ecuador and elsewhere.
Development of improved FOPINAR mechanisms for channeling credit to the lower range of the small enterprise sector.	Mechanisms established.		The private Ecuadorean financial system can be convinced to invest in credit programs for smaller enterprises.
Credit Guarantee Corporations operational.	2		Private sources now providing technical assistance to small enterprise are willing to increase the quality of their services.
Private consulting entities trained and providing technical assistance services to small enterprises in secondary cities on a commercial basis.	~200		Representational organizations are receptive to the organizational development methods offered under the Project.
Local and national representational organizations expanded/improved services to members.	8 provincial/local 2 national		Small enterprise markets and effective demand in selected secondary cities sufficiently large to make services viable.
Macro and sectoral level policy studies produced.	10		

NARRATIVE	OBJECTIVE VERIFIABLE INDICATORS				MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
	Mission	AID/W	Counterpart*	Total		
<u>Inputs:</u>						
1) Technical assistance/ training	1,488	-	-	1,488	USAID Controller records	Funding and counterpart resources available in timely fashion and in required amounts.
2) Operational support for implementing organizations	1,607	-	1,240	2,847		
3) Credit capitalization	-	-	780	780		
4) Studies	100	-	-	100		
5) Project coordination and evaluation	675	25	25	725		
6) Contingencies	630	-	-	630		
TOTAL	<u>4,500</u> (68.5%)	<u>25</u> (0.4%)	<u>2,045</u> (31.1%)	<u>6,570</u>		

\* Converted to dollars at S/. 165 = US\$1.00

## FINANCIAL ANALYSIS

This analysis consists of three sections. The first section presents a narrative and spreadsheet analysis of a model micro credit program in a secondary city. The other two sections analyze the financial status and financial management systems of INSOTEC and CITPE. These analyses were conducted by the Mission financial analysts.

### A. Analysis of the New Micro Credit Programs

Based on the pilot experiences in Quito (FED) and Guayaquil (FEE), a model for micro credit lending program has been designed to test expected outcomes of planned programs in secondary cities. The model incorporates the following variables, to test high, medium, and low cases:

- a) Number of expected members
- b) Percentage of loans made to individual beneficiaries
- c) Percentage of loans made to solidarity groups
- d) Delinquency rate
- e) Inflation rate
- f) Average amount of loan made to individual beneficiaries
- g) Average amount of loan made to solidarity groups
- h) Legal interest rate
- i) Rate of administrative fees charged
- j) Average term of the loans
- k) Operating grant subsidies (for first two years,

The analysis has been designed for a period of five years, and is based on the pilot experiences. The monetary values are in nominal terms.

In the high case scenario, the number of members is 240 for the first year, with annual increments of 240 members. (Note: In the case of solidarity groups, a "member" is equivalent to one group. An average group has five individuals.). Interest rate plus fees are set at 4% monthly with an average term of 15 weeks and a delinquency rate of 15%. The self-sufficiency rate (calculated as current income divided by costs) is positive for the third and fourth years but negative in year five, due to the fact that subsidies end after the second year of the project. Loan charges and delinquency rate are the most important factors to consider in a sensitivity analysis; a slight change in these results in drastic changes in final results. For example, a 0.7% increase in interest and fees increases the self-sufficiency rate in the fifth year from 90% to 151%. If unrecoverables are reduced to 10% the self-sufficiency rate rises to 177%.

The medium case includes modifications in inflation rates to 45% instead of 30%, and the number of members is more conservative, beginning with 100 for the first year and rising to 540 in year three. Interest, which is the most

sensitive factor, is 4%. In this scenario, there is a negative net cash flow from the third year on. Again, slight modifications in interest or delinquency rates will produce important changes in results. If interest and fees were to be increased to 6.5%, a self-sufficiency rate of 173% would be reached in the fifth year of the project.

The low case results in negative cash flows in all years, at 4% monthly charges and 15% unrecoverables. In this case a static number of 240 members has been maintained during the three years. There is also a reduction of costs that is implied with this reduction in the number of members. However, at higher interest and fees rate of 5.5%, maintaining all other variables equal, the self-sufficiency in year five reaches 129%.

In summary, in order for the programs to work and to reach self-sufficiency, controls should be maintained on the delinquency and interest and fees factors. There is, of course, the question as to the number of members, and efforts must be made to begin the first year with at least 240 and increment that number twofold or threefold if possible within the next two years in order to maintain positive net cash flows. Preliminary estimates of the microenterprise populations in the targeted secondary cities indicate that this level of participation is feasible. Another important consideration is that, if there are not any initial operating subsidies, it would likely be impossible for the programs to get off the ground.

A model spreadsheet, for the high case described above, is attached. The results of the sensitivity analyses are summarized in the table below:

Monthly credit charge Pct. of portfolio unrecoverable	4%	4.7%	4.7%	5.5%	6.5%
	15%	15%	10%	15%	15%
High Case	138% 90%	179% 151%	195% 177%		
Medium Case	93% 28%				197% 173%
Low Case	73% 19%			141% 129%	

Notes:

1. The top and bottom figures in each cell are the self-sufficiency rates at the end of the third and fifth years, respectively.
2. The Low Case incorporates a lower cost structure than the other two cases, for which costs are assumed to be the same.

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ESTIMATED PROGRAM BUDGET	NEW MEMBERS Y1	247	INDUSTRY	700	GR. GRANT Y1	1000
NEW MEMBERS Y2	247	FEDERAL Y1	2,000	GR. GRANT Y2	1000	
NEW MEMBERS Y3	247	FEDERAL Y2	20,000	GR. GRANT Y3	1000	
INDIVIDUALS	300	REGISTRATION	1,000	DEPARTMENT	100	
DELEGATIONS	700	FEES	2,000			
UNASSIGNABLE	100	TEAM MEETS	10			
		EXP. FACTOR	1.57			

	MONTHLY	YEAR 1	MONTHLY	YEAR 2	MONTHLY	YEAR 3	MONTHLY	YEAR 4	MONTHLY	YEAR 5
<b>ALL PERSONNEL COSTS</b>										
PROJECT DIRECTOR	45,000	540,000	58,500	702,000	76,500	912,600	98,625	1,183,500	129,525	1,542,294
PROMOTERS (1)	45,000	540,000	103,500	1,242,000	179,550	2,154,600	279,415	3,349,780	406,940	4,881,274
SECRETARY/DATA INPUT (1)	20,000	240,000	19,000	228,000	21,000	252,000	23,940	287,280	27,120	325,464
ACCOUNTANT (1/2)	15,000	180,000	17,500	210,000	18,250	219,000	17,955	215,460	17,142	205,708
CLERK (1/2)	20,000	240,000	26,000	312,000	27,250	327,000	26,940	323,280	27,120	325,464
SOCIAL SECURITY	91,250	1,111,100	151,775	1,821,300	176,550	2,118,600	203,775	2,445,297	256,157	3,071,885
TOTAL OF PERSONNEL										
LOCAL PER DIEM		234,000		0		0		0		0
LOCAL TRAVEL		19,000		0		0		0		0
TRAINING COST		30,000		0		0		0		0
MISCELLANEOUS		30,000		0		0		0		0
SUBTOTAL		414,000		0		0		0		0
<b>TOTAL PERSONNEL COSTS</b>	<b>279,250</b>	<b>3,285,000</b>	<b>355,275</b>	<b>4,221,300</b>	<b>575,103</b>	<b>6,931,290</b>	<b>821,870</b>	<b>9,842,677</b>	<b>1,142,707</b>	<b>13,712,480</b>

	MONTHLY	YEAR 1	MONTHLY	YEAR 2	MONTHLY	YEAR 3	MONTHLY	YEAR 4	MONTHLY	YEAR 5
<b>2. MATERIALS &amp; SERVICES</b>										
RENT	15,000	180,000	19,500	234,000	25,250	303,000	32,955	395,460	42,842	514,098
UTILITIES, PHONE, ETC.	25,000	300,000	32,500	390,000	42,250	507,000	54,925	659,100	71,403	856,830
TRANSPORT ALLOWANCE	7,000	84,000	9,100	109,200	11,675	140,100	15,239	182,868	19,553	234,632
VEHICLE MAINTENANCE	15,000	180,000	19,500	234,000	25,250	303,000	32,955	395,460	42,842	514,098
LOCAL TRAVEL & PER DIEM	19,000	228,000	17,000	204,000	18,750	225,000	21,970	263,640	25,561	306,732
REPRO, PRINTING, ETC.	15,000	180,000	19,500	234,000	25,250	303,000	32,955	395,460	42,842	514,098
OFFICE SUPPLIES	5,000	60,000	6,500	78,000	8,425	101,100	10,980	131,820	14,261	171,366
PROTECTION	10,000	120,000	0	0	0	0	0	0	0	0
INSURANCE		22,000		26,400		31,750		38,100		45,724
FINANCIAL EVALUATION & AUDIT		200,000		240,000		288,000		345,600		414,720
EQUIPMENT NEEDS/REPL		554,081		664,897		801,876		962,251		1,154,701
<b>TOTAL MATERIALS &amp; SERVICES</b>	<b>102,000</b>	<b>1,242,081</b>	<b>116,600</b>	<b>1,398,200</b>	<b>155,483</b>	<b>1,867,221</b>	<b>202,124</b>	<b>2,457,303</b>	<b>262,761</b>	<b>3,167,270</b>

	MONTHLY	YEAR 1	MONTHLY	YEAR 2	MONTHLY	YEAR 3	MONTHLY	YEAR 4	MONTHLY	YEAR 5
<b>3. TECHNICAL ASSISTANCE</b>										
CONFERENCE COSTS										
INSTRUCTOR	15,000	180,000	21,500	258,000	23,500	282,000	27,000	324,000	27,500	330,000
MATERIALS	2,000	24,000	2,500	30,000	2,800	33,600	2,800	33,600	2,800	33,600
MISCELLANEOUS	1,000	12,000	1,000	12,000	1,000	12,000	1,000	12,000	1,000	12,000
INDIVIDUAL F.A.										
INSTRUCTOR	15,000	180,000	21,500	258,000	23,500	282,000	27,000	324,000	27,500	330,000
MATERIALS	0	0	0	0	0	0	0	0	0	0

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TOTAL TECHNICAL ASSISTANCE	2,112,000	2,112,000	2,112,000	2,112,000	2,112,000
OPERATIONAL EXPENDITURES	1,420,000	1,420,000	1,420,000	1,420,000	1,420,000
TOTAL EXPANDED	3,532,000	3,532,000	3,532,000	3,532,000	3,532,000
<b>B. CAPITAL EQUIPMENT</b>					
VEHICLE	2,400,000				
COMPUTER & SOFTWARE	750,000				
RECORDS MACHINE	30,000				
TYPewriter	150,000		55,910		60,341
OFFICE FURNITURE	500,000	50,000			
BRAND. SALE TAXES	30,000	19,000	50,700	65,910	85,683
TOTAL CAPITAL EQUIPMENT	3,860,000	89,000	106,710	65,910	146,024
<b>C. LOAN FUND</b>					
SEED FUND INDIVIDUALS	1,440,000	1,872,000	2,423,600		
SEED FUND SOLIDARY GROUPS	4,200,000	5,460,000	7,095,000		
PREVIOUS YEAR INTEREST EARNED CAPITALIZED		2,734,076	7,616,439	4,388,234	748
(-UNRECOVERABLE LOANS)	(840,000)	(1,510,074)	(2,572,206)	(658,250)	(324,162)
TOTAL LOAN FUND	4,799,000	8,556,002	14,575,824	3,730,034	1,893,582
SUBTOTAL CAPITAL EXPENSES-					
(CAPITAL EQUIPMENT + SEED LOAN FUNDS)	9,760,000	7,425,000	7,648,210	65,910	146,024
TOTAL BUDGET	15,719,081	15,701,081	21,191,031	15,877,000	21,354,482
<b>EXCHANGE RATE</b>					
BUDGET IN US DOLLARS	200	200	200	200	200
CUMULATIVE BUDGET IN DOLLARS	878,695	860,391	862,697	834,181	877,384
	878,695	819,066	820,780	827,954	827,348
<b>CASHFLOW ANALYSIS</b>					
<b>WITH SUBSIDIES</b>					
INTEREST EARNED INDIVIDUALS	1,440,000	2,002,576	4,291,344	4,770,328	5,054,465
INTEREST EARNED SOLIDARIES	2,760,000	3,442,560	11,059,761	17,129,326	17,885,560
TOTAL INFLOW	4,200,000	5,445,136	15,351,105	21,900,654	22,939,911
OPER. COSTS			11,540,071	15,831,910	21,205,456
TOTAL OUTFLOW			11,540,071	15,831,910	21,205,456

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NET CASHFLOW	2,724,896	7,111,439	4,388,734	1,227,744	(1,068,548)
SUFFICIENCY RATE			130%	114%	90%
OPPORTUNITY COST OF CAPITAL	15%				
BENEFIT/COST RATIO YEAR 1-3	1.57				
BENEFIT/COST RATIO YEAR 1-5	0.55				
NET PRESENT VALUE YEAR 1-3	9,567,881				
NET PRESENT VALUE YEAR 1-5	9,817,361				

C. CASHFLOW ANALYSIS

\*\*\*\*\*  
WITHOUT SUBSIDIES

INTEREST EARNED INDIVIDUALS	498,271	1,027,144	1,496,987	1,077,050	(467,368)
INTEREST EARNED SOLD. EQUUS	2,026,624	3,428,897	5,584,883	4,105,344	534,702
TOTAL INFLOW	2,734,896	4,456,041	7,281,851	5,215,394	67,334
O.E. COSTS	4,439,081	8,276,581	11,543,371	15,221,910	21,208,459
TOTAL OUTFLOW	4,439,081	8,276,581	11,543,371	15,221,910	21,208,459
NET CASHFLOW	(1,704,185)	(3,782,520)	(4,261,520)	(10,016,516)	(21,141,125)

SUFFICIENCY RATE	42%	54%	63%	35%	0%
OPPORTUNITY COST OF CAPITAL	15%				
BENEFIT/COST RATIO YEAR 1-3	-0.47				
BENEFIT/COST RATIO YEAR 1-5	-0.62				
NET PRESENT VALUE YEAR 1-3	(7,828,828)				
NET PRESENT VALUE YEAR 1-5	(17,827,596)				

D. SUBSIDY

\*\*\*\*\*

1. OPERATING EXPENSES	4,439,081	8,276,581	0
2. CAPITAL EQUIPMENT	3,660,000	93,000	116,610
3. LDAN FUND	5,640,000	7,332,000	9,531,600
TOTAL SUBSIDY	15,739,081	15,701,581	9,648,210

EXCHANGE RATE	200	250	378
SUBSIDY IN US DOLLARS O.E. & CAP. EQUIP.	850,495	832,191	8345
CUMULATIVE IN DOLLARS	850,495	182,484	883,031
SUBSIDY IN US DOLLARS LDAN FUND	828,200	828,200	828,200
CUMULATIVE IN DOLLARS	828,200	858,400	884,400
TOTAL O.E. + CAP. EQUIP. + LDAN FUND	878,695	860,391	828,545

SUBSIDY VS. TOTAL BUDGET	100%	100%	46%
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## B. Analysis of INSOTEC

As a result of an evaluation carried out by Price Waterhouse in April 1986, INSOTEC's accounting procedures were found to be consistent with generally accepted accounting practices.

Based on an analysis of INSOTEC's financial statements for 1982, 1983, and 1984, the conclusions and comments are the following:

1) Assets and liabilities grew from 1982 to 1984 at an average annual compound rate of 111%. This expansion is due to a substantial increment in INSOTEC's fixed assets, as a result of the purchase of two office floors and other office equipment. Equity also reflects a compound increment of 82% in the same period, which was dedicated to finance the above said procurement. Liquidity was reduced from 1983 to 1984 by 41.6% to finance additional long term investments. This situation obligated INSOTEC to obtain both short and long term bank financing. As a result, INSOTEC incurred substantial financial expenditures. Receivables absorb an important portion of its current assets, which could be dedicated to reduce INSOTEC's short and long term liabilities or expand projects.

2) From 1982 to 1984, total earnings grew at an average annual compound rate of 25%, as a result of an increment in activities such as Suma Magazine, CIEDEC, and Technological Management. In the same period, program expenditures grew 36%, annually compounded, and operating expenditures grew at 43%. The surplus (deficit) account shows a major decrease, due to a faster increment in expenditures as compared to earnings. This reflects the increased financial costs and depreciation incurred as a result of fixed assets acquisitions.

In general, INSOTEC's financial status is acceptable. The institution's 1984 debt-to-equity ratio shows an 0.79:1 relationship, which is adequate. On the other hand, the liquidity-to-short term debt ratio (0.63:1) as of December 31, 1984 reflected INSOTEC's incapacity to meet its short term obligations. This suggests that INSOTEC, as of December 31, 1984, was "strapped" for cash and, thus, undercapitalized. This situation was mainly due to the procurement of fixed assets, which in the long term in Ecuador results as a good investment shelter against high inflation.

In 1985, INSOTEC was able to obtain additional donations, resulting in an expansion in the organization's income and improvement in the organization's financial position.

## C. Analysis of CIPTE

### 1. Financial Statements

An analysis was conducted of CIPTE's statements from 1983 through mid-1986. CIPTE shows a strong financial position as of June 30, 1986. Since 1983, assets have grown at an average 113%, evenly divided between current and fixed. CIPTE's liquidity is enormous, considering the lack of debt.

INSOTEC

BALANCE STATEMENTS FINANCIAL ANALYSIS  
(As of Dec. 31)  
(In thousands of sucres)

	CHANGE PRIOR		CHANGE PRIOR	
	<u>1984</u>	<u>Year (%)</u>	<u>1983</u>	<u>Year (%)</u>
<u>ASSETS</u>	10,816.3	29.4%	8,357.3	244.5%
<u>Current</u>	2,068.2	-41.6%	3,540.4	74.6%
Cash	530.7	-55.1%	1,181.8	20.4%
Investments	9.0		0.0	
Receivables	1,397.9	-3.9%	1,455.2	40.3%
On-going Projects	0.0	-100.0%	700.0	
Ananticipated Expend	130.6	-35.8%	203.4	2,063.8%
<u>Fixed</u>	8,748.1	81.6%	4,816.9	1,108.5%
Office	7,829.6	96.8%	3,978.8	
Vehicles	30.0	-50.0%	60.0	-33.3%
Office Equipment	408.7	-10.8%	458.2	363.3%
Furniture	479.8	50.0%	319.9	52.6%
<u>LIABILITIES</u>	10,816.3	29.4%	8,357.3	244.5%
<u>Short Term</u>	3,294.5	30.8%	2,518.3	317.2%
Banks	673.4		0.0	
Programs Due Liquidation	1,966.0	61.7%	1,216.2	
Accounts Due	598.1	-53.5%	1,285.0	1,657.9%
Advances Due	57.0	233.3%	17.1	

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	CHANGE PRIOR			CHANGE PRIOR		
	<u>1984</u>	<u>Year (%)</u>	<u>1983</u>	<u>Year (%)</u>	<u>1982</u>	
<u>Long Term</u>	1,481.4		0.0		0.0	
Banks	1,481.4		0.0		0.0	
<u>Equity</u>	6,040.4	3.4%	5,839.0	220.4%	1,822.5	
Seed Capital	90.0	0.0%	90.0	0.0%	90.0	
Donations	3,870.3	4.9%	3,690.8	768.8%	424.8	
Cummulative Surplus	2,058.3	57.4%	1,307.7	635.5%	177.8	
Surplus (Deficit)	21.8	-97.1%	750.5	-33.6%	1,129.9	

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## LOSS AND PROFIT SHEET

	CHANGE PRIOR		CHANGE PRIOR	
	<u>1984</u>	<u>Year (%)</u>	<u>1983</u>	<u>Year (%)</u>
<u>EARNINGS</u>	10,132.5	-2.3%	10,367.6	59.6%
K. Adenauer Fund.	7,311.5	-21.5%	9,312.4	62.7%
Technological Management	1,387.5		0.0	-100.0%
Suma Magazine	497.2	-44.3%	892.9	
Salvat Book Sales	7.5		0.0	
CIEDC	588.8	685.1%	75.0	-57.1%
Other Earnings	340.0	289.5%	87.3	26.0%
<u>PROGRAM EXPENDITURES</u>	8,258.6	-2.6%	8,475.0	90.0%
K. Adenauer Fund.	6,778.6	-12.3%	7,730.2	84.4%
Technological Management	295.9		0.0	-100.0%
Seminars, Courses & Surveys	251.4	594.5%	36.2	-78.3%
Suma Magazine	932.7	31.6%	708.6	
<u>OPERATING EXPENDITURES</u>	1,851.6	62.2%	1,141.9	26.3%
Salaries	234.0	8.0%	216.7	-50.5%
Supplies & Maintenance Cost	516.5	89.8%	272.1	27.1%
General Administrative Cost	378.1	-40.8%	638.9	170.0%
Financial Costs	453.0		0.0	
Other Expenditures	270.0	1,801.4%	14.2	-11.3%
Surplus (Deficit)	22.3	-97.0%	750.7	-33.6%
				6,496.2
				5,723.7
				528.3
				0.0
				0.0
				174.9
				69.3
				4,461.7
				4,192.0
				102.9
				166.8
				0.0
				904.4
				437.8
				214.0
				236.6
				0.0
				16.0
				1,130.1

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As of June 30, 1986 expenses were relatively low, mainly because most expenses are incurred in the period of July through October. The operating ratio (operating expenses/income) has been reasonably low through all years.

Equity has steadily grown from S/. 2,759.9 million in 1983 to S/. 18,315.2 million as of June 30th 1986, at an annual average of 113%.

CIPTÉ's working capital (current assets less debt) has been positive, except in 1985 when it incurred debt to finance additional fixed assets.

CIPTÉ's income derives from courses and studies. Income from courses has grown from S/. 3,722.0 million in 1983 to S/. 12,440.2 for the first half of 1986, at an average 62% per year.

Financial management has been very conservative, capitalizing all surpluses, buying real estate, keeping costs low, and incurring practically no debt.

## 2. Financial Management

CIPTÉ has a basic accounting manual, but is presently implementing a fully computerized accounting system, which will provide its management with accurate financial reports.

CIPTÉ's administrative/financial functions are performed by three persons (a financial/administrative director with no academic management background, an accountant who is not a CPA, and an accounting clerk). Some functions and responsibilities overlap and, thus, some internal control procedures lack proper implementation. An example of this is the absence of a cashier. This position is simultaneously performed by the accountant and accounting clerk. Voucher clearance and approval procedures should be tightened up, and financial statements should be certified by a CPA.

If the Mission provides Grant funds to CIPTÉ under the Small Enterprise Development Project, it would be prudent to request changes in such management procedures.

FINANCIAL ANALYSIS  
C.I.P.T.E.

	(IN THOUSANDS OF SUQUES)		CHANGE		CHANGE		CHANGE				
	JUN. 30. 86		PRIOR YR	1985	PRIOR YR	1984	PRIOR YR	1983			
ASSETS	18,315.2	100%	126%	8,109.0	100%	127%	3,576.0	100%	30%	2,759.8	100%
CURRENT	9,214.8	50%	2845%	312.9	4%	-34%	475.3	13%	-14%	552.9	20%
FIXED	9,100.4	50%	17%	7,796.1	96%	151%	3,100.7	87%	41%	2,206.9	80%
LIABILITIES	18,315.2	100%	126%	8,109.0	100%	127%	3,576.0	100%	30%	2,759.9	100%
DEBT	0.0	0%	-100%	882.9	11%	103%	435.0	12%		0.0	0%
EQUITY	18,315.2	100%	153%	7,226.1	89%	130%	3,141.0	88%	14%	2,759.9	100%
INCOME	12,672.1	100%	36%	9,158.5	100%	91%	4,802.3	100%	16%	4,122.8	100%
COURSES	12,440.2	98%	103%	6,132.3	67%	117%	2,821.8	59%	-24%	3,722.0	90%
VARIOUS	231.9	2%	-92%	3,026.2	33%	53%	1,980.5	41%	374%	400.8	10%
EXPENSES	1,583.0		-69%	5,073.5		15%	4,421.0		71%	2,581.8	
O.E.	1,583.0		-69%	5,073.5		15%	4,421.0		71%	2,581.8	
SURPLUS/DEFICIT	11,089.1		171%	4,085.0		971%	381.3		-75%	1,541.0	
WORKING CAPITAL	9,214.8			(570.0)			40.3			552.9	
CURRENT RATIO				0.4			1.1				
DEBT EQUITY RATIO	0.0			0.1			0.1			0.0	
OPERATING RATIO	0.1			0.6			0.9			0.6	

## ECONOMIC ANALYSIS 1/

### i. INTRODUCTION

This report is focused on the three main components of the Small Business Project:

- a) The credit program for microenterprises
- b) The technical assistance program (INSOTEC)
- c) Institutional representation

The objective of the report is to apply an economic analysis approach to the available data and characteristics of the programs to approximate a cost-benefit relationship for each of them. A cost-benefit analysis is possible only for the microcredit component. It is not possible for the other two because the statistical information on the programs is practically non-existent. The economic analysis of the microcredit component is carried out in two phases. First, on an ex post basis to ascertain the economic impact of the existing programs since they started. Second, on an ex ante basis by using the findings of the first phase to project or, better, to anticipate the cost-benefit relationships of the future replication of this component in six secondary cities (Esmeraldas, Ibarra, Manta, Portoviejo, Quevedo, and Santo Domingo).

In the case of the technical assistance and institutional representation components, the analysis is based on certain general notions about the soundness of the proposed programs. Particular emphasis is given to the need to implement the new programs with strict devices to provide systematic evaluations and an ex post justification.

The concept of benefit that I apply in this report is defined in terms of the final impact on the economic development of Ecuador, no matter how modest according to the relative number of beneficiaries or as a proportion of the national levels of economic activity. This concept of benefit implicitly covers the economic improvements of the individual beneficiaries, which must be directly ascertained.

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1/ Prepared by Jorge A. Sanguinety, Development Technologies, Inc. under subcontract with PfP/International (April, 1986), except as noted.

Economic benefit or impact is measured here primarily as the value added or the increments of value added generated by different interventions (credit delivery, technical assistance or institutional strengthening). Other important measures of economic impact are used in this report such as employment generation and investment performance. Nevertheless, in what follows the emphasis is put in value added to illustrate some important methodological issues.

Value added is the monetary expression or measurement of the net amount of wealth created in the production process, involving goods or services alike, by the participation of labor, capital and natural resources. It is measured by subtracting the cost of inputs (such as raw materials, supplies, the opportunity cost of capital or interest rates, and productive services) from the total value of sales.<sup>2</sup> It is easier to measure value added and correlate it with specific interventions, such as credit delivery, than it is for actions on technical assistance. It is even more difficult to evaluate the economic development impact of strengthening institutional representation. This is no excuse, however, to exclude this type of program from evaluation efforts. Too frequently, the complexities of individual interventions for development purposes make us lose sight of the final targets to be accomplished and the means to achieve them replace, surreptitiously, the originally intended goals.

One factor that complicates the evaluation efforts is the lack of a system to generate and record information from the beginning of the implementation of development programs. Such a system would not only serve for outside evaluation purposes carried out by donor agencies but also for the more effective management of the program by the individuals directly responsible for their final success and impact. I will return to this topic more concretely in the different sections of the report.

The three following sections deal with each of the components of the Small Business Project as described above. The plan for each section consists of an assessment of the antecedents available on each program (ex post evaluation), followed by a discussion of expected cost-benefit relationships (ex ante approach) and the conditions to monitor and control performance to achieve the desired goals. The final section is dedicated to conclusion.

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2 The measurement of the value added may be subject to distortions if the prices of the outputs and inputs involved do not respond to free market forces. The rigorous inclusion of these considerations would require a much more involved study. Some considerations in this regard will be made here as become relevant.

## II. The Credit Program for Microenterprises.

Two institutions have been examined for past performance: Fundacion Ecuatoriana de Desarrollo (FED) and Fundacion Eugenio Espejo (FEE) in Guayaquil. In both cases we focus our attention on the two groups of small entrepreneurs assisted by them: the individual microentrepreneur and the ones that participate in the solidarity groups. A third institution has been studied too in order to provide some comparison elements: Fondo para la Pequena Industria y Artesania (FOPINAR). In this case, only microentrepreneurs were examined.

Even though the performance parameters and conditions of FED and FEE cannot be mechanically extrapolated to other environments, the experience accumulated in these two institutions provides important clues on how to implement the next phase of the Small Business Project for maximum impact. As the information available for FEE is more complete and better than for FED, I will start the analysis with this institution.

### 1. Fundacion Eugenio Espejo

A random (proportional) sample was taken to gather data on 10 individual microentrepreneurs and 12 members of solidarity groups, representing, in each case, 10 percent of the total clientele of FEE. The data collected were originated in the individual files of each of the 22 sample subjects. The validity of both samples was roughly verified by expanding the amounts of the loans outstanding of the individuals in the sample to the entire population in each group, and comparing them with the actual volume of the loan portfolio assigned to each of the groups. This simple test implies that the samples can be taken as representative within an acceptable confidence interval.

The variables measured for each observation were the following:

- a) Number of loans
- b) Dates of first and latest loan
- c) Volume of monthly sales at each date
- d) Volume of monthly expenditures at each date
- e) Volume of monthly salaries paid at both points
- f) Volume of total assets at each point
- g) Permanent and temporary employment generated

The level of earnings generated in the month corresponding to each point in time was calculated by subtracting salaries from expenditures and then subtracting the result from sales. The result includes profits as reported in the individual files following the design of the forms. To arrive at the value added

it is necessary to add the increments in assets, since the purchases of merchandise or supplies are registered as general expenditures.<sup>3</sup> The results were expanded to the size of both populations and are presented in Table No. 1. The levels of salaries were omitted because in many cases they were reported as part of the profits ("beneficios") of the entreprise.<sup>4</sup>

The data in Table No. 1 show a remarkable performance in terms of the increases of value added and total assets over the period for both groups. The table also shows an interesting comparison between the performances of the two groups. The annual rate of growth in earnings of microentrepreneurs over the last 12 months shown is 154 percent, while the rate for members of solidarity groups is 50 percent. The corresponding figures for value added are 122 and 63 percent. Even deflating these figures by the rate of inflation that prevailed over 1985, which was 28.4 percent, the increases are significant in real terms.<sup>5</sup> The net increments in value added compare favorably with the capital fund allocated to both groups, which is of S/.15.6 millions. The relevant cost-benefit relationship to apply here, though, must include the total cost of operating the credit program of FEE which is estimated to be in the order of S/.8 millions for 1985.<sup>6</sup>

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3 Time did not allow to make a finer distinction between fixed and variable assets, since the information in the individual files was not well organized for analytical purposes of this kind. The files are used exclusively to examine the individual loan requests in the background of the petitioner's performance. There is a significant lack of awareness of the value of the information held in those files; a situation that can be easily corrected since the personnel involved quickly realized the importance of the data.

4 In order to avoid a lengthy elaboration of the data, the corresponding time intervals for each individual file were collapsed in a single "mean" interval of fifteen months, which represent the average period of participation in the program of each individual sampled. The dispersion from this mean value is low given the short life of the program. The distortions thus generated can be expected to balance out.

5 This rate of inflation is for the period January-November 1985, as reported in Weekly Analysis, edited by Walter R. Spurrier, Guayaquil, Year XV, No. 49, December 16, 1985.

6 The estimate of 26 million Sucres were obtained by multiplying by 12 the December 1985 monthly operational budget submitted to the AID Private Sector Office on

The strong growth shown by these small firms can be explained in simple microeconomic theory terms. These enterprises are so much starved for capital, relative to the amount of labor offered by the entrepreneur, that the marginal productivity of capital is very high.<sup>7</sup> At the same time, the marginal productivity of labor is very low, therefore, their potential for employment generation will not be realized without increases in capital. However, the necessary increments in capital to generate one job are still low compared to the capital requirements in larger firms.

Under these conditions, the small firms could afford to pay higher interest rates for their loans. In fact they frequently borrow from loansharks ("agiotistas" - members of a highly informal financial sector) and they are still able to make a profit. One of the obstacles for the small firm to obtain credit through formal financial institutions is that the proportionally higher loan transaction costs do not make them sufficiently attractive to the banks. The fact is that the lack of flexible interest rates and the existent system of subsidies of interest rates has de facto created a system of credit rationing which victimizes the microentrepreneur. This results in the existence of a black market for small loans, the "agiotista", who charges an interest rate much higher than the maximum allowed by law.

Results as these could be used to convince the Ecuadorean authorities of the need to make financial markets more flexible. An interesting illustration (though on the side of the supply for funds) of what happens when markets are set free to function is the recent decision of the Monetary Board to lift controls on deposits of over S/.1 million. The measure provoked a large inflow of funds by the public attracted to the banks.<sup>8</sup>

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November 29, 1986. No other estimates were available at the time of this report.

<sup>7</sup> Nevertheless, the high marginal productivity of capital may fall very fast with increases in the stock of capital as a result of other "factors" of production such as the basic administrative skills of the entrepreneur. This is why basic technical assistance and training is essential as a complement to the credit program.

<sup>8</sup> See Weekly Analysis of February 6, 1986. This point should not be interpreted as a recommendation for sudden lifts of controls. When markets are controlled for a long period of time, and specially when the restrictions are severe, gradual lifting of controls help in preventing abrupt disadjustments, often accompanied by serious political repercussions.

Another important implication of the significant growth of these enterprises is that they develop a certain ability to pay for the services offered to them at a subsidized price, specially technical assistance. In spite of the fact that FEE is reluctant to charge higher fees for those services, the data suggest that this could be feasible. Nevertheless as FEE has not been using this information beyond its needs to evaluate individual loan applications, it has lost sight of the economic importance of the program in terms of impact, while also wasting excellent opportunities to manage the program and achieve financial self-sufficiency and long-run sustainability.<sup>9</sup>

One more important element to be noticed in Table 1 is the high level of savings as measured by the increased in total assets, in absolute and in relative terms.<sup>10</sup> As an average of total value added created during the period, the rate of savings (equal to investment in this case) is of 27 percent for individual microentrepreneurs and almost 10 percent for solidarity groups. As they grow, they save a higher proportion of the value added they generate as shown by the incremental rate of 42 and 31 percent respectively.<sup>11</sup> Both groups generated over the last 12 months a combined level of value added of 187 million Sucres, for a total net increment over the 12 months previous to starting in the credit program of 101 millions.<sup>12</sup>

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<sup>9</sup> These points were discussed at length with FEE officials and they showed agreement in principle.

<sup>10</sup> The figures may overstate this point as it was pointed out to the author during the field visit that FEE clients, specially merchants, tend to increase inventories at this time of the year (Easter). It was not possible to verify the point independently. In any case, even if the level of assets was unstable over time, the fact remains that they show a capacity to generate value added.

<sup>11</sup> This tends to reinforce the notion of a seasonal acceleration in the level of inventories.

<sup>12</sup> The net increment is estimated by assuming that the figure reported for the last month before entering the program is one twelfth of the corresponding annual figure. It is also assumed that that level of income would have remained stagnant without participating in the credit program. Given the general economic conditions prevailing in Ecuador, these are plausible assumptions, yet they could be verified by examining the performance of a control group.

## 2. Fundacion Ecuatoriana de Desarrollo

The corresponding data for Fundacion Ecuatoriana de Desarrollo (FED) are shown in Table 2 and do not include information on asset creation even though the information exists but was not made available on time.<sup>13</sup>

The data were produced by taking random samples of individual microentrepreneurs and members of solidarity groups.<sup>14</sup> The first group included a sample of 30 individuals out of a total population of 644. The second group consisted of a sample of 154 individuals (not groups) from a population of 2269.

In the FED's case we can repeat the same arguments presented above regarding the ability to pay for the services, either financial or technical assistance, though the results are more modest for individual entrepreneurs. In fact FED charges a much higher effective interest rate than the nominal rate allowed by law. In this regard, it can be argued that the rates may work against the best interest of the microentrepreneurs served by FED since they do not have sufficient information on their financial status, to the point that excessive rates may provoke decapitalization. However, the levels of earnings reported in the samples do not sustain this point. On this particular point, a more careful examination of the performance in asset creation would be necessary. The level of assets grows at the annual rate of 74 percent for microentrepreneurs, lower than for their FEE counterparts, but still significant in real terms, and 54 percent for solidarity groups, virtually the same as for FEE members of this group. Expanding the sample to the entire population, as shown in Table 2, both groups produce a combined level of earnings in one year of 732 million Sucres.

## 3. Comparing the Performance in Both Institutions

The following comparisons cannot be interpreted in terms of the relative administrative efficiencies of both institutions. Though such comparison would be relevant to the scope of this evaluation, the nature of the data and the characteristics of the populations served by each program do not allow that exercise. Table 3 shows some earnings data for individual entrepreneurs in both programs. The figures for income per capita previous to entry to the programs are remarkably similar at the levels of 307 thousand Sucres per year for FEE, and 323 thousand for FED's beneficiaries. Nevertheless, the annual income per capita for

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<sup>13</sup> FED has more difficulties in handling the data than FEE probably as a result of the number of beneficiaries that they attend.

<sup>14</sup> The samples were taken by the FED's personnel.

the last 12 months in the programs grows faster for FEE beneficiaries than it does for FED's.<sup>15</sup> In the first case the rate of growth is 116 percent while in the second it is 37 percent. The per capita increment in annual income is accordingly higher for FEE with S/.297 thousand, with FED showing S/.118 thousand. With the current inflation rate at about 28 percent per annum, FEE's beneficiaries are experiencing a real growth of 88 percent over the period, while FED's have a more modest 9 percent. One possible explanation for this differential lies on the fact that FEE's beneficiaries receive a much more careful and intensive technical assistance. The much larger number of beneficiaries attended by FED makes the administration of the technical assistance much more difficult and, possibly, less effective. A point to keep in mind for the improvement of these programs and the implementation of new ones, is that adequate technical assistance complementing the credit delivery system may be an indispensable ingredient for the success of this type of intervention.

Table 4 shows the same type of comparison for members of solidarity groups. An important distinction must be made in this case about the characteristics of the clientele of each institution before they join the programs. The per capite annual income of the FEE's beneficiaries before receiving the loans is 527 thousand Sucres, while the corresponding figure for FED is of only 88 thousand, or one sixth of FEE. The FEE's solidarity group beneficiary starts with a level of earnings that is roughly 4 times the legal minimum wage in Ecuador (excluding benefits which are around 60 percent of the base salary). During the first 12 months in the program, FEE's beneficiaries increase their percapita income in 25 percent, which, if deflated, shows no real growth, rather it shows a deterioration in their economic condition. The situation improves if we take the last 12 months reported, as shown in the Table. In this case, the annual rate of growth is 39 percent in income per capita, representing, in real terms an increment of 11 percent. FED's beneficiaries experience a growth rate in per capita terms of 54 percent, explainable by their much lower starting point. This represents a real growth rate in per capita income of 26 percent annually.

#### 4. The FOPINAR's experience.

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<sup>15</sup> This method overestimates in about 18 percent the performance of FEE's beneficiaries as a result of the time aggregation performed. If instead of using the last 12 months, the first 12 had been considered, the growth of FEE's beneficiaries would come out lower. The performance of FED's beneficiaries would not suffer any variation if the second method had been followed since, coincidentally, the aggregation of the different individual files turned out to be exactly 12 months.

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A random sample of 11 FOPINAR's microentrepreneurs was taken to compare their economic performance with their counterparts in FEE and FED. In this case, the value added of the firms sampled grows at a combined rate of 127 percent per annum, or 99 percent in real terms. The corresponding figures for FEE's microentrepreneurs are 122 and 94 percent. As explained earlier, value added figures were not available at the time of this report for FED's beneficiaries.

Comparing average firm sizes, before joining the programs, between FOPINAR and FEE we find that the former, in terms of volume of annual sales, produces S/.1.03 million, and the latter S/.866 thousand. This remarkable similarity suggests that perhaps the microenterprises of FEE are not too far from graduation. Unfortunately, the scope of work and the time allocated to this report does not allow me to investigate the differences in profiles between both groups of firms. The comparison of FED's profiles would be equally valid.

Table 5 is included to illustrate a point regarding the variation in the proportion of value added per Sucre of investment accross provinces. This coefficient can be used as a gross measurement of the expected effectiveness of the new microcredit programs in the six secondary cities proposed for the next phase of the project. The mean value is 1.46 and the values for three of the provinces where four of the proposed cities are located are below this mark.<sup>16</sup> There are two cities in provinces with values above 1.46: Quevedo and Santo Domingo. This could signal that the replication of the microcredit program in the four cities with lowest values may be less effective due to local economic conditions, therefore, due care should be given in these cities to the organization of the institutions in charge of the promotion of the corresponding programs. It must be noticed though, that Guayas, where FEE is located has a coefficient of 1.32 while Pichincha, where FED operates, has a value of 2.17. These apparent inconsistencies do not invalidate the notion that the coefficients must be taken as a warning about local economic conditions.

##### 5. Some Issues in the Existing Microcredit Programs.

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16	CITIES	PROVINCES
	Esmeraldas	Esmeraldas
	Ibarra	Imbabura
	Quevedo	Los Rios
	Porto Viejo	Manabi
	Manta	Manabi
	Santo Domingo	Pichincha

(Santo Domingo lies in a new province now.)

One of the central objectives of these programs is to "graduate" their beneficiaries to the "formal" credit system or commercial banks.<sup>17</sup> In this regard, the record until today is rather disappointing. Only 5 individuals from FEE have been "presented" to banks, but there is no information to ascertain their performance. There is no record of graduation from FED's beneficiaries. The fact is that such graduation will not take place until the banks accept these new clients on a regular basis. At this point it is possible to say that there is a serious graduation-acceptance gap which jeopardizes the entire objective of the programs in terms of long-term sustainability of the beneficiaries' economic (and social) improvement. The beneficiaries seem to be using the programs in an effective way, but they have developed, as is to be expected, a dependence on credit for their growth as any other enterprise. It seems that the graduation parameters were not properly designed in these programs, which implies that if credit does not continue to be made available to the beneficiaries, they may regress all the way to where they were before joining the programs.

The Credit Guarantee Corporation that has been implemented to guarantee loans through the commercial bank system does not seem attractive enough to the banks. Only one bank in Guayaquil is willing to consider microentrepreneurs for graduation. The bank has allocated only S/.2 million to this program but is not interested in the credit line since they consider it too cumbersome from an administrative point of view. All this suggests that the real issue of graduation is not simply the perception of risk by the banks as much as the transaction costs involved in handling small loans. If this consideration is correct, the credit programs should continue serving the microentrepreneurs to help them grow until they can handle larger amounts of credit.

The immediate implication of this is that the credit delivery institutions must become self-sufficient in order to offer their services for longer periods of time. Unfortunately, the managerial arrangement of the existing programs and their own philosophy about the programs they administer does not seem consistent with that goal. FEE and FED seem to see themselves as social (or implicitly charitable) organizations, without a convincing commitment towards making a lasting and sustainable impact on economic development. The proof of this is their neglect of having monitored their own operations in terms of more definitive forms of impact. Partial indicators of impact such as number of loans delivered, number of beneficiaries served, and amounts of

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<sup>17</sup> Only individual microentrepreneurs are targeted for this "graduation", not members of solidarity groups, who could do it at a later stage if they join the program as individuals.

money transferred become the final targets of the projects, detracting from their original development goals. If this continues, the institutions themselves become the actual beneficiaries or clients of AID's interventions and not the individuals we intend to serve. FED's case is more complicated because of the recently reported internal problems and the generalized perception that it is contaminated by too much political inclination.

Nevertheless, the situation seems to be manageable towards a more efficient operation if some appropriate decisions are made and implemented. An indispensable element is that the personnel in charge of these programs become aware of and finally committed to the principle of financial self-sufficiency and economic sustainability of their own institutions and their beneficiaries.

Another important issue is the question of employment generation. In this regard we should distinguish the direct employment from the indirect employment generated by the microcredit programs. The former is the employment generated by the beneficiaries themselves through their own enterprises. This is, obviously, easier to observe, though not as easy to measure because of lack of reliable statistics to distinguish between full-time and part-time or temporary workers. The latter is the employment generated by the increase in effective demand from the developing enterprises in terms of the increase in their purchases (intermediate goods), and also according to the increases in purchasing power of the owners (consumption goods). This indirect generation of employment is difficult to measure and requires more elaborate methods of investigation.<sup>18</sup> In what follows, I will only refer to the direct employment.

The record for FEE's microentrepreneurs shows only 9 full-time positions created, and a net loss of two part-time jobs in the sample of 10 described above. If expanded to the entire population, it means a total of 90 jobs. The very scant information on salaries suggest that these individuals are paid at a level higher than the minimum wages, though there is no evidence of these salaries being paid within the legal conditions established by the Ecuadorean labor codes. In any case, the record is not bad since it means that each enterprise, besides maintaining the employment of the owner, is creating almost one more job. FEE's members of solidarity groups in the sample only created 2 full-time positions. Expanded to the population this would mean

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<sup>18</sup> One method would be input-output analysis. However, in the case of activities in the informal sector, which are not generally included in input-output tables, the application of this method presents additional difficulties.

a total of 20 jobs. No part-time jobs were reported for the sample.

Unfortunately, the data for employment generation in FED's microenterprises and solidarity groups is too inconsistent to make any analysis. The most important contribution in this regard could be the stability of the self-employment generated by their beneficiaries whose numbers are significant. Nevertheless, it would be advisable that better information be registered on this factor.

With respect to full-time employment generation, the FOPINAR sample reflects the creation of 10 jobs, while FEE creates 9. These figures correspond to a total initial employment of 30 jobs... in the FOPINAR sample and 17 for FEE. The employment generation for FOPINAR is clearly slower despite its slightly higher rate of growth. It can be argued that this apparent slowdown in employment generation results from the reluctance of entrepreneurs to hire more workers as they grow. This is consistent with the findings of our report of June 1985, in which 46 percent of the entrepreneurs interviewed declared that they would not hire more labor if sales increased steadily and significantly.<sup>19</sup> The reasons for this are in the existing labor code and regulations which increase the entrepreneurs' uncertainty about the ultimate price for labor they may be forced to pay (including strikes), specially if they get to have 15 workers when, according to the law, the workers may organize a union. Even though the enterprises included in the samples are still small in terms of number of workers, some start in these two credit programs with as many as 7 workers (FOPINAR) and 6 (FEE).

#### 6. The Replication of the Microcredit Programs

The considerations made in the previous section are particularly relevant for the replication and expansion of the microcredit programs in other cities. One critical issue (that goes beyond the identification of the institutions that will be in charge of installing and administering the new programs) is what kind of personnel will be assigned to the different tasks and how will they be selected. Conducting a cost-benefit evaluation on an ex ante basis can always determine the feasibility of projects on paper. Something else is to materialize the results of the evaluation. In order to achieve this it is necessary to install,

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<sup>19</sup> See Jorge Sanguinetti, Albert Berry and Augusto de la Torre, A Small Enterprise Development Program for Ecuador: Economic Background Paper, page 23, Partnership for Productivity/International, Washington, D.C., June 1985. The survey consisted of 200 interviews (after attrition) in the cities of Quito and Guayaquil.

at the beginning of the project, a system to monitor its performance. Such a system has the double advantage of producing a regular flow of information that serves for the day-to-day management of the operation, while satisfying the needs for external evaluations. This would provide evaluators to do a more thorough job by spending less time digging up the necessary data. The system, when professionally installed, can be very inexpensive, and its advantages significant. I will return to this topic in the section of conclusions and recommendations.

At this point it appears that the replication of the microcredit program in other cities should be carried out without abandoning the existing programs before they achieve success in terms of self-sufficiency and sustainability. If we are not sure of the long run feasibility of the existing programs, how are we going to guarantee success elsewhere?

The graduation-acceptance gap mentioned above indicates that the final success of these programs depends on a more protracted attention of the beneficiaries. This does not only involve credit delivery, but technical assistance as well. FED reports that their beneficiaries have difficulties in handling and paying off loans greater than S/.40 thousand due to their limited entrepreneurial sophistication. If technical assistance is a bottleneck hidden behind the credit availability bottleneck, it must be developed at a level consistent with actual graduation or acceptance by the commercial banks, and this takes time. This does not seem to be taking place in FED. FEE seems to be closer to this goal since they report some entrepreneurs successfully handling loans of S/.200 thousand.

Self-sufficiency and sustainability at both levels (the institutional and the individual beneficiary) is also necessary to allow these programs to reach increasingly larger numbers of beneficiaries. The first priority is clearly to guarantee the efficiency of these programs, but at their current level of operations, their contribution to the economic development of the country is negligible. We must keep in mind that one of the main rationales in the design and installation of the microcredit programs is the relatively large size of the informal sector in the Ecuadorean economy. Consistently, the initial stages in the development of the programs must envision wider horizons in terms of the replication of the programs elsewhere, as is being planned, and the expansion of the current and future ones.

Another element to take into account in the next phase is the size of the markets in the intermediate cities. The beneficiaries of FEE and FED enjoy the access to the markets of Guayaquil and Quito, respectively. Smaller markets represent less opportunities and more constrained opportunities for growth. Besides, the graduation-acceptance gap described already may be wider in intermediate cities as a result of limited

availability of credit and the existence of more conservative banking practices. If this notion is correct, it implies that the length of time to graduate entrepreneurs will be much greater to achieve the sustainability of the beneficiaries in the long run.

7. Cost-Benefit Analysis of a Micro Credit Program in One City 20/

Table 6 presents the ratio of discounted benefits to costs for two cases which correspond to the low case (240 clients in all years) and the high case (240 clients in year one, 480 in year two, and 720 in years three through five) posited in the financial analysis of the new micro credit programs. Benefits (value added) are taken from the FED data which are the most complete. Benefits are net only in the sense that, as shown in Table 5, they consist of the increment in value added over the level of value added reported by the FED clients for the month prior to entering the credit program. That is, in the absence of a control group or a longer base period over which to measure the firms' ex ante performance, it is assumed that the credit program accounted for all real growth in value added. In fact, it is quite likely that the firms would have grown in real term without the program. However, the observed real growth rates for the FED clients, as discussed above, far exceeded the real annual growth of the manufacturing and service sectors (1.84% and 3.0%, respectively) during the same period. Thus, a considerable portion of the real growth of the FED clients can be reasonably attributed to the program. No benefits accrue in the first year of the Project while the programs are in formation. Operating and loan fund costs were taken from the financial analysis models. Technical assistance costs were derived from the Project budget. All values were deflated to end-of-year 1984 terms.

Over a five year period of the analysis, the low case yields a discounted benefit-cost ratio of 1.77; for the high case it is 3.00. Given the methodological deficiency noted above, it is important to test the sensitivity of the results if it is assumed that only a portion of the increased value added can be

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20/ This section and the related cost-benefit analysis were prepared by Mission staff on the basis of the data compiled by Sanguinety.

attributed to the credit program. The sensitivity analysis shows that, in the low case, the program remains economically feasible when benefits are reduced by up to 40 percent. In the high case, the benefits can be as low as 33 percent of the observed net increment for the FED program and the program remains economically justifiable.

Table 7 presents estimates of the employment and value added impacts for the low, medium, and high membership cases developed in the financial analysis.

TABLE No. 1  
MICROENTERPRISES AND SOLIDARITY GROUPS. FUNDACION ESPEJO.  
ESTIMATED ECONOMIC PERFORMANCE  
(In Thousands of Sucres)

MONTH	EARNINGS		TOTAL ASSETS		VALUE ADDED	
	MIC.	S.G.	MIC.	S.G.	MIC.	S.G.
0	2555	5266	37370	3140		
1	2761	5448	38762	3477	4153	5785
2	2984	5636	40206	3850	4427	6009
3	3224	5831	41703	4263	4722	6244
4	3484	6033	43257	4721	5038	6490
5	3765	6241	44868	5228	5376	6748
6	4069	6457	46539	5789	5740	7018
7	4397	6680	48273	6410	6130	7301
8	4751	6911	50071	7098	6549	7599
9	5134	7150	51936	7860	6999	7911
10	5548	7397	53871	8703	7483	8240
11	5995	7652	55878	9637	8002	8587
12	6479	7917	57959	10672	8560	8951
13	7001	8191	60118	11817	9160	9336
14	7566	8474	62357	13085	9805	9742
15	8176	8766	64680	14490	10498	10171
TOTAL 15 MONTHS	75337	104783			102643	116133
MONTHLY RATE OF GROWTH (%)	8.07	3.45	3.72	10.74	6.88	4.15
LAST 12 MONTHS	66365	87868			89341	98094
ANNUAL RATE OF GROWTH (%) (1)	154	50	55	240	122	63
NET INCREMENTS (15 MONTHS)	37008	25793	27310	11350	64318	37143
AVERAGE INVESTMENT (SAVINGS) RATE (%)			26.61	9.77		
INCREMENTAL INVESTMENT RATE (%)			42.46	30.56		

(1) Month 15 divided by month 3

TABLE No. 2

MICROENTERPRISES AND SOLIDARITY GROUPS.  
FUNDACION ECUATORIANA DE DESARROLLO.  
ESTIMATED ECONOMIC PERFORMANCE

(In Millions of Sucres)

MONTH	EARNINGS	
	MIC.	S.G.
0	17.329	199.990
1	18.148	207.315
2	19.005	214.908
3	19.903	222.779
4	20.843	230.939
5	21.827	239.398
6	22.858	248.166
7	23.938	257.256
8	25.069	266.678
9	26.253	276.446
10	27.493	286.571
11	28.792	297.068
12	30.152	307.948
TOTAL 12 MONTHS	284.282	3055.472
MONTHLY RATE OF GROWTH (%)	4.73	3.66
ANNUAL RATE OF GROWTH (%) (1)	74	54
NET INCREMENT	76.334	655.596

(1) Month 12th divided by month zero.

SOURCE: Fundacion Ecuatoriana de Desarrollo

T A B L E No. 3

COMPARATIVE EARNINGS PERFORMANCE OF MICROENTERPRISES  
(In Thousands of Sucres)

	Fundación Eugenio Espejo	Fundación Ecuatoriana de Desarrollo
Number of Beneficiaries	100	644
Previous Total Annual Income (1)	30660	207948
Per Capita Annual Income	307	323
Annual Income of last 12 months in program	66364	284282
Per Capita Annual Income last 12 months	664	441
Percentual increase in for Capita Income	116	37
Increment of Income over previous year	35704	76334
Per Capita increment in Annual Income	297	118

(1) 12 Times last monthly income reported before entering the Program.

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T A B L E No. 4

COMPARATIVE EARNINGS PERFORMANCE OF SOLIDARITY GROUPS  
(In Thousands of Sucres)

	Fundación Eugenio Espejo	Fundación Ecuatoriana de Desarrollo
Number of Beneficiaries	120	2269
Previous Total Annual Income (1)	63192	199990
Per Capita Annual Income	527	88
Annual Total Income of last 12 months in Program	732	136
Percentual Increase in per Capita Income	39	54
Increment of Income over previous year	24676	107954
Per Capita Increment in Annual Income	206	48

(1) Assuming previous annual income was 12 times last monthly income reported before receiving first loan.

T A B L E No. 5

## MICROENTERPRISES FUNDED BY FOPINAR

ESTIMATED ECONOMIC PERFORMANCE 1985  
(In Thousands of Sucres)

PROVINCE	Investment	Credit	Increment of Value Added	Employment Generated	sucres inv. per sucre of credit	increment or V.A. for sucre invested
Azuay	8938	5149	14777	25	1.74	1.65
Cañar	742	315	694	3	2.35	0.93
Carchi	854	603	787	5	1.42	0.92
Chimborazo	3037	975	2005	3	3.11	0.66
El Oro	3850	2842	3599	10	1.35	0.93
Esmeraldas	242	174	320	1	1.39	1.32
Guayas	1840	1250	2180	5	1.47	1.18
Imbabura	4373	2334	5815	35	1.87	1.33
Loja	7540	5004	11066	44	1.51	1.47
Los Ríos	507	380	975	2	1.33	1.92
Manabí	833	602	640	2	1.38	0.77
Morona Santiago	2694	1012	1768	7	2.66	0.66
Napo	1075	677	4966	9	1.59	4.62
Pichincha	7983	5209	17342	47	1.53	2.17
Tungurahua	1570	854	1114	4	1.84	0.71
Zamora Chinchipe	429	322	N.A.	2	1.33	N.A.
T O T A L S	46507	27702	68048	204	1.68	1.46

SOURCE: Fondo para la Pequeña Industria y Artesanía (FOPINAR).

Table 6  
Economic Analysis of One New Micro Credit Program  
(All Monetary Values in Thousands, Constant End-of-Year 1984)

BENEFITS (FEE Data)

Month	Earnings		Total Assets		Value Added	
	ME	SG	ME	SG	ME	SG
0	2,555	5,266	37,370	3,140		
1	2,595	5,120	36,430	2,951	1,655	4,931
2	2,771	5,234	37,340	3,576	3,681	5,859
3	2,941	5,320	38,045	3,889	3,646	5,633
4	3,089	5,349	38,351	4,186	3,395	5,646
5	3,298	5,468	39,307	4,580	4,254	5,262
6	3,495	5,546	39,972	4,972	4,160	5,938
7	3,717	5,647	40,808	5,419	4,553	6,094
8	4,008	5,831	42,243	5,988	5,443	6,400
9	4,293	5,978	43,426	6,572	5,476	6,562
10	4,611	6,148	44,775	7,233	5,960	6,809
11	4,919	6,278	45,847	7,907	5,991	6,952
12	5,202	6,356	46,531	8,568	5,886	7,017
TOTAL - MONTHS 1-12	44,939	68,275			54,100	73,703
NET INCREMENT - MONTHS 1-12	14,279	5,083	9,161	5,428	23,440	10,511

	ME	SG	
No. of clients (firms/groups)	100	120	
Net increment in value added	23,440	10,511	
Avg. net increment in value added per client per year	234	88	
Avg. distribution of beneficiary types	0.3	0.7	
Avg. net increment in value added per composite client per year			132
Weight (for sensitivity anal.)			100.00%
Adjusted net increment in value added per composite client per year			132

EXTERNAL TECHNICAL ASSISTANCE COSTS

Total cost - all new micro credit programs (US\$)	1,440
No. of programs	6
Cost per program (\$US)	240
No. of years	3.5
Cost per program/year (\$US)	69
Exchange rate IS/ per \$US)	119

Cost per program/year (S/.) 8,160

COST - BENEFIT ANALYSES

Discount rate 10.0%

CASE I. LOW MEMBERSHIP

Year	1	2	3	4	5	NPV
No. of clients (cumulative)	0	240	240	240	240	
Total benefits (value added)	0	31,592	31,592	31,592	31,592	91,039
Costs:						
Operating	6,412	5,623	4,876	4,044	4,540	
Fixed assets	3,574					
Loan fund	5,507					
External technical assistance	8,160	8,160	8,160	4,080		
Total costs	23,653	13,783	13,036	8,724	4,540	51,465

Benefit/cost ratio 1.77

CASE II. HIGH MEMBERSHIP

Year	1	2	3	4	5	NPV
No. of clients (cumulative)	0	240	480	720	720	
Total benefits (value added)	0	31,592	63,184	94,777	94,777	197,163
Costs:						
Operating	6,430	6,312	6,736	7,091	7,292	
Fixed assets	3,574	69	66	28	49	
Loan fund	5,507	5,507	5,507			
External technical assistance	8,160	8,160	8,160	4,080		
Total costs	23,671	20,048	20,469	11,199	7,341	65,674

Benefit/cost ratio 3.00

Sensitivity Analysis

Benefit Weight	Benefit/Cost Ratio Case I	Benefit/Cost Ratio Case II
	1.77	3.00
100.0%	1.77	3.00
75.0%	1.33	2.25
65.0%	1.15	1.95
50.0%	0.88	1.50
33.0%	0.58	0.99
25.0%	0.44	0.75

Table 7  
Ecuador Small Enterprise Development Project (S18-0056)  
Estimates of Beneficiary, Employment, and Value Added Impacts  
(Impacts limited to new micro credit programs)

Assumptions

Type of Client	ME	SG	
Employment generation per client per year	1.0	0.0	
Net increment in value added per client per year (\$7,000, constant 1984)	234	88	
Avg. distribution of client types	0.3	0.7	
Avg. net increment in value added per client per year (\$7,000, constant 1984)			132
Avg. no. of firms in SG			5
Avg. no. of years each client in program			2

Scenarios

	CASE I (Low)	CASE II (Medium)	CASE III (High)
Cumulative no. of members			
Year 1	240	100	240
Year 2	240	300	480
Year 3	240	540	720
Total no. of beneficiary firms			
Per program	1,824	2,432	3,648
(Est. no. of firms in one city)	(3,750)	(3,750)	(3,750)
6 programs	10,944	14,592	21,888
Total employment generated			
Per program	216	282	432
6 programs	1,296	1,692	2,592
Value added generated (\$7,000, constant 1984)			
Per program	94,396	123,892	189,792
6 programs	569,376	743,352	1,138,752

### III. The Technical Assistance Component (INSOTEC).

A cost-benefit analysis of this part of the Small Business Project is not feasible at this point due to the lack of basic information on past achievements or future projections. INSOTEC has never functioned with a criteria focused on the economic development impact of its interventions on industrial sectors or individual firms. They perceive their successes through the acceptability of their services by the trade associations served with technical assistance, but those impacts are not documented.

The best argument for their importance in the Small Business Sector Project must be found indirectly by the importance of the technical assistance in other interventions, such as the one carried out by Fundación Espejo. As discussed previously in this report, the higher differential impact of the credit programs for individual microentrepreneurs of FEE in relation to their FED's counterparts can be attributed to the greater intensity of these services in the case of the former institution. We must keep in mind the reports from FED pointing out the relatively low capacity of their beneficiaries to handle loans beyond S/.40 thousand, and the generalized notion that this low performance ceiling results from lack of complementary basic training.<sup>21</sup>

The cost-benefit analysis of INSOTEC's project is, in any case, difficult to carry out because, as many non-for-profit organizations do, they assume the intrinsic developmental value of their actions, which they measure by the number of interventions, length of their duration, amount of resources allocated, and number of beneficiaries served. This approach confuses costs with benefits, and forces donors to allocate funds on the basis of faith alone. Yet, the fact remains that economic evaluations of impact are inescapable, not only from the point of view of the needs of donor agents, but because regular and rigorous economic evaluations are an indispensable instrument to monitor the efficiency of this type of intervention.<sup>22</sup>

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21 The concept of training applied here consists of the non-formal kind especially designed to satisfy the most basic and practical needs of microenterprises.

22 The author discussed these concepts with INSOTEC's official and they expressed their agreement with them and their commitment to take appropriate actions in the future to correct the situation.

In lieu of a formal cost-benefit analysis, a literature review was conducted to determine the economic results of small enterprise technical assistance programs elsewhere. The review covered 23 studies which are listed in the bibliography at the end of this Annex and referenced by number in the following summary of the literature review.

Many studies of small-scale businesses have noted the problems caused by the lack of managerial and technical skills on the part of their owners (7,19). To promote the productive use of the financial resources, small enterprise credit programs frequently contain a technical assistance component (1). In fact, many programs require participation in the training component as a condition for credit approval (4,9). Some agencies provide free technical assistance; others charge a fee for service (1).

Technical assistance programs traditionally have included training in financial recordkeeping and management advice. Managerial training may include marketing, procurement, supervision of employees, organization of production and use of credit (8, 23). Training has been offered through courses, through solidarity groups and through visits to individual places of business (2).

Evaluations of credit delivery programs have produced mixed reviews on the value of the technical assistance components. Some studies have brought into question the efficacy of training by noting that many of the entrepreneurs do not continue with techniques that they have learned once credit is approved or the classes end (13,20).

An evaluation (2) of the Brazilian agency, UNO, gave particular attention to the technical assistance component because of its prominence in the agency's operating budget (approximately 30 percent), its potential for increasing production and productivity, and its standard inclusion in most small business credit programs. The author found that the courses and advice offered by UNO seemed to have little impact on their clients; attendance at courses and seminars was poor and most business owners did not adopt suggested recordkeeping procedures. Interviews with the agency's clients revealed that they had found the training to be overly general rather than specific to their businesses and that the trainers were ill prepared to give them the help they needed. Similar findings were reported in several of the other evaluations covering projects in Africa and the Caribbean (9,11,12,13).

The author of the UNO evaluation suggests that some of these mistakes might have been avoided if there had been client

participation in the program design for the technical assistance component. A World Bank review of strategies for bolstering the private sector (11) offered the following suggestions for enhancing the usefulness and acceptance of the technical assistance components of small enterprise development projects:

1. Technical assistance should be specialized rather than trying to cover all areas and should be appropriate to the level of the enterprise. (For example, double-entry bookkeeping may not be needed by a Caribbean street hawker to know how his business is doing, but is a necessary and useful management tool for a business owner approaching "graduation" from a credit program.)

2. Trainers should be competent in the skills area they are teaching.

3. Recipients of the training should be represented in the management of the program.

4. Market rates should be charged for training and extension services as a test for their usefulness and to ensure that the demand for them exists.

Evaluation studies discuss two aspects of project performance to be monitored and evaluated, the internal and the external (1,4). Internal monitoring (i.e., the efficiency of the performances of the donor agency, the implementing institution and the participating small enterprises) is important and necessary, particularly in the early institution-building stages of a project (12). However, care must be taken that internal efficiency is not used as the measure of impact or the project becomes an end in itself rather than a method for effecting changes in employment and income in the community (1,2,14).

Extensive efforts have been made by donor agencies and home country governments to single out effective technical assistance interventions from among the many small enterprise projects and, by examining their benefits and costs, to identify the elements necessary for replicating the successful ventures (2,4,11,20). Difficulties in achieving this goal arise from conflicting points of view about what success is and from complexities associated with the monitoring and evaluation process: what is to be measured (i.e., what are the benefits or impacts to be expected from technical assistance) and how is the measurement to be done (i.e., how are these benefits to be quantified). The evaluation literature associated with small enterprise technical assistance offers a range of expectations about benefits and impacts, from the acquisition of bookkeeping

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skills to an improved quality of life through enhanced self-esteem (1,4,10). Recommendations are made that every project needs a data-collection system, relevant to the objective of the project, to monitor its work and to determine the impact of its effort (1,4,15). However, the reality is that few micro enterprise projects have good monitoring systems in place or integrate them into decision-making and evaluation processes. As an author of one of the recent evaluations noted, "measuring the true influence of technical assistance is a slippery business" (Kilby, 9, p. 119).

The difficulties caused by the multiplicity of approaches to determining the results of development interventions is reflected in the following excerpts from two recently published (June and July 1985 respectively) USAID special evaluation studies "on the role of private voluntary organizations and the development of PVO small-scale enterprises" (8,9). One of the findings of the first report, a multiple-project evaluation study, (9) reads as follows:

Despite the intuitive appeal of technical assistance as a means of strengthening the managerial and technical capacity of borrowers, the records in these projects and elsewhere is that such assistance does not reduce production costs or permit more rapid expansion for the vast majority of its recipients. On the other hand, by adding substantially to costs, technical assistance worsens the benefit-cost ratio.

Yet, the following observation about the value of technical assistance was made in the second study (8) under the heading of What Works to Produce Benefits:

Technical assistance (training and extension services) can be an integral part of small-scale enterprise projects. Such assistance is most effective when it is carefully tailored to specific needs, limited in scope and duration, and carried out by individuals with skills appropriate to the specific tasks at hand.

A recent evaluation by Robles (16) has produced evidence of economic impact on the beneficiaries of technical assistance in Panama in the USAID/APEDE (Asociación Panameña de Ejecutivos de Empresa) project. In a sample of 115 small entrepreneurs in APEDE's training program it was found that 90 percent of the respondents stated that the program was beneficial to them, and 93 percent stated that the program had definitely improved their businesses. The number of employees grew from 570 before starting the program, to 668 after participating, or an increase of 17 percent. The corresponding increase in monthly

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gross sales totaled \$269,190, or 30 percent, while the increment in total assets was 26 percent on an initial level of \$3.5 million.

This program, however, had difficulties in terms of financial self-sufficiency, in spite of the growth that their beneficiaries experienced. The report by Robles (16, p. 56) states that "no training program for small business entrepreneurs, or any small business development project for that matter, by a non-profit organization has to date been known to have ever reached self-financing status." This seems to result more from the managerial deficiencies of the promoters and the design parameters of the projects than from the economic benefits that the programs produce.

In summary, the available research does not produce sufficient evidence about the impacts, positive or negative, of technical assistance on small scale firms. The partial evidence suggests that well-designed technical assistance programs for small-scale enterprises may be justified on a strict cost-benefit relationship. This could serve as the base for the financial self-sufficiency and long-run sustainability of these programs.

#### IV. The Institutional Representation Component

My ideas on this component are based exclusively on personal interviews. No information on past or future economic impact of this program is available. It is assumed that the strengthening of institutional representation of trade associations will contribute to the economic improvement of their members, while at the same time producing a positive impact on the economic development of Ecuador. Instead of providing an economic analysis of what has happened, I am limited to offer some views on the conditions that must be fulfilled for this component to achieve its developmental impact or, in other words, to help in making a future cost-benefit analysis show positive results.

In this project, we must distinguished between the benefits to the beneficiaries (private benefits) and the benefits to the national economy as a whole (social benefits). Institutional strengthening is a necessary condition for economic development if envisioned as capable of creating mechanisms that will help private entrepreneurs to organize themselves in a more effective ways to obtain:

- a) More access to credit institutions
- b) Technical assistance to improve their productivity
- c) Political influence to lobby for free market practices, less bureaucracy and sound economic policies
- d) Better information on business opportunities at home (investments) and abroad (exports, not capital flight)

Yet, institutional strengthening can be a double-edge instrument. If carried out for the private benefit of the associations (their leaders or individual members), without a firm committment towards the public good, it can produce some undesirable effects such as:

- a) Political influence to lobby for subsidized interest rates, restrictions to market entry, protectionism, and unfair tax exemptions.
- b) Monopolistic practices (cartels) such as collusion and price fixing
- c) Monopsonistic practices to control supplies and hiring of workers
- d) The use of the associations by their leaders for their exclusive political advantages

There is enough anecdotic evidence to believe that those deviations can be a plausible threat to the original goals of this project. For instance, entrepreneurs in different regions tend to organize "Cooperativas de Acopio" under the excuse of stabilizing prices and supplies, but ending in reducing competition in the factor markets and paying prices below the actual social cost of what they buy. Another frequent case is the small scale industry members pressing for subsidized loans from the government, despite the fact that many deviate those loans for purposes different from the original objective. Their claim clashes with the evidence shown in this report regarding the ability of microentrepreneurs to pay for high interest rates (FED) and still grow.

The question is how to manage institutional strengthening towards the social benefit and away from the undesirable outcomes. The answer is, again, in the appropriate monitoring of the project while under execution and since it starts. It is not enough to formulate the targets of this project solely in terms of the numbers of institutioned being strengthened or the increases in membership. Not even the achievement of financial self-sufficiency of the associations is a valid final target to ascertain their contribution to the economy.

It is obvious that measuring economic impact in this type of project constitutes an elusive proposition; yet, it is achievable by a system similar to the one proposed above for the INSOTEC's actions. Simple surveys can be applied from time to time to examine the economic evolution of the beneficiary sectors. Nevertheless, the surveys would have to look upon possible negative externalities such as monopolistic practices and actions that introduce distortions in the rest of the economy.

Developmental Impact of Technical Assistance  
for  
Small-scale Enterprises

Bibliography

1. Agency for International Development, A Manual to Evaluate Small-Scale Enterprise Projects, Washington, D.C. (November 1985).

Purpose of the manual is to overcome evaluation constraints by providing a systematic methodology and set of applied guidelines for use in evaluating small-scale enterprise development. The manual contains "practical advice on how to conduct cost-effective impact evaluations of SEE promotion projects in developing countries under less than ideal circumstances." Three levels of effort are given to respond to varying time and budget constraints and evaluation objectives.

2. \_\_\_\_\_, The PISCES II Experience: Case Studies from Dominican Republic, Costa Rica, Kenya and Egypt, Volume II, Washington, D.C. (December 1985).

Presents evaluations of four demonstration projects designed, implemented, and evaluated during PISCES (Program for Investment in the Small Capital Enterprise Sector) Phase II. Project development was based on key elements identified during PISCES Phase I study of 20 informal sector projects.

3. Anderson, Dennis, "Small Industry in Developing Countries: A Discussion of Issues," World Development, Vol. 10, No. 11 (1982).

Suggests that studies of the role of entrepreneurship in small businesses are favorably biased because most evaluations deal only with existing businesses; hypotheses should be tested on evidence drawn from successes and failures. Describes most observers as agreeing that there are serious and enduring economic and technical efficiency problems in the lower size ranges. Views extension programs as useful elements in the financing of small industries because they improve the required documentation and absorb part of the transaction costs associated with the loans. The advisory services also address the internal technical inefficiencies frequently identified with small-scale enterprises including management, investment, purchasing, sales, and financial and other recordkeeping.

4. Ashe, Jeffrey, The PISCES II Experience: Local Efforts in Micro-Enterprise Development, Volume I, Agency for International Development, Washington, D.C. (April 1985).

Report presents general conclusions about small enterprise assistance efforts and represents the completion of 6-year study by AID into the feasibility of assistance to the small-enterprise sector. It is based on the four case studies presented in Volume II and on the findings of the PISCES Phase I research and other evaluations of related development projects.

5. Chuta, Enyinna and Carl Kiedholm, "Employment Growth and Change in Sierra Leone Small-scale Industry, 1974-80", International Labour Review, Vol. 121, No. 1 (January-February 1982).

Article describes the growth aspects of small-scale industries by comparing the results of 1974 and 1980 surveys conducted in Sierra Leone, examining aggregate and sectoral growth, entry and closure rates, patterns of reinvestment.

6. Fowler, D.A., "The Informal Sector of Freetown, Sierra Leone," Working Paper 26, International Labour Organization, Geneva (1978).

The survey respondents in this study cited the lack of loan and credit facilities as their most difficult obstacle. Their perceptions of banks were that they were "impersonal and hostile structures" which "exist for foreign business" and "powerful indigenous figures."

7. Harper, Malcolm, "The Employment of Finance in Small Business," Journal of Development Studies, Vol. 11 (July 1975).

Reports that inefficient management often has been misinterpreted as capital shortage, because of excessive investment in equipment and inventory. Additional credit without improvements in management will have little impact.

8. Hunt, Robert, Private Voluntary Organizations and the Functions of Small-Scale Enterprise, Agency for International Development, Washington, D.C. (July 1985).

Presents an analysis of the role of private voluntary organizations (PVO) in the promotion of small-scale businesses relying on recent USAID evaluations of PVO projects.

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9. Kilby, Peter and David D'Zmura, Searching for Benefits, Agency for International Development, Washington, D.C. (Spring 1985).

A comparative analysis of five evaluation studies of small enterprise credit projects in which three tiers of economic benefits were constructed for each project. The benefit-cost calculation used was internal rate of return. Suggests that in future use of this type of methodology interviews also be conducted with nonassisted firms. Found that most assessments of technical assistance had been intuitive and that there was little documentation of actual benefits from technical assistance. General finding of the report was that working capital loans for established enterprises represent a single "missing ingredient" with a high real rate of return.

10. Lassen, Cheryl, A Systems Approach for the Design and Evaluation of FVO Small Enterprise Development Projects, Partnership for Productivity, Washington, D.C. (August 1984).

Recommends the development of a sourcebook that would serve as a manual for the design and performance assessment of FVO small-enterprise development projects. The purpose would be to give management and analytical tools to personnel involved in project implementation decisions.

11. Marsden, John, "Creating the Right Environment for Small Firms," Economic Development and the Private Sector, World Bank, Washington, D.C. (1981).

Describing the need for technical assistance as component of programs fostering small enterprises, he recommends that charges for advisory services should be on a full-cost basis so that there will be evidence from the market to demonstrate their utility. Finds that public technical assistance institutions are more likely to be useful if they are specialized rather than trying to cover all areas of need. Also notes that usefulness is more likely if the intended beneficiaries are adequately represented on the governing bodies of these services.

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12. National Development Foundation of Belize (NDF/B), Evaluation of Its Program to Support Small-scale and Micro Enterprises, Pan American Development Foundation, Washington, D.C. (1985).

NDF/B was established in 1983 as a cooperative venture of USAID, Pan American Development Foundation and the Government of Belize; its purpose was to provide an assistance program to the micro and small-scale enterprise subsector of Belize.

13. National Development Foundation of Dominica (NDFD), Final Evaluation Report 1982-83, Moreau & Co., Dominica (1984).

Established in 1981, NDFD is a non-profit organization whose objective is to provide credit and technical assistance to the micro-sector of the economy in Dominica. Technical assistance was provided by Field Officers who visited the individual businesses and was focused primarily on bookkeeping and accounting skills. Although 75 percent of the participants rated the advice as useful or better, the number of businesses keeping records actually declined during the course of their participation in the program. The inadequacy of the recordkeeping posed serious problems for the evaluation process because of the difficulty in determining the profitability of the enterprises.

14. Nihan, Georges et al., "The Modern Informal Sector in Lomé," International Labour Review, Vol. 118, No. 5 (1979).

Describes the poor standards of technical management and bookkeeping at varying levels of capital investment which they consider to be the major barrier to success.

15. Pan American Development Foundation, An Assessment of Five National Development Foundations: A Description of Their Credit Programs, Washington, D.C. (Spring 1983).

The five NDFs assessed in this study were those of Jamaica, Haiti, Guatemala, Nicaragua and the Dominican Republic (the study of this foundation was not included in the published report). Objectives of the study were to describe the foundation lending programs and to identify the types of information the NDFs collect and analyze to evaluate program impacts. Analysis was limited by the lack of local evaluations and of basic information on program participants.

16. Robles, Eliodoro G., USAID-AFEDE Entrepreneurial Development Project No. 525-0187 Panamá, Final Report, Panamá, (1985)

17. Schmitz, Hubert. "Growth Constraints on Small-scale Manufacturing in Developing Countries: A Critical Review," World Development, Vol. 10, No. 6 (1982).

Discusses expansion possibilities of small-scale business and possible constraints (internal and external) they may face. Examines theoretical and empirical bases for various points of view regarding growth constraints. Concludes that most opinions are intuitively, rather than empirically, based and recommends additional research.

18. \_\_\_\_\_, Case Studies of Accumulation and Employment in Small-Scale Brazilian Industry, London (1982).

Criticizes emphasis on management training for small firms. Given greater relative importance to the firms' successes of external factors over internal factors, feels that it would be more beneficial for government to look at changing the incentive structures regarding small enterprises.

19. Staley, E. and R. Morse, Modern Small Industry for Developing Countries, New York (1965).

In assessing the relationship between the unavailability of capital and the frequent failure of small enterprises to enjoy continued prosperity or to grow into medium-size ventures, Staley and Morse raise the question as to "whether lack of capital may not be a symptom in some cases of other handicaps, especially unskilled management and lack of education." (Page 123).

20. Tendler, Judith, Ventures in the Informal Sector and How They Worked in Brazil, USAID Special Evaluation Study, Washington, D.C. (March 1983).

Assesses the Northeast Union of Assistance to Small Businesses (UNO), a voluntary organization created in 1972 and currently funded by the Brazilian government and the World Bank. Technical assistance is provided through courses and field visits covering basic bookkeeping, management and sales promotion; technical assistance regarding production processes is not provided. Author found these interventions to have little acceptance by participants.

21. Watanabe, Susumu, "Reflections on Current Policies for Promoting Small Enterprises and Subcontracting," International Labour Review, Vol. 104, July-August (1971).

22. World Bank, Employment and Development of Small Enterprises, Sector Policy Paper, Washington, D.C. (1978).

23. \_\_\_\_\_, Small Enterprises and Development Policy in the Philippines: A Case Study, Washington, D.C. (1981).

Technical assistance was provided by two major agencies, MASICAP and SBAC. MASICAP was involved solely in project planning and the loan application process; its purpose was to reduce the transaction costs of obtaining loans. SBAC provided advisory services to small industries in centers where assistance on marketing, managerial support, and technical and financial issues was offered individually and in seminars.

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INSTITUTIONAL ANALYSIS

A. Technical Assistance Services Component <sup>1/</sup>

This component will be implemented by the Institute for Socioeconomic and Technological Research (INSOTEC). This section of the Institutional Analysis examines the three main institutional providers of technical assistance to enterprises, as identified in the baseline studies for the Project, and concludes with the justification for selection of INSOTEC.

1. CENAPIA

Created in 1975 under the Ministry of Industry and Economic Integration (MICEI), CENAPIA is the primary government institution responsible for the supervision of loans from the Central Bank's Fondos Financieros and the provision of complementary technical assistance to these credit beneficiaries. CENAPIA has delivered technical assistance services primarily via seminars on management, production, and marketing and through follow-up in-plant consulting to individual entrepreneurs.

Credit supervision is the primary basis for determining technical assistance requirements. CENAPIA also carries out feasibility studies and studies on new lines of investment. Twelve seminars were carried out in 1984, and 26 will be conducted in 1985 for small industry. An additional 18 seminars will be conducted for artisans in 1985.

Despite its regional presence, the quality of services delivered by CENAPIA has not been satisfactory. Though CENAPIA has over 80 employees, only seven professionals are technical assistance resource personnel - three for small industry and four for artisans. These technical assistance staff are generalists and are not professionally prepared to provide appropriate technical assistance. Very low salaries and the lack of direction from management have been major disincentives.

The regional staff lacks authority, project funds, and in many cases initiative for technical assistance activity. Staff morale in the institution is very low and the recent departure of several well-qualified technicians does not bode well for the institution.

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<sup>1/</sup> From "Analysis of the Technical Assistance Component of the Ecuador Small Business Development Project", Cressida McKean (October 1985).

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The institution's responsibility for monitoring 2,000 to 2,500 loans diverts the professional staff's attention away from technical assistance services. Two-thirds of CENAPIA's budget comes from the Central Bank, which requests that CENAPIA monitor these loans from Fondos Financieros. The remaining third comes from the general government budget. CENAPIA does not charge for its services.

CENAPIA's existing infrastructure is underutilized. The demonstration workshops in food processing, wood products, shoe manufacturing, and metalwork, developed as a result of previous UNIDO project support, are currently not in use, given the lack of qualified technical support services and the inappropriateness of demonstration equipment available. In several regions, problems associated with these demonstration workshops have served more to undermine the activity of the regional offices, rather than strengthening them.

CENAPIA's current director is responsive to proposals to upgrade the institution's technical assistance delivery capability. His efforts to obtain financing and carry out a national survey of small industry and artisans are commendable.

In the view of many people interviewed both inside and outside the institution, "el problema de fondo es que hay una falta de decisión para que sea una institucion efectiva." The lack of coherent direction and vision, the scarcity of qualified technical personnel, and the lack of bureaucratic responsiveness seriously limit CENAPIA's potential as a technical assistance resource.

## 2. CENDES

Created as semi-autonomous government institution in 1962 with A.I.D. support, CENDES has authority to provide technical and management assistance to industrial enterprises to increase their productivity, and to disseminate technical information and to promote industrial decentralization, among other services. Each of these services is directly relevant to the needs of small industry. However, CENDES has a legal mandate to provide services only to medium and large scale industry.

The approach to small industry assumed by CENDES staff to date has been to respond to specific requests for technical assistance from small scale firms as they are received. However, CENDES' primary concern with the requirements of medium and large industrial firms and with large scale investment promotion activities appears to distort their staff's conception of "small." A working definition of small industry within CENDES is a firm with fixed assets of under US\$450,500, while the definition established by the Ley de Fomento de la Pequena Industria y Artesania is a firm with less than US\$171,171 in fixed assets.

CENDES' management seminars, feasibility and sector studies, and information services are all services relevant to small industry. While opinions vary, the quality of these services for industry is generally considered to be

good. However, the actual feasibility of many large scale investment proposals has been open to question. The technical staff tends to be well qualified and the institution is efficiently run. However, a major limitation for small industry is the insufficient priority given by CENDES to regional activities.

The Cuenca regional office, with three professional staff members, which is responsible for the provinces of Azuay, Cañar, Loja, and Zamora, lacks decentralized project funds for technical assistance activity as well as transportation. The staff at the regional offices in Cuenca and Riobamba are particularly responsive to promoting technical assistance activities directed at small firms. However, CENDES' management is giving priority to developing large scale investment projects, and further decentralization of staff resources is not likely.

Though reform of CENDES' statutes is not anticipated, the institution is responsive to proposals for increased service delivery to small industry. CENDES' technical expertise in sectoral studies and its Servicio de Información Técnica (SITE) are specific services which could be subcontracted to serve small manufacturing firms. While conflict over responsibilities with CENAPIA might be the outcome, CENDES has potential as a technical assistance resource.

### 3. INSOTEC

INSOTEC was established in 1979 as a non-profit institution largely at the initiative of a group of small industrialists and a group of technicians and researchers linked to the SME sector. The principal objectives are to carry out research and train researchers, to promote the training of small enterprise managers, to stimulate the better use of technology through technical assistance, and to design methodologies for group oriented technical assistance.

INSOTEC provides the following services to the small industry sector: organizational development of provincial and national small industry associations as well as artisan groups; censuses and sectoral needs assessments of small industry by province; and specific technical assistance activities.

These technical assistance activities include: the creation of technical departments in the small industry associations; training programs in industrial standards, quality control, production process analysis, product design, management, and cost analysis; project development for small industry associations or groups of firms in a given sector, such as in the organization of savings and loan cooperatives, and the joint purchase of fixed capital inputs; and development of training materials in specific technical areas.

However, these services are provided in the context of a methodology for technical assistance services developed by INSOTEC. Briefly, INSOTEC has given priority in the initial stages to institution-building of small industry

associations at the provincial level primarily to develop a locally-based counterpart able to mobilize the financial resources of affiliates, and to direct and manage technical assistance activities. Seminars and follow-up project development activities are the primary vehicle of such support.

Regional censuses and needs assessments of given branches of small industry activity provide the basis for technical seminars for groups of firms in a given industrial sector (the food products industry) for example, in such subjects as quality control. These studies and workshops serve to develop technical training material, e.g., a manual on the use and treatment of wood for small sawmilling firms.

Apart from direct organizational and sector specific assistance to approximately 10 provincial small industry associations, INSOTEC has organized 49 seminars for approximately 1,500 small industrialists over a three year period (1983-85), an average of more than 16 seminars annually.

There is general agreement among the provincial small industry associations, the National Federation of Small Industry, and local FOPINAR staff knowledgeable of INSOTEC's activities that the quality of its services is good to excellent and is ranked uniformly higher than CENAPIA. The primary comment about INSOTEC, heard primarily from managers of the larger small firms, is the need for more specific and specialized technical assistance.

INSOTEC's staff is capable of efficient, well-organized delivery of technical assistance. Though the technical staff is well educated, it is somewhat limited in terms of specialized technical expertise and the number of permanent professional industrial engineers.

The management's concern to raise the technical level and increase the number of technical staff has led to the recent contracting of two engineers: one, an industrial/electrical engineer well established in small industry sector; and another, a chemical engineer with computing expertise. Currently, INSOTEC's permanent technical staff includes four engineers with differing expertise, an industrial economist, and a sociologist. An important indication of staff capability is the low turnover rate of the professional and administrative staff.

INSOTEC could still make better uses of its "installed capacity" in terms of technical assistance if its staff gave somewhat less attention to diagnostic research on small industry and more attention to direct service delivery. However, only limited funds have been available to INSOTEC for subcontracting external specialists to increase technical assistance activity.

In this regard, it is important to recognize that INSOTEC has been agile and effective in mobilizing human resources from public and private sector institutions. While the experience varies by sector and by province, INSOTEC has gained the collaboration of CENAPIA, the Instituto Nacional de Normalización (INEN), the Association of Mechanical Engineers, the engineering and business faculties of a number of universities and politechnics, the FOPINAR representatives of the CFN, and local management

consulting and accounting firms. INSOTEC has been instrumental in the design of 70 percent of the technical assistance projects approved by FOPINAR in the last two years, even though the institution presenting the request may be a small industry association or an artisan grouping.

Moreover, INSOTEC has the capacity to further develop its knowledge of universities as a technical assistance resource base for small industry, as a result of a project with CONACYT, the national science and technology institute. The project undertaken by INSOTEC is "The Relationship of the University Community with the Productive Sector in the Small Industry Branches of Food Products and Metalworking." An ultimate objective of this research is to present policy guidelines for the better utilization of these university resources to serve small industry's requirements. This capacity for human resource mobilization is one of INSOTEC's key strengths and should be built upon.

Unlike government providers of technical assistance, INSOTEC does encourage a policy of fees for technical assistance services. Small industry associations or groups of firms are expected to cover from a nominal amount to two-thirds of the total cost of the technical assistance provided.

In the case of seminars, the association charges from 1,000 to 2,000 sucres per participant, often at the specific request of INSOTEC staff. In the case of specific project feasibility studies or similar activities, the association covers part of the cost with affiliates' monthly contributions and other sources of revenue. This amount provided by the association is necessarily contingent on the affiliates' ability to pay. The balance of the technical assistance costs are usually covered by funds available to INSOTEC (usually one third) and other sources, such as the FOPINAR, the Banco Nacional de Fomento, the municipality, etc. However, the marshalling of these financial resources has been carried out primarily by INSOTEC staff, in conjunction with the group concerned.

If technical assistance service delivery by INSOTEC were expanded, it is anticipated that this system for joint coverage of the costs of technical assistance would be continued. The group of firms would cover from one tenth to two thirds of the total cost, depending upon the firms' capacity to pay.

A primary source of revenue for INSOTEC's technical assistance to small industry is the German foundation, Konrad Adenauer Stiftung, which has agreed to provide approximately \$100,000 year for 1985 to 1987 for technical assistance activities. Other revenue sources are CONACYT, the Canadian Institute for International Development (CIID), and other government and foreign donors which have provided funds primarily for sectoral diagnostic studies. These diagnostic studies have formed the data base for technical assistance activities to small enterprises. However, complementary funds for follow-up specialized technical assistance to groups of firms have been limited.

4. Proposed Executing Institution and Complementary Technical Assistance Resources

It is recommended that INSOTEC be the principal executing institution to manage a program of expanded technical assistance service delivery. First, INSOTEC has an established relationship with many small industry and some artisan associations, which perceive INSOTEC as a legitimate partner worthy of trust. Second, INSOTEC is knowledgeable about the structure of small industry and is developing increasing technical capacity to devise appropriate, specialized project activity. Third, INSOTEC has developed a facility for mobilizing regional human resources and financial support from beneficiaries and others for technical assistance activities. Fourth, INSOTEC has a relatively cost effective methodology for providing technical assistance which involves targeted specialized assistance to groups of firms in a given industrial sector.

While INSOTEC has the basic institutional capability to manage increased technical assistance delivery, it will necessarily have to strengthen its management capacity to make effective use of complementary technical assistance resources. These human resources would be subcontracted primarily at the provincial level to provide specialized technical assistance support.

These resources would include: technical faculty in provincial and national universities; professionals in accounting, engineering and consulting firms; and other qualified individuals identified by INSOTEC. At the provincial level, INSOTEC has already established a preliminary working relationship with the Faculty of Food Engineering at the Technical University of Ambato and the Faculty of Chemical Engineering and the School of Industrial Technology at the Catholic University in Cuenca, among others, through its work with the small industry associations.

B. Center for Educational Research, Planning, and Technologies (CIPTÉ)<sup>3/</sup>

1. Bases for Institutional Selection

Based on the sector study for the Project and subsequent discussions with INSOTEC and other knowledgeable sources, three local organizations were identified with the potential to implement the representational organization strengthening activities. All three organizations presented letters of interest or intent. The criteria for evaluating the organizations and brief sketches of each are presented below. On the basis of these criteria and data, INSOTEC and A.I.D. agreed upon the selection of CIPTÉ.

a. Criteria for institutional selection

- 1) In order to promote institutionalization of the organizational strengthening methodology, preference will be given to local Private Voluntary Organizations. This excludes private consulting firms as possible lead institution for the component.
- 2) The local PVO would have to have an established track record and be operational. The lead organization could not be "created" or "reactivated" for the project.
- 3) The institution should have experience in the general category of activities contemplated in the Project, namely:
  - \* Organizational development
  - \* Motivational and leadership training
  - \* Training of instructors
  - \* Development and adaptation of training and educational materials
  - \* Adult education, education and the workplace
  - \* Human resources development
- 4) Beyond the normal requirements in terms of internal administrative capabilities, the Project requires that the institution grant, supervise, and evaluate a series of subgrants to representative institutions. This presumes an additional level of administrative strength.
- 5) Experience with small entrepreneurs and generally with private sector institutions.
- 6) Non-conflictive and preferably collaborative relations with other organizations involved in the Project.
- 7) Interest and ability to work with A.I.D.

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<sup>3/</sup> This section of the Institutional Analysis was prepared by consultants Ann Fitzgerald and Gino Lofredo.

b. Centro de Investigación, Planificación y Tecnología Educativas (CIOTE)

CIOTE currently meets most of the criteria outlined above to be lead organization for this component.

- 1) It is legally established local PVO.
- 2) It was formed in 1980 and has been active since.
- 3) CIOTE's programmatic strength is in the general area of organizational development, leadership training, and training and educational technologies and methodologies.
- 4) CIOTE has its own accounting/administration systems in place. Given their current level of activities and operating budgets we foresee a need to strengthen this aspect of the organization if it is to manage the component. Similarly, CIOTE may need help to establish subgrant administration procedures.
- 5) CIOTE has had experience with private sector institutions and enterprises such as production and credit cooperatives and micro enterprises in various regions in Ecuador. CIOTE's relationship with INSOTEC is expanding the organization's links with the sectors and institutions targeted in the Project.
- 6) CIOTE has participated in A.I.D. regional and Ecuador bilateral projects. CIOTE also worked with the Fulbright scholars exchange program, with several U.S. and European universities and development organizations, and with United Nations agencies.

Comments on CIOTE

CIOTE is headquartered in Quito where it maintains its offices two conference rooms and a documentation center.

CIOTE has an Advisory Council made up of a dozen professionals who helped found the organization in 1980. CIOTE draws on this advisory council for project specific personnel hired on a consultancy basis.

CIOTE has a "project based" administrative and management structure. Thus, projects operate with relative autonomy under the overall supervision of the Executive Director. This structure is inherently flexible and appropriate for expansion in response to Project activity.

c. Universidad Tecnológica Equinoccial (UTE)

Abog. Bolívar León who coordinated training activities under the Creative Associates pilot institutional support project with FENAPI is the Director of the Centro de Investigación y Desarrollo Empresarial of UTE.

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CIDE/UTE meets some of the criteria outlined above as follows:

- 1) It is a nonprofit private institution recently recognized by the GOE as a university.
- 2) It was originally founded as the Instituto Tecnológico Equinoccial in 1971 and has been active since. It operates as an educational institution with some 3,000 registered students.
- 3) UTE obviously is well qualified in curriculum development, technical educational, and training. It has 16 faculties or programs in operation in different technical disciplines, some of the which are directly relevant to the Project objectives. The CIDE however is a new activity within the UTE framework and has not carried out any projects to date.
- 4) UTE's administrative capabilities are probably appropriate for the requirements of the Project given the size of UTE's operations. Evidently, UTE has not managed grants to other organizations.
- 5) UTE has a private sector orientation in the choice of its programs and in terms of relations with various private sector firms. According to the Rector, UTE has a working agreement with the Cámara de Pequeños Industriales de Pichincha whereby individual entrepreneurs make work study and internship arrangements with senior level students in pertinent careers.
- 6) There do not seem to be any conflicts between UTE and other institutions involved in the Project.
- 7) UTE has been seeking to establish working relationships with A.I.D.

Comments on UTE

UTE's principal relevance to the Project is Dr. Bolívar León's involvement in the pilot project under Creative Associates and his personal knowledge and experience with the small industry sector.

Beyond these capabilities UTE would have to start on this Project from scratch.

d. Asesor Cía. Limitada

Interest in this private consulting firm arose from the personal involvement of Dr. Patricio Valdez, the firm's General Manager, in a motivational training and organizational development program conducted under INSOTEC from 1982 to 1984 to the small industry network.

Although Asesores is not a PVO, its staff's personal experience and the company's orientation to organizational development in the private sector and its focus on marketing techniques makes it an interesting candidate to participate in the Project implementation.

1) Asesores is a private company.

2) Track Record. Asesores was founded in 1985. Its list of clients includes Diner's Club, Banco Popular, CENAPIA, and the CFN. Asesores is able to draw on the personal services of the staff of the former Centro de Motivación y Asesoría (CEMA), a A.I.D. funded organization active during the 1970's.

3) The organization's strength is motivational training and organizational development through participative training methodologies. In addition, the company does marketing research on a product level and on an institutional level.

4) Administrative capabilities. Asesores is small with a professional staff of three. Mr. Valdez has experience as executive Director of Asesores and formerly of INSOTEC. They emphasize in their work qualitative and quantitative evaluation.

5) Asesores has extensive experience with the private sector. Although most of the firms with which they have worked are relative large enterprises, Mr. Valdez personally has eight years of experience in small industry through work with INSOTEC.

6) Asesores is interested in the Project. They feel it is essential that the tasks and responsibilities of the various institutions involved be clearly delineated. There have been in the past tensions between Mr. Valdez and some of the INSOTEC staff.

7) Asesores is interested in expanding its current activities with A.I.D. funded projects.

#### Comments on Asesores

Asesores as a group and/or its staff as individuals could play a positive role in the implementation (or evaluation) of this Project.

Mr. Valdez has met with Dr. Izurieta of CIPTÉ and with Dr. Lanusse of INSOTECT to discuss possible lines of cooperation.

## 2. CIPTÉ Organization

### a. Legal Status

CIPTÉ is a private, autonomous, nonprofit institution created by Acuerdo Ministerial 22656 as published in the Registro Oficial 340 of December 18, 1980.

### b. Current structure and staffing

CIPTÉ is ' by a three person Executive Council. Dr. Leonardo Izurieta is

Executive Director, Dra. Raquel Avilés is Administrative Director, and Dr. Gabriel Cuesta is Director of Research.

In addition, CIPTÉ has an informal advisory council made up of a dozen professionals who helped found the organization. CIPTÉ draws on this group for project specific personnel on a consultancy basis.

CIPTÉ has a permanent staff of seven, four professionals and three support personnel.

Beyond the Executive Council, CIPTÉ has a "project based" administrative and management structure. Projects operate with relative autonomy under the overall supervision of Dr. Izurieta. This structure is inherently flexible and lends itself to expansion and contraction in response to project activity.

c. Proposed Structure and Staffing for Project

CIPTÉ proposes to organize itself along the following lines to implement the resultant organization strengthening activities:

PERMANENT TEAM:

Project Director	
Dr. Izurieta	-----Admin/Financial
(1/3 time)	Coordinator
Project Coordinator	
Training Coordinator	Promotores
2 Secretaries	Messenger/Maintenance

TEMPORARY STAFF:

- Trainers for the Seminars
- Other Consultants

Although there may be some adjustments in the structure and number of personnel, the following general position descriptions, based on the diagram shown above, cover the responsibilities that CIPTÉ will need to carry out under the Project:

PROJECT DIRECTOR:

- Planning of the project activities.
- Organization and overall implementation of the activities.
- Monitoring the project activities.
- Coordination of activities with A.I.D., and the other components of the overall Project.

The project director will be Dr. Izurieta, general director of CIPTÉ. He will contribute one third of this total time to the Project.

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#### PROJECT COORDINATOR/SERVICE DELIVERY COORDINATOR

Supervise the daily project activities, both technical and administrative.  
Supervise the development of the work plans with the client institutions.  
Monitor the implementation and follow-up of the service delivery activities.  
Supervise the promoters in the secondary cities.  
Collaborate in the training activities.

#### TRAINING COORDINATOR

Plan and program the training activities.  
Develop and adapt the training materials.  
Train the trainers and the promoters.  
Design the evaluation instrument and the follow-up of the courses.  
Coordinate the evaluation efforts of the Project activities.

#### FINANCIAL/ADMINISTRATIVE COORDINATOR

Responsible for the administration of Project funds, including the subgrants to the client institutions.  
Responsible for the financial reporting of the Project activity.  
Responsible for the coordination of the logistics of training and service delivery activities.  
Prepare the contracts with the temporary personnel.  
Responsible for the purchasing of the necessary materials for the Project.

#### PROMOTERS IN THE SECONDARY CITIES

Identify the training service needs of the local client institutions.  
Provide direct technical assistance in institutional development activities with the client institutions.  
Responsible for the follow-up and validation of the work plan activities developed with the client institutions.  
Responsible for the organization and coordination of the logistics for the training activities.

#### TRAINERS

The trainers will be selected from the secondary cities. They will be given training for trainers instruction in the courses developed for the client institutions (i.e., organizational development, business administration, policy promotion techniques, methodology for adult education) and will be delivering seminars throughout the life of the Project. They will be contracted on an as-needed basis

The technical team will be in the field at least 50 percent of the time. At this point, CIPTÉ has not committed itself to the idea of establishing a central office on the Coast. They feel that with promoters covering the

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activities in the secondary cities, and with the level of materials development activities that will be going on at least the first year, it makes sense to have the central coordination coming out of Quito.

They need to work through a detailed calendar of activities, which will highlight the amount of work concentrated on the Coast, and then will be more apt to opt for a central office in the coast, especially after the initial activities of material development are completed.

A major concern with the staffing pattern is that CIPTÉ integrate into their team people who are not fundamentally academic in their orientation. CIPTÉ's major activities are in the area of higher education and thus their orientation in terms of staffing patterns is to look for highly experienced professionals they have worked with, namely academicians. The selection of the project coordinator, who will be the person mainly responsible for the contacts with the client institutions, should have extensive experience with the private sector, preferably the small and medium private sector. The positions of promoters should also have people with a fundamental knowledge of how small institutions work and what mechanisms facilitate the strengthening of these institutions.

After a thorough analysis of the activities necessary to meet the objectives of the Project, CIPTÉ will have a clearer idea of whether or not subcontracts with consultants need to be developed. Locally, there are several people available with experience in the sector. CIPTÉ is aware of their availability and has had informal contact with them, but at this point are not ready to clearly define possible roles.

### 3. Project Management

#### a. Key implementing decisions and contract/procurement decisions

Key technical decisions and contract procurement actions will rest with the Program Director and Executive Director of CIPTÉ who will be responsible and accountable for such decisions. However, in practice, the role of the Program Director will be in shaping the conceptual and strategic development of the Project and not be involved in operational decisions.

#### b. Delegations of authority

From past experience CIPTÉ has developed a management style that delegates considerable authority to those in charge of operations and administration. This is accompanied with a regular review and evaluation process to involve on a central level the Program Director and the two Assistant Directors.

The geographic decentralization of Project activities necessarily implies a greater degree of authority delegation to the local promoters than would be the case if the activities were taking place in Quito.

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c. Manager's technical/managerial capacity

Since no final personnel selection decisions have been taken it is premature to make a judgment in this respect. However, we have met with the members of advisory group as well as with the organization's current permanent staff, and their technical/managerial experience seems to be more than appropriate to the requirements of the Project.

d. Staff stability and morale

Most of the professionals associated with CIPTTE today have been with the organization since its founding in 1980. This suggests an above average degree of compatibility and cohesion among the current and potential staff members. Staff morale seems high with no signs of internal strife. Dr. Izurieta is clearly highly respected personally and professionally both within CIPTTE as well as by others outside the organization.

4. INSOTEC/CIPTTE Relationships

During the A.I.D./INSOTEC/CIPTTE meeting of July 3, 1986 and in subsequent discussions it was agreed that the "Sub-Convenio" arrangement would best reflect the nature of the CIPTTE/INSOTEC relationship.

CIPTTE and INSOTEC are two autonomous and well established institutions which want to retain their individuality in this Project while at the same time establishing an administrative and programmatic procedure for collaboration and coordination.

It is fair to say that neither organization would like the legal/contractual aspects of their relationship to lead to institutional/programmatic dependency in either direction.

a. Administrative

INSOTEC is not expected to be involved in day-to-day administrative decisions affecting CIPTTE's program activities.

However, INSOTEC has expressed willingness to assist CIPTTE at their request on the design of administrative systems and procedures, and on other administrative matters.

During the project design phase, INSOTEC will assist CIPTTE in scheduling of activities, and will review budget and disbursement schedules. It is expected that CIPTTE's final proposal will have the support of INSOTEC. However the parties do not contemplate - and INSOTEC does not wish to have - "final say" or "veto power" over CIPTTE's proposal.

The parties understand that disbursement requests and expenditure reports are to be made by CIPTTE to A.I.D.

INSOTEC would not have any evaluation, monitoring or reporting functions or responsibilities with respect to CIPTTE. If for A.I.D. purposes some such function is to be performed, its nature and significance ought to be very clearly stated.

In practice, we can expect an informal review/feedback/consultation process to become the operational mode of this aspect of the relationship.

b. Programmatic

1. Selection of local institutions

The greatest interaction in this respect between CIPTTE and INSOTEC will take place in the small industry sector where INSOTEC has worked very closely with the Cámaras and Núcleos. INSOTEC's support will not be in the selection of the organization since there is only one in each of the secondary cities selected. Rather, INSOTEC's role will be one of advising CIPTTE on the organization's dynamics, personalities, and possible lines of work.

INSOTEC has limited experience with artisan and small merchants organizations. However, it has offered to share its contacts in these sectors and help introduce CIPTTE trainers and promoters. For the most part, however, the responsibility for selecting organizations in these sectors will be CIPTTE's.

INSOTEC may also play a supportive role in introducing CIPTTE to the national federations in Quito. This is more evident in the case of FENAPI where INSOTEC has been active for many years, less so but still relevant with respect to artisan and small merchant federations.

In more general terms, the two organizations will share information and examine their respective methodologies to come up with a set of criteria to decide which organizations to select.

2. Sharing facilities in the field

INSOTEC has decided to set up an office in Sto. Domingo de los Colorados and agreed in principle to share some of those facilities with CIPTTE.

Elsewhere, INSOTEC plans to rely mostly on the offices of the local Cámaras and Núcleos de Pequeña Industria. Sharing of these facilities will have to be looked at in each case.

3. Project administration accounting systems and procedures

INSOTEC will assist CIPTTE, especially in the pre-operational phase, to set up compatible systems and procedures aimed at uniform reporting and monitoring.

4. Roles with regard to technical assistance and service delivery and training

The clearest dividing line on this is that INSOTEC has to provide technical assistance to individual or groups of entrepreneurs in the small industry and

in the small industry like artisan operations. INSOTEC may choose to work through a representative institution to carry out aspects of its technical assistance work, but it must also work through other type of organizations.

CIPIE, on the other hand, will not work with individual entrepreneurs but rather will focus its activities on their representative institutions.

The overlap and probable space appropriate for collaboration is in the small industry sector, particularly in two areas:

- o Management training courses (Carvajal/CIPIE) vs. INSOTEC's group training efforts.
- o Service capabilities developed within a representational organization which fall within the areas of technical assistance contemplated by INSOTEC.

Clearly, the effort of coordination/consultation here will be applied to avoid duplication of efforts and to maximize the use of each others human and training resources. For example, if the timing is appropriate, INSOTEC may use CIPIE's management training package to provide T.A. to its selected firms.

5. Assisting INSOTEC in developing appropriate technical assistance and training methodologies for its consultants.

INSOTEC has identified a pool of technical professionals qualified in their specific areas of expertise (engineers, wood experts, industrial engineers, metallurgical experts, etc). However, these experts do not necessarily know how to convey their expertise to the small entrepreneur. It has been an objective of INSOTEC to train them in communications and training skills. One of CIPIE's strengths is precisely to do this training of technical assistance extensionists.

6. Sharing international technical assistance resources

Both organizations envision either bringing to Ecuador or visiting outside institutions conducting similar work in other countries. To whatever extent it is possible, the organizations will make an effort to share these resources. A case in point which may come up early in Project implementation is exposure and training under the Fundación Carvajal small enterprise development program. This experience can and should be shared by staff from both organizations.

7. Levels of coordination CIPIE/INSOTEC

We can identify three levels of coordination:

- o Management level. To address strategic and planning program decisions, administrative aspects of the Project, and issues affecting mutual relations with A.I.D. This level of coordination is to take place mostly in Quito and among the senior staff in both organizations.

- o Overall Project level. CIPTE and INSOTEC will both have to interact with the organizations implementing the credit component on a range of issues. It is expected that this coordination/consultation will take the form of periodic roundtable discussions.
  
- o Field level operational coordination. Secondary city based staff and consultants from the three Project components will have to interact and take joint initiatives at various stages of the Project. This type of interaction should be encouraged.

C. New Micro Credit Programs<sup>4/</sup>

1. Introduction

The initial sector analysis for the Project conducted in April - May, 1985 determined a credit gap in services available to the micro enterprise sector that was most pronounced in the secondary cities. A subsequent study, conducted by Halversen, in October, 1985, identified the secondary cities of the coastal region as holding considerable economic promise yet sorely lacking in both an institutional base and the essential business development services which would be needed to promote small enterprise growth. While the need for credit in these cities at the micro enterprise level has not been doubted, considerably uncertainty remained as to whether or not appropriate institutions existed in the targeted cities which could host micro enterprise programs.

On the basis of a four city tour, and interviews with more than 17 local institutions, this author concludes there is sufficient institutional capacity, that, with proper support and technical assistance, could serve as a base for effective micro credit programs in the cities visited. Further, the author is willing to generalize on the basis of this initial review that appropriate institutions could be identified in the two targeted cities which were not visited due to time constraints.

The qualifying clauses in the above statements need to be further clarified. Stating there is sufficient institutional capacity does not mean to imply that there exists in each city an individual institution which is fully prepared to mount a micro credit program. Micro credit programs by definition involve an unusual mix of both social and economic objectives. They require both familiarity with low income communities, usually the domain of socially motivated organizations, and financial administration capability, often demonstrated by economically motivated agencies. On the basis of the experience in Ecuador and in other countries it can be argued that there exist three possible institutional channels for establishing a micro credit program.

o Socially based institution. The majority of micro credit programs in the world begin with institutions grounded in strong socially oriented values. Frequently, credit and management assistance is offered as a means for alleviating conditions of poverty. In the process of conducting these programs, such institutions must learn a great deal about credit administration, financial management, and business administration. Typically, their personnel have not been prepared in the disciplines they are expected to apply while performing their job. Both the Fundación Ecuatoriana de Desarrollo and the Fundación Eugenio Espejo are institutions which are primarily socially motivated and, through technical assistance and learning from their own errors, have developed a modicum of sophistication required to

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<sup>4/</sup> From "Credit Component Consultancy Report", Shari Berenbach, PFP International (March 1986).

execute a credit program. The main advantage these institutions offer is familiarity with the client population, a presence among the clients, and the respect of the clients for the agency. These are indispensable qualities in a credit program dependent upon soft collateral.

o Financially based institutions. A minority of micro credit programs are conducted by financial institutions. The Banco del Pacífico in Ecuador and the Bank for Commerce and Industry in the Philippines are notable exceptions. Nor is it common for development banks to service the micro enterprise sector despite their explicit developmental goals. Cooperative credit unions, while it would appear well-suited to meet both financial and social goals, have heretofore done little to specifically target micro enterprise lending. The reasons for this are quite straight forward. It is more profitable to service larger businesses; the contribution to gross national product is greater in firms with higher capitalization; and the micro entrepreneur has frequently fallen below the savings requirements of even the savings and loan cooperative. Additionally, standard financial institutions have lacked the methodology to reach the poorer targeted communities of micro enterprise programs. Without familiarity they have been vulnerable to poor repayment rates and uncollectable guarantees.

The financial institutions which have successfully reached the micro enterprise sector have done so because of the strong motivation among the leadership of the institution and/or because the institution perceives micro enterprise lending to be within their eventual self-interest, generating potential markets for their regular services. Further, such institutions have learned the appropriate methodologies to reach their client population, often through a trial and error process which in many ways resembles the learning witnessed among the social institutions.

o Mixed institutional strategy. There is reason to believe that a mixed institutional strategy which assigns promotion and outreach roles to a socially oriented institution can work successfully with an established financial institution with credit administration ability. The advantages of the mixed institutional approach are straight forward; each institution can do what it knows how to do best. The potential dangers of this model are readily apparent. Either partner can blame the other for the program's failure. Institutions with very different values are likely to mistrust one another. Yet, if there is strong leadership support for such programs, clearly defined roles and responsibilities, and basic institutional mutual respect, evidence has shown that these programs can work successfully. PFP's credit worthiness program channels micro entrepreneurs to commercial banks in Malawi and Botswana. Credit guarantee programs promoted through Women's World Banking operate in a similar manner (e.g., Bangkok, Thailand). As micro enterprise lending increases there has been greater interest expressed in isolating the credit administration function from the social outreach function (Kenya's Rural Enterprise Program).

When developing the new micro enterprise credit programs, each of these three options should be considered.

## 2. Selection Criteria

On the basis of the recent tour as well as experience in other countries, the following selection criteria have been defined. In the instance where no one single institution can meet all of the established criteria, it will be necessary either to assist that institution to attain the capacity or to work with a mixed institutional strategy.

o Institutional Fit: A close correlation between the established goals of the institution and those of the micro enterprise lending program. Also, there should be similarity among the targeted beneficiary population of the micro enterprise lending program with the beneficiary population/membership generally served by the institution.

o Institutional Stability: Institutional stability is generally associated with the longevity of the institution. However, other factors which influence institutional stability include leadership stability, homogeneity among member groups, clarity of purpose and objectives, and insulation from political interference or party infighting.

o Leadership: Strong leadership support for the micro enterprise program is essential, as is leadership capacity. Leadership can be occupied by one or more persons, as in a program manager, board of directors, administrative council, etc. Divided support among different leadership elements would quickly undermine such a program.

o Financial Administration Capability: Credit administration requires relatively sophisticated financial administrative abilities. This is particularly so since numerous staff members are expected to conduct cash transactions, and financial controls must be carefully monitored.

o Familiarity with the Target Population. Familiarity with the target population, their needs, and working conditions, as well as reputation within the community are important elements in the loan guarantee system. Equally important is the respect awarded to the institution by the target population.

o Internal Discipline: Internal discipline is a non-tangible characteristic to be demonstrated by institutions over time. By Internal discipline refers to the capacity of an institution to adopt unpopular measures and to maintain the institutional loyalty of the staff and beneficiaries. The source of this discipline may be derived from a strong commitment to the institution's goals and ideals, loyalty to leadership, or religious beliefs. However, the melding of social and economic objectives, which may require denying a loan to an apparently needy person or collecting an outstanding credit, requires such internal discipline.

### 3. Institutional Typology

The organizations identified can be classified into the following groups:

#### Savings and Loan Cooperatives

Co-op Quevedo Ltda.  
(Quevedo)  
Co-op Popular (Santo Domingo)  
Co-op 15 de Abril  
(Portoviejo)

#### Civic Organizations

Club de Leones  
(Quevedo, Santo Domingo)  
Federación de Desarrollo de Santo Domingo  
Desarrollo Juventud Comunitario  
(Portoviejo)

#### Gremial Institutions

O.S.C.U.S. (Manta)  
F.A.C.E. (Manta)

#### Religious Institutions

Parroquia La Merced  
(Manta)  
Iglesia Evangélica Alianza (Manta)  
El Obispo (Santo Domingo)

Cooperative Savings and Loans: Ecuador has an active Savings and Loans Cooperative movement. Such cooperatives were identified as potential participants in the program given their financial administration capacity and their explicit social goals. At closer inspection, however, it has become apparent that cooperative members tend to come from more established economic sectors, and the client group targeted by the micro enterprise programs has historically not participated in the cooperatives. If these social gaps can be overcome by motivated leadership there are some very specific benefits that could be achieved and thereby enhance the propensity of micro credit programs to graduate beneficiaries to the formal banking system. In a collaborative micro enterprise program, participants can be encouraged to enter into the cooperative as members and to store their savings within that facility. This would allow the participants to access longer term financing at more favorable interest rates than offered by the micro enterprise program. The cooperative could thereby serve as a bridge between the micro enterprise lending program and more standard financial intermediaries.

Civic Organizations: Civic organizations in the targeted cities include the Lions Club, the Rotary Club, foundations, and internationally based private

voluntary organizations. In general, such civic organizations are made up of community leaders who are committed to promoting social services. In the best of cases, such institutions provide a pool of talent and professional capacity which can be directed toward community service. In the worst of cases, these organizations may demonstrate a paternalistic orientation which would preclude their ability to promote economic as well as social goals.

Gremial Institutions: Ecuador also benefits from a web of organizations which links like economic activities. Artisan syndicates, federations, and chambers serve as an organizational skeleton through which services to the artisan sector can be channeled. Most of these institutions, however, are reliant upon government grants or member quotas and, do not operate any regular services to their members, maintain staff, or manage budgets of significant scale. It is only in the case of unusually capable leadership that these institutions may demonstrate the capacity to mount a sophisticated program such as a micro credit operation.

Santo Domingo proved to be unique in its multiple organizations among the small commercial vendors. With grass roots leadership, these institutions serve as vehicles for advocating the interests of their members. However, no one organization appears to exercise the effective control which would be necessary to operate a micro credit program.

Training Institutions: Most vocational training is conducted through the state operated SECAP. There are, however, a number of private institutions targeted to vocational training for the artisan sector. Quevedo is unusual with 26 different academias which prepare youth in artisan skills. FACE a Swedish sponsored vocational training institute in Manta, concentrates on the metalworking industry. Other nonformal community education institutes such as OSCUS prepare women to enter the labor force. In a number of countries there has been a successful track record linking vocational training institutions with credit programs, thereby providing a source of seed capital for new graduates. Training institutions carry the advantage of a technical reputation with the familiarity and respect of their graduating students.

Religious Institutions: In the absence of other assistance agencies, religious organizations are a primary source of social services. In the cities visited church organizations provided basic social services (schools, hospitals) in addition to community improvements. In Manta, church leaders have been responsible for major new housing construction projects to meet the needs of marginal communities. In Santo Domingo, the church has dedicated its attention to basic community organizing so that community leaders may undertake their own self-help programs. The respect the religious organizations enjoy plus their familiarity with the conditions of the local population may allow them to play a role in micro credit programs.

#### 4. Institutional Option by City

The institutional options presented here are based on a rather cursory survey of four targeted cities: Manta, Portoviejo, Quevedo, and Santo Domingo. A number of institutions had been recommended by colleagues who had visited them

previously. Where no institution had been recommended, different channels were pursued. The intention of the survey was to identify possible institutions or institutional combinations which could successfully contribute to the program. The brief nature of the survey precluded an in-depth institutional analysis. However, with the limited time available institutional options were identified in three of the four cities.

Manta: Efforts in Manta were directed toward the religious and educational institutions. This is not to say that other institutional avenues should not be explore more fully. However, with the time available and the relatively interesting results, these two institutional types were highlighted.

Two religious institutions were examined which both have very active social outreach programs. The Parroquia La Merced, in addition to providing a range of social and educational services, has been very active in housing construction for marginal communities. In that role it has served as an intermediary and facilitator between the community and banking institutions. Through the active leadership of Padre Patricio Salazar this religious institution demonstrated an unusual capacity in almost all facets of the selection criteria, including that of financial administrative capability. A second, somewhat unorthodox, religious institution which also demonstrated an unusual mix of social and economic orientation was Iglesia Evangélica Alianza. A family of missionaries has self-financed their missionary work by mounting a complex of industries including a fiber sack plant, quarry, and asphalt plant which employ over 300 persons. The Reverend William Boyes, who has worked in Ecuador for 17 years, is well known for his entrepreneurial ability and for mixing social and economic goals. The work of the church in neighboring rural towns has promoted cottage industry. The local parish in Manta could serve as an appropriate institutional base for an urban micro enterprise program.

Two educational institutions are also active in the region and could collaborate either as a base for the micro credit program or to channel their graduates to the program. The personnel of OSCUS were on vacation during my visit, but they are well regarded for their community education program and have been particularly active in skills training for women. FACE (Fundación Adelanto Comunitario Ecuatoriano) is a Swedish supported vocational training institute specializing in metal machinery.

To define the appropriate institutional arrangements in Manta a number of issues would have to be resolved. It may prove most appropriate for OSCUS to host the micro credit program with the active support of the church organizations and FACE. Padre Salazar recommends that the program be conducted through Pastor Boyes and his parish. Another option may be to establish a credit cooperative with the financial support to the cooperative being channeled through the Parroquia La Merced. The exact arrangement to be developed and whether one institution should formally sponsor the program or for it to be conducted through a collaborative arrangement, will require further analysis.

Portoviejo: Unfortunately, initial leads and subsequent contacts in Portoviejo did not prove fruitful. The Cooperativa 15 de Abril flatly stated it was not interested in the micro credit program as it serviced a client group different from its own members. The Cámara de Artesanos de Manabí, based in Portoviejo, proved to be a rather undynamic organization. The Federación de Artesanos adopted a rather extreme "clasista" position as did the Confederación de Obreros which groups approximately 3,000 artisans and small "comerciantes". A refreshing discussion was held with the representative of Desarrollo Juvenil Comunitario, the local affiliate of the U.S. based Save the Children. This organization is providing health and child development services to the marginal communities of Portoviejo. Further explorations in Portoviejo would be required.

Quevedo: The Cooperativa de Ahorro y Crédito Quevedo Ltda. shows considerable promise as a potential institution for a micro credit program. Its manager, Sra. Marta Malo, has provided the cooperative with stable leadership since its inception. Sra. Malo has been active in various civic foundations, particularly INNFA, and demonstrates considerable social awareness as well as financial administrative capacity. The cooperative, founded in 1964, has over 3,000 members with a capital base of 50 million sucres. A more in-depth interview was possible in this instance as preliminary data had already been collected during Halvorsen's earlier tour. A number of scenarios for structuring the program to allow the greatest financial supervision were considered. The program will have to promote itself among the targeted clients who are of more modest economic means than the usual cooperative member. During this discussion the Lions Club was mentioned as an organization with an active social service program which might serve as an appropriate conduit to channel clients. Additionally, it was commented that there are 26 different academias which prepare youth in artisan skills. One such academia is operated by the Lions Club.

A series of meetings was also held with two artisan syndicates and the Federación de Artesanos de Quevedo. In contrast to the Federación de Artesanos in the other cities visited, the President of the federación was an unusually dynamic individual. The Federation includes more than 1,000 artisans and it is apparent that artisan activity in Quevedo is much more developed than in a city such as Santo Domingo. The federation is currently seeking funding from a German foundation to mount a cooperativa de ahorro y crédito specifically geared to the artisan sector. When queried about the option of the federation working through established cooperatives such as the Cooperativa Quevedo Ltda., it quickly became apparent that there exists strong social antipathy between the Cooperativa Quevedo Ltda. and the organized artisan sector. This sentiment appears to be mutually held at the cooperative.

Two different institutional options may be worth further consideration. Cooperativa Quevedo Ltda. may prove to be an effective credit administrator. It would have to develop its outreach capacity or work in tandem with a social organization with which it shares values. A second option would be to further explore the creation of a new financial institution through the Federación de Artesanos.

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Santo Domingo: The most promising institutional option identified in Santo Domingo is the Fundación de Desarrollo de Santo Domingo. This organization is currently being formed by 25 civic leaders including architects, bankers and businessmen. The former president of the Núcleo de Pequeña Industria, Sr. G. Luzuriaga, is taking an active role in the establishment of this foundation. The impulse for the foundation seems to stem from a Comisión Regional de Provincialización which was established to promote the advance of Santo Domingo to provincial status. The group initially intends to undertake a series of studies of needed community services and is considerably interested by the prospect of participating in a micro enterprise program.

While in Santo Domingo discussions were held with a variety gremial organizations, including the Federación de Artesanos and the Asociación de Comerciantes Ambulantes y de Puestos Fijos. I was advised from numerous sources that Santo Domingo has a plethora of gremial institutions including over a dozen organizations which group micro-vendors. These gremial institutions, however, do not appear to have the sophistication or capacity to mount a credit program themselves. In fact, leaders from the Federación de Artesanos concurred that they would prefer to work in conjunction with a financial intermediary with greater preparation in financial management and credit administration. The gremial associations, however, could play an important role of channeling their members to a micro credit program. It also may be possible to train promoters from the associations themselves. When consulted, gremial leaders spoke favorably of the capability of the individuals participating in the newly established Fundación de Desarrollo.

Two other institutions were interviewed which were less than favorably impressive, although future investigation may be merited. The Cooperativa de Ahorro y Crédito Progreso, a relatively young institution, was founded only three years ago and has 700 members. When consulting various sources about the general reputation of the institution, the respondents were hesitant. The Club de Leones was also visited. A number of its more prominent members are clearly associated with the Conservative Party which could possible lead to unnecessary political associations.

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SOCIAL SOUNDNESS ANALYSIS

I. SOCIAL OBJECTIVES OF THE PROJECT

From a social perspective, the general objective of the Project are the following:

1. Generate more employment and/or strengthen existing employment in the small manufacturing sector.
2. Improve the quality of life of those who constitute this sector by increasing their income levels.

More specifically, the Project will seek to:

1. Improve the productivity and efficiency of the human resources within this sector through technical assistance and training.
2. Increase the productivity and promote the expansion of this sector through appropriate credit mechanisms.
3. Reinforce or encourage representational organizations within this sector, in order to:
  - have a stronger participation in policy making.
  - have a greater capacity of decision making.
  - provide members with easier access to public or private sector services such as: bulk purchasing, technical assistance, training, etc.
  - create or improve channels of communication between this sector, the public and other private sectors.

## II. BENEFICIARIES

### A. Direct Beneficiaries

The small scale manufacturing enterprise sectors in Ibarra, Santo Domingo, Guanoas, Manta, Quevedo, Portoviejo, Babahoyo and their zones of influence will be the direct beneficiaries of this Project. Owners, operators, employees, of these enterprises are expected to share the resulting economic and social benefits.

Characterized by being more labor intensive than capital intensive, on the contrary to large scale enterprises, small enterprise represents an alternative outlet to one of the principal Ecuadorean social problems: unemployment. In the case of manufacturing, small scale enterprises are around one fourth or one fifth as capital intensive as large industries, and micro-enterprises are about one third as capital intensive as small industry.

The small scale enterprises in the manufacturing, commercial, and service sectors absorb the majority of total employment in those sectors(2).

This sector's labor component is characterized by being composed in its majority of unskilled workers of both urban and rural origin. This fact has permitted the enterprises to pay lower wages and therefore reduce production costs. According to the income distribution of 1982 in the private sector, urban areas, it appears that about 55% of the workers were paid below the minimum wage of that year (3). This reflects the strategies of owners/operators to avoid application of the minimum wage law, for example by hiring part-time or temporary workers. Consideration must also be given to the number of workers who are not paid, as if often the case in microenterprises where there is not a clear division between capital and labor, and where family labor is greatly used. Productivity and efficiency are higher as firm size increase (20 workers and up) not only because of more qualified labor but also because of higher levels of technology.

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(2) In the commerce and service sectors, 80% of employment was in establishments of less than 10 workers in 1980. In the small scale manufacturing enterprise sector establishments of the same size accounted for 60% of total employment in 1982.

(3) This was not the case of the public sector activities where salaries were established and paid by the Government.

If smaller enterprises improved their workers' skills and their technology, value added per worker would increase and could result in wage improvements. Since this has not been the case for small scale manufacturing enterprises, specially the over last past years, it has meant low productivity and low efficiency for this sector, becoming a barrier to improving actual socio-economic conditions specially within the labor sector in terms of wages, income, education, social mobility opportunities and social well-being in general.

On the other hand, it is to be questioned if there really exists a direct relation between productivity and wage improvements in Ecuador. In countries like Ecuador, where wage structure has been determined by a minimum wage policy (this is the case specially at level 2 and 3 firms), increased productivity does not necessarily determine wage improvement. Wage increases in Ecuador in most cases result from government decisions and policies. Owners/operators tend to view the minimum wage as a ceiling and pay workers at that level, regardless of their productivity, or find legal ways to pay less than the minimum wage, as described above. Due to these limitations and rigidity of the actual Ecuadorean wage system, the social and economic feasibility of this project might encounter some problems at the employee level. That is, will the social and economic benefits obtained through this project by the small enterprise sector be shared by the labor sector or will they be highly concentrated only at owner/operator levels? If this were to be the case, this project may encounter serious social constraints, (such as labor conflicts) as a consequence of unequal income distribution, and therefore, the growth of the socio-economic gap between workers and owners. Hence, more attention should be placed by the project on the actual government policies concerning labor wages in order to be able to determine the effect they could possibly have on the achievement of the project's principal objectives.

Another characteristic of this sector is its location. Unlike the medium and large scale enterprises which are highly concentrated in the two principal Ecuadorean growth poles (Quito and Guayaquil), small scale enterprises are dispersed throughout the country in secondary cities and smaller urban areas. This permits an easier market access to various of the dispersed socio-economic groups and also serves to counteract actual regional migration patterns by limiting to some extent migration to cities like Quito and Guayaquil, which results in great social and economic problems.

Finally, small scale manufacture enterprises specially microenterprises provide the basic products (textiles, wood, food, and to a lesser extent metal products) for Ecuador's low income level groups, and therefore play an important role in satisfying their basic needs.

Due to the heterogeneity of the productive units found within the manufacture sector, it has been considered necessary for purposes of this Project to group them according to the following variables:

<u>Level</u>	<u>Employees</u>	<u>Fixed Assets</u>
1 (microenterprise)	5 or less	under 7,000 Dollars
2	6 to 10	7,000 to 12,000
3	11 to 20	12,000 to 170,000

Nevertheless, the socio-economic characteristics of each productive unit are also determined by the conditions in which each type of production activity takes place and by the relationship of each productive unit in the market system. Therefore, further definition of Project beneficiaries through baseline surveys will include socio-economic variables such as nature of production, social and economic organization of production, social component of labor, wage structure, representativity of productive units, socio-economic forms of access to the market, etc.

Women should be mentioned as one of the Project's concerns due to their sizable role in the urban labor market. The rate of women's participation in Ecuador is low compared to other Latin American countries. In 1982, the participation rate was 20.2% of all women age 15 and up, and 26.7% for urban women the same age. If we compare this latter figure with the corresponding 1974 figure which was 25.4%, the increase was not significant. Further research on this subject related to the PRODEM program in Quito, has shown that there is an estimated 27% women participation in the micro-enterprise credit programs, the great majority being concentrated in the commercial sector.

Inadequate access of women firm owners to technical assistance and credit has restricted economic opportunities for them. Earnings for women employees are below those of men due not only to lower levels of education and work experience but also because of labor market discrimination, especially with regard to different types of business services. This Project, therefore, will seek to design appropriate programs and activities for women in order to strengthen their actual position or incorporate them in a more productive way into this sector, and hence, into the Ecuadorean economy.

#### B. Indirect Beneficiaries

Beside the beneficiary groups mentioned above, the effects of this Project will spread indirectly to other socio-economic groups, such will be the case of those who live within or in the surroundings of the Project area. New sources of work will result not only from this sector itself but also from other type of activities related to it, for example, commerce and services.

Another indirect beneficiary will be the medium and large scale enterprises, most of which obtain the materials they cannot import from the small sector, and also absorb workers who have developed skills from their experience in the small scale sector (4).

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(4) 60% of the workers in the SSE are not qualified.

Finally, mention should be made of the different socio-economic consumer groups (especially from middle income level groups on down) which could benefit from a better supplied market, better quality of products, and lower prices.

### III. TECHNICAL ASSISTANCE SERVICES COMPONENT

#### A. Specific Beneficiaries

Technical assistance together with credit have been the two major bottlenecks to increased productivity and efficiency and growth/employment of the small scale manufacturing sector.

Surveys carried out by INSOTEC of 208 firms in various regions of Ecuador showed that 81% wished to have some form of technical assistance. In another study done by INSOTEC (1981-84), of 64% of firms who wanted technical assistance only 3.6% had received any. Therefore, it can be seen that there does exist a demand for technical assistance which apparently exceeds its supply. Public institutions such as CENAPIA (National Center for Small Industry and Artisanry) and MICEI (Ministry of Industry) have been insufficient in providing technical assistance.

On the other hand private organizations such as FED, Peace Corps, Catholic Relief Services, etc, which have been providing some type of technical assistance to small firms, are too small, to fully address the needs of the sector.

In the last few years it seems that about half of small enterprise firms have tended to use private consultants as a means of obtaining technical assistance (ex: individual professionals, university faculty members, etc.).

Women owned firms have also had inadequate access to technical assistance. This is due not only to the deficiencies of the actual technical assistance delivery systems, but also to a lack of experience and specific programs for women owned and operated firms in manufacturing. INSOTEC surveys of 1981-1984 showed that, with regard to women, there was a lack of technical assistance services especially at levels 2 and 3. This Project, therefore, intends to improve productivity of the small manufacture enterprises in general, and also promote and expand women owned and operated manufacture firms, through INSOTEC's technical assistance services.

The small manufacturing enterprise owners, operators, and the consultants involved in the process will be the major beneficiaries of the technical assistance component. The target firms have been determined by INSOTEC according to geographic parameters; that is, according to the size of firms which exist within the target cities (Quevedo, Babahoyo, Esmeraldas, Santo Domingo, Ibarra, Manta, and Portoviejo) and their zones of influence. INSOTEC has decided to direct technical assistance for the most part to level 2 and the upper strata of level 1, which are believed to predominate in most of the chosen cities. Nevertheless, INSOTEC has stated that their technical assistance will also be given to level 3 firms, to the extent that demand exists (ex: in the case of Manta, and Portoviejo).

An important issue arises from using such criteria of selection. The issue has to do with the question of potential demand and capacity to pay for technical assistance of the beneficiaries at levels 2 and upper 1. This issue will be further addressed in the section related to "the social feasibility of INSOTEC's delivery system".

B. Social Orientation of INSOTEC

Conscious of their social responsibilities and therefore pushed by their desire and willingness to contribute to the social, economic, and technological development of Ecuador, a group of small entrepreneurs and experts decided to create a non-profit institution in order to be able to achieve in the best way possible their goals. This is how INSOTEC (Socio-Economic and Technological Research Institute) came into existence in 1984. Its strong social orientation, as discussed further on, is reflected not only in INSOTEC's conceptual framework but also in its objectives and programs.

Based on an integrationist development concept, this institution conceives of national development as appropriately developing human resources, technology, and production in an integrated manner with the participation of all the Ecuadorean social sectors.

One of the bottlenecks to development, according to INSOTEC's perspective, has been the lack of intermediate sectors of production as a means of providing broad social access to private property.

Small industry has been considered, therefore, by INSOTEC, as an alternative strategy for Ecuador's social and economic development. An intermediate structure of this nature would permit working with and integrating properly the social sectors upon which the stability of Ecuador's society depends. In INSOTEC's view, entrepreneurs who make up the small and medium industry are an important part of the middle social status of the population and therefore play an essential role in a more equitable wealth distribution. Hence, they are elements which significantly contribute to the stabilization of the economic system.

The development of the small industry sector means for INSOTEC not only a contribution to the increase of Ecuador's income, but also an alternative to one of the country's major social problems, unemployment and subemployment.

Although the expansion of this sector has been remarkable in recent years, the lack of adequate planning, management, credit, technical assistance, appropriate technologies, etc., has affected its growth and dynamism, resulting in a negative social impact not only on this sector but also at the national level, leading therefore to serious social conflicts (unemployment, labor problems).

To promote this development strategy, INSOTEC has defined its principle objectives according to the following four areas: research; human resources; technical assistance; and methodological instruments and publications. In the research area, INSOTEC conducts socio-economic research, research and development of appropriate technologies compatible with the country's reality, and research into human behavior.

In the human resources area, INSOTEC's objectives are to:

- Train researchers within the socio-economic, industrial, and technology areas.
- Train enterprise personnel and leaders in planning, control and industrial production.
- Train enterprise leaders in organization development.

Within the technical assistance area, INSOTEC's socially oriented objectives include:

- Integral technical assistance to the small industry.
- Pre-feasibility and feasibility studies (social variables are taken into account in these studies).
- Enterprise strengthening programs.

In the area of methodological instruments and publications, INSOTEC undertakes:

- Development of instruments for measuring human behavior.
- Design of instruments for working with groups.
- Creation and design of educational materials such as texts, audiovisuals, films, etc.

Another important social aspect of INSOTEC is its philosophy upon which the accomplishment of its objectives rely: the philosophy of "self-aid" and "participation". INSOTEC believes that "there is no individual solution", that it is through organization that the entrepreneurs of the small industry sector will find solutions to their problems and obtain the power needed to have a voice at government levels and to be given the required attention to the sector's problems.

INSOTEC consists of two programatic units: CEDEPI and CIEDC. CEDEPI, which is the center of small and medium industry development, has integrated in its purposes and actions the principal elements of economic, technological, and social development.

CIEDC, which is the center of educational and human behavior research, has as its principal function the analysis of the Ecuadorean educational reality; its outreach and limitations (in formal and non-formal educational areas and at different levels); and the educational needs of the country in order to formulate support programs, counseling and evaluation. This center has a strong social orientation.

INSOTEC's staff is limited, but multidisciplinary in nature. It includes a lawyer, a political scientist, an industrial and commercial engineer, an agronomist, a chemical engineer, an economist, and two sociologists. The composition of its staff reflects INSOTEC's integrated approach to the needs of small industry sector.

INSOTEC's programs and actions have been determined according to its objectives. For 1986, it has developed two plans with programs in the following areas:

- a) Technical assistance program for the small industry.
- b) Diagnosis of the agro-industrial system of cheese production.
- c) Development of small rural enterprises. The objective of this program is to do planning at the small enterprise level in the rural sectors of the country. Women who belong to the beneficiary community will participate.
- d) Culture
- e) Education
- f) Industrialization of the small artisany industry in Pichincha.

In addition to these programs, INSOTEC is expected to keep taking part in the design of different projects (according to requests) and is seeking to start implementing a technological register in the small industries.

It can be concluded, after a broad overview on INSOTEC's whole system and its conceptual and operational components, that there exists a strong social orientation which is necessary for the social feasibility of its technical assistance program.

C. Social Feasibility of INSOTEC's Technical Assistance Content and delivery system

1. Content

The analysis of the social feasibility and impact of INSOTEC's technical assistance methodology is difficult due to the lack of reliable data. The social and economic impact resulting from INSOTEC's technical assistance where interventions have occurred (e.g., Cuenca, Pichincha) has not been measured. Therefore, this analysis will have to deduce, from the information available concerning INSOTEC's methodology and its direct beneficiaries, the consistency of the methodology with the socio-economic conditions of the target groups and with the established social objectives of the Project.

Due to the fact that the proposed technical assistance services are to be directed to a determined socio-economic productive sector (principally Level 2 firms, and Level three firms to the extent they are found the target areas),

it is relevant to find out if the content of the technical assistance methodology is appropriately designed for these groups in order to obtain the social benefits and impact expected.

Basically, INSOTEC's technical assistance methodology content can be classified into two parts: one which has to do with activities oriented to improve the production process through technological change such as technical assistance in technology and in production techniques; and another which has to do with activities directed to improve the management of the firm (e.g. administration, finances, general accounting, marketing, etc.).

Due to the actual socio-economic characteristics of Level 2 and even more so Level 3 firms (discussed in the beneficiary section), and their position within the Ecuadorean market, it can be assumed that, in contrast to Level 1 firms, they have reached financial self-sufficiency and economic sustainability. In other words, they already have a certain level of knowledge of managerial skills. Therefore, although more assistance in this area always is handy, it is highly possible that their needs and attention will be mostly directed to the production area, and hence, their demand will be primarily for assistance for production improvement.

Related to the social feasibility and impact of the content of INSOTEC's technical assistance, two factors will be relevant: one has to do with the compatibility between content and the beneficiaries needs, and the other, the compatibility between content and the beneficiaries socio-economic reality.

Concerning the first factor, one of the problems of existing technical assistance in Ecuador is its lack of specificity. Many entrepreneurs have complained about the technical assistance (e.g. seminars) of being too general and not touching at times the real problems of their enterprises. This is why it is so important for the content to be defined based on the beneficiaries' needs and concerns. Otherwise, technical assistance can easily fall into generalizations and prove non-rewarding for many of the beneficiaries.

The second factor, that is, compatibility between the content and the firms' socio-economic reality, should be regarded carefully. The small manufacture enterprise sector is not socially, economically, and technically homogeneous. Therefore, the T.A. content must be conditioned by these aspects of the beneficiary firms. Technical assistance which is feasible and adequate for Level 3 firms may not be feasible at other levels due to economic barriers (e.g., economic infeasibility of implementing new production techniques) or social ones (e.g., low educational level of beneficiaries which may lead to miscomprehension or lack of understanding, negative attitudes towards using new techniques due to prejudice, etc.). Hence, INSOTEC, before selecting the T.A. content to be used for a certain beneficiary group, must take into consideration the social and economic nature of the group they are dealing with. It is of great importance for a positive social impact of the content of T.A. methodology to "talk the same language".

At the macro social and economic level, the feasibility and impact which this methodology might have on employment should be regarded from the following point of view:

Technical assistance will be socially feasible if it permits through its services to generate employment capacity in the beneficiary firms. Such could be the case of technical assistance in managerial skills where a firm, through this type of assistance (which implies minimum capital investment), increases its productivity and income and therefore has the opportunity to expand itself by contracting more workers.

In the case of technical assistance in which the content of its methodology is oriented to have an impact on technology change, it may have a positive social impact and therefore be socially feasible, or it may not. If the new techniques or technology introduced in the firm's production process are capital intensive (implicitly, most modern technologies are), there may be no significant employment going, and possibly decreases, in those firms (specially for the labor of the informal sector). Even though capital intensive technologies are positive in the sense that they permit greater productivity and efficiency in short term, this would represent a negative social impact at macro socio-economic level due to the fact that Ecuador like most countries in development have a great informal labor sector (55.1% of total labor, 1980) and where the lowest income levels of urban Ecuadorean society can be found. On the other hand, if the content of the technical assistance permits the firm to improve its productivity through the adoption of technologies which are still labor intensive (appropriate or intermediate technologies) it will be socially feasible, since it will have an impact on employment and income levels. Therefore, the content of technical assistance should be oriented to labor intensive technologies.

Another important aspect to be taken into account is the social feasibility of INSOTEC's methodology content at the upper strata of Level 1 firms. According to the economic analysis of this Project, upper Level 1 firms are still found to be financially non-sufficient and sustainable, having to depend on micro-enterprise types of credit programs (FEE, FED, FOPINAR). It is stated in the analysis that the reason for this could be the lack of credit availability itself or because technical assistance may be a "bottleneck hidden behind the credit availability bottleneck" (as in the case of FED). However, this level does not have the capacity to demand and absorb INSOTEC's technical assistance. Therefore, even though part of the methodology content (managerial skills) may be consistent with upper Level 1 firm needs, it is not socially feasible due on one side to the socio-economic conditions of the beneficiaries of this level which impedes access to it and, on the other, the cost of INSOTEC's services. Therefore, we believe that INSOTEC's methodology should be primarily directed to Level 2 and 3 firms.

Another part of INSOTEC's methodology content which is considered complementary to the other program content has to do with exportations. Although there is not much information concerning the methodology content of this program, its social feasibility will depend on its capacity to reach the small firms in Quito, Guayaquil, Cuenca, and Ambato which are actually exporting, and providing them with the assistance necessary to improve their production in both quality and quantity and in this way improve their capacity to compete in the international markets.

The social impact of this program would not only be at the micro socio-economic level but also at the macro one due to an increase through this type of activity of the country's foreign exchange. It is worth pointing out that, due to the high capital investments for this type of activity (even more in the case of secondary cities, due to a lack of adequate infrastructure), Level 3 firms are likely to be the direct beneficiaries of this program, for most of Level 1 and 2 firms' socio-economic and technical production processes are conditioned to the internal market which is small.

INSOTEC, conscious of the importance of women within this Project, has given special attention to technical assistance for women owned/operated firms and women consultants. Nevertheless, because of a lack of information concerning these type of firms, INSOTEC has not yet defined the content of its methodology or specific actions to be achieved. Therefore, an analysis of the social feasibility of the content of this program is not yet possible.

Although INSOTEC's data shows that most women labor is found in productive traditional activities such as clothing and food processing (5), technical assistance should not only be oriented to these activities but also to new non-traditional manufacturing activities for women, in order to expand their opportunities as owners and employees. This would not only have an impact on employment but also at income levels, since non-traditional manufacturing activities generate more earnings than the traditional ones.

The methodology should also have an appropriate design of information channels and promotion mechanisms in order to assure women's access and participation to the technical assistance services.

Since the methodology content of this component also includes elaboration and publication of manuals, INSOTEC should consider in producing special manuals for women owned and operated firms, taking into account the diversity of education levels which exists among them. INSOTEC's methodology should also establish activities which help women to identify new lines of economic activity.

Finally, given the lack of experience with this type of program, a monitoring system should be established, starting from the very beginning of the program implementation. This will permit follow-up of each activity and continuous collection of basic data on the beneficiary groups in order to measure social impact and detect social constraints.

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(5) Clothing employs 66% women and 34% men; food industry, between 15% and 30% women.

## 2. Delivery System

Once again, it must be stated, that the problem of non-availability of information concerning the impact of INSOTEC's technical assistance services in certain of their beneficiary small enterprise sectors will limit the analysis of the social feasibility of its technical assistance delivery system. Nevertheless, we expect to be able to identify the positive or negative social aspects of this system and, therefore, determine its social feasibility.

INSOTEC's delivery system has the following components:

- a) Seminars - workshops
- b) Practical courses
- c) Individual type of technical assistance
  - Clinic type
  - Specific type

The social feasibility of this delivery system will directly be related to its beneficiaries' technical assistance needs, demand, and their capability to pay for it. Since the socio-economic and technical conditions of production vary greatly among the various levels, their needs and priorities (in general) and therefore T.A. demand, will be determined by these conditions. At Levels 2 and 3, capital will be the factor which will determine the socio-economic conditions and organization of production. With a greater availability of capital, and a greater capacity of investment than Level 1 firms, the Level 2 and 3 firms generally have higher levels of technology (machinery starts prevailing over manual work), and a clear labor division, that is, more formal employer-employee relationships. Use of unpaid family labor as a mechanism for reproduction of the domestic unit is substituted by paid workers or employees (either permanent or temporary). This has permitted the domestic unit to socially reproduce itself through other type of economic activities. There is also a difference from Level 1 firms in the utilization of space. At these levels a physical-spatial change starts. The enterprise becomes independent from the household area. Also, wage structure tends to be determined at Level 2 and 3 firms chose by minimum wages. Individual technical skills become more important. Starting from Level 2 firms, the owner becomes less and less involved directly in the physical process of production and more involved in administration of the business and the marketing of production. This is not the case for Level 1 firms where the owner is at the same time the producer. It should'also be mentioned that these firms have a greater access to credit due to higher number of assets and a greater capacity for saving.

If we consider the characteristics of production of Level 2 and 3 firms, their main constraint to expansion and productivity has not to do with capital but with technical assistance in both the administrative and productive areas. Such assistance is essential in order for these firms to be able to grow,

and even towards the consultant; or beneficiaries' individual capacity to learn. Nevertheless, a good knowledge (at all levels, social, economic, etc.) and understanding by the consultants of the beneficiaries they are dealing with, plus a real compatibility between the content of T.A. and the beneficiaries real needs could be of great help.

Concerning the costs of T.A., they should be in direct relation to the beneficiaries' payment capacity. INSOTEC has suggested the use of payment quotas as a means of helping the beneficiaries. Nevertheless, there is no information concerning the beneficiary firms' capacity to pay for T.A. in the different target cities. It would be recommendable to carry out a small survey within the target cities (once the type of firms have been identified) on payment capacity and also willingness to pay the price of certain services. Unfortunately, the Ecuadorean small enterprise sector has been used to obtaining very cheap and subsidized T.A. from government sources. And those who do pay higher prices prefer to pay for foreign consultants or courses than local ones.

Going back to the type of beneficiaries of this component, as has been mentioned up above, consultants will also directly benefit from this component. They will receive special training from INSOTEC in order to be capable of providing adequate technical assistance (in various areas) to the small manufacture enterprise sector. That is, they are to be able to respond satisfactorily to the needs of this sector concerning technical assistance. Another important aspect to be considered is the fact that the social feasibility and impact of this T.A. system is directly related to the demand for these services. That is, if the demand is low or if it is concentrated in the cheaper type of services, the benefits obtained by the consultant, both economic and social, will be poor, leading him either to search for better opportunities elsewhere or deteriorating his performance due to poor motivation (in this case, economic incentive). INSOTEC will have to make sure that there exists a demand strong enough to support satisfactorily over the long term the consultancy system it interest to develop.

On the other hand, feasibility will also depend on the acceptance of local consultants by the beneficiaries. With a still strong belief in the myth "that all that is foreign is better", there might be a problem as to accept local consultants and pay them the established prices, especially at Level 3 type of firms and upper strata of Level 2 ones, where there is a greater tendency to use imported material, machinery, and T.A. INSOTEC should take a close look at this issue for it could become a real constraint for its delivery system.

Finally, A.I.D.'s intention has been to orient its resources to less attended productive sectors which are significant to the development of Ecuadorean economy and, therefore, has selected the before mentioned cities.

Nevertheless, due to the lack of information concerning the type and number of manufacture firms which exist in those cities, their characteristics in terms of the variables listed above, and their effective demand for technical

assistance services, INSOTEC will carry out surveys within the pre-selected cities before initiating its technical assistance program. This information will assist INSOTEC to structure its program appropriately. At the same time, INSOTEC should be prepared to consider other cities in the event that absorptive capacity is limited or adequate demand does not materialize in the pre-selected cities, rather than trying to create demanding the latter cities. That is, in spite of being important at macro-socio-economic levels, the pre-selected cities may not include sufficient enterprises of socio-economic levels capable of absorbing the type of technical packages that INSOTEC can offer due to the nature of their production structure and socio-economic conditions.

The INSOTEC delivery system can be classified into two types: group and individual. The group type of systems will be more socially feasible than individual technical assistance due to its lower cost. Data collected from two different small manufacture sectors "Atuntaqui which is found in the highlands and Guayas on the coast" showed for Level 1, 2, and 3 firms the following: (6)

<u>Group Type of T.A.</u>	<u>Costs</u> <u>(\$)</u>	<u>Percentage of Annual Income</u>		
		<u>Upper Level 1</u> <u>(2,475,000)</u>	<u>Level 2</u> <u>(3,025,050)</u>	<u>Level 3</u> <u>(10,990,950)</u>
Seminars	4,418	0.16%	0.13%	0.03%
Practical Courses	9,588	0.38%	0.31%	0.08%
<u>Individual T.A.</u>				
Individual clinic	74,800	3.02%	2.47%	0.68%
Specific T.A.	340,000	13.73%	11.23%	3.09%

As can be appreciated, the cost of group type of technical assistance represents less than one percent of income for Level 1 firms and therefore is feasible to pay.

In the case of Level 2 firms and even more Level 3 ones, there is not much to be said regarding this point since their incomes are higher than upper Level 1 firms which means that the T.A. cost will represent for them a minimum percentage of their income. In other words, there is a correlation between income and absorptive capacity of technical assistance: the higher the enterprises' annual income is, the greater is their capacity to pay higher percentages of their income for technical assistance.

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(6) INSOTEC 1985.

If to this we add the fact that INSOTEC has planned to establish repayment facilities (e.g., installement payments), the cost of group T.A. becomes for upper Level 1 firms even more feasible. For Level 2 firms, it is found absolutely not necessary to utilize these type of facilities due to what has been pointed out above.

Although the monetary cost of this type of delivery system is not high, it might encounter some social constraints as to its feasibility for upper Level 1 firms because of the cost it represents in time. Due to their socio-economic structure, an entrepreneur who is still directly involved in the production process (simultaneous roles of owner and producer), the cost of this group type of T.A. represents for him the value of the technical assistance service itself plus the value of the lost hours of labor, which in total represents a higher cost for these type of entrepreneurs than for the Level 2 and 3 ones.

Another issue which could affect the social feasibility of this type of delivery system has to do with its structure. Most group type systems are structured in such a way (due to timing and the number of participants) that their content becomes too general for their beneficiaries and it hardly reaches specific concerns. Therefore, INSOTEC should from the beginning establish with the beneficiaries the themes and constraints to be treated and program the group assistance accordingly.

In spite of data which shows that in the past years about 50% of small enterprise firms have demanded individual type of technical assistance, it is still not clear which levels or at what cost.

Looking back at the data above, it can be concluded that the cost is too high for upper Level 1 firms. Both individual clinics and specific T.A. represent more than 2% of their income. Unless this technical assistance is highly subsidized, there is no way to believe that it will be socio-economically feasible.

As for Level 2 firms, due to their higher income levels, individual clinics can still be feasible, nevertheless, it seems that specific T.A. costs remain high even for this level and therefore may not have the demand expected.

On the contrary to Level 1 and 2 firms, this type of technical assistance seems to be targeted to the Level 3 firms for whom the cost represents a relatively small percentage of income.

Finally, analysis on the cost of technical assistance in exportation has not been thoroughly done due to the fact that it is expected to be directed only to exporting firms at Level 3 and maybe upper Level 2, where income and investment levels are high enough to assume that there does exist effective demand for this type of technical assistance.

It can be concluded that the absorptive capacity of and effective demand for individual type of technical assistance are found to some extent at Level 2

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firms and mostly at Level 3 ones. Upper Level 1 firms will not have access to this type of T.A. due to their socio-economic limitations. This situation could be interpreted by the beneficiary group as "discriminatory", and therefore lead to a negative attitude towards the entire T.A. program. Hence, unless this individual type of T.A. is subsidized and given adequate repayment facilities, the T.A. program might result in a negative social impact at this firm level.

The social feasibility of both types of delivery systems will not only greatly depend on INSOTEC's ability to provide access facilities to the beneficiaries but also on getting the beneficiaries to regard the costs of T.A. as investments and not as extra expenses, which is the most common case. INSOTEC should explain the cost-effectiveness relationship of T.A. to the beneficiaries from the beginning. In the case of upper Level 1 firms, this might be more difficult due to certain conceptual particularities such as making investment as a result of limitation and not investment as risk. Therefore, introducing T.A. as an investment might take more time at upper level strata 1 firms than the others.

Due to the past experience of the small manufacture sector concerning technical assistance and its delivery system (difficult access to technical assistance, deficient technical assistance, inefficient delivery systems, etc.), motivation towards demanding these services is poor. As a consequence, entrepreneurs have adopted a conformism and self-sufficient attitude, preferring to rely on their daily empirical knowledge for improving their production. INSOTEC's delivery system and promotion activities should take this into account, and make sure that through these systems, access to efficient technical assistance services are guaranteed to the beneficiaries.

Women: In spite of an increasingly active participation of women in the Informal micro-enterprise sector and an expected expansion of the female labor supply, women's economic opportunities have been restricted greatly due to their lack of access to credit and technical assistance.

According to INSOTEC's surveys of 1981-1984, Level 2 and 2 women owned/operated firms' needs in technical assistance are seldom satisfied. A preliminary evaluation of FEE courses, directed mostly to Level 1 borrowers, showed that the training received by the women was concentrated in traditional domestic skills and did not relate to their "income earning roles" (8). As can be seen, there exists a gap between technical assistance supply and women owned/operated firms's needs and demand.

The definition of the delivery system of INSOTEC's T.A. for women will have to consider some relevant aspects for its social feasibility:

a) Women's time and vocational constraints: Because of the various and simultaneous socio-economic roles which women have to assume in society (e.g. housewife, mother, head of household, economic supporter, etc.), a T.A. delivery system which does not take into account women's disposability of time could have a negative social impact not only on women but on the whole family unit itself. Most women resolve this time constraint by installing their

enterprises in the same household. Therefore, INSOTEC's delivery system should seek a way of giving T.A. to women without having to take them too far away from their firms (e.g., once a concentrated area of women owned/operated enterprises is identified, women will have to choose and agree on the location of the place T.A. is to be given).

b) Social constraints due to socio-cultural values: Such is the case which results from the belief that "women's place is at home". This type of belief has not only conditioned women's social role but also has been the base of women's actual situation in the labor division. This type of belief has created, as a result, a negative and intolerant attitude of men towards women assuming new socio-economic roles, such as going to work, and even more so in the case of women leaving their households for training. Even though change of socio-cultural values is a slow process, technical assistance could contribute to these changes by becoming not only a delivery system of administrative and productive technical assistance but also a delivery system with new implicit values and opportunities for women. This constraint could be eased if small briefings were previously given to both women beneficiaries' and husbands on the importance of T.A. and on the positive results which could be obtained from it.

c) Women's restriction to traditional female activities: According to INSOTEC, most women owned/operated firms predominate in sewing, knitting, and food processing. They are not only traditionally female occupations but earnings in these subsectors are lower than non-traditional enterprises (8). Therefore, INSOTEC should not only concentrate in providing T.A. to women in the traditional subsectors but they should also identify new lines of economic activities for women in the non-traditional sectors.

d) Lack of adequate promotion: This could be one of the constraints to the feasibility of INSOTEC's T.A. to women. A good knowledge of the socio-economic and technical conditions of women owned/operated enterprises would permit the identification and design of adequate information channels and promotion mechanisms. It would be advisable, for this purpose, to promote the formation of groups of women owned and operated firms.

e) Lack of women entrepreneurs organization: In contrast to the commercial sector (9), there has been a lack of women's associative experience within the manufacture sector. INSOTEC's T.A. delivery system could have a positive social impact if it used group type technical assistance as a means of motivating women's organization.

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(7) Memo by M. Berger, April 1985.

(8) Evaluation of BIP Credit Program in Peru.

(9) FEE has a positive experience in this sense. Ex: women solidaria group.

This would not only permit women to obtain a certain representativity within the sector but also to define in an organized manner their future goals and needs as entrepreneurs and as an important disadvantage socio-economic group in the Ecuadorean society.

Although important issues have been pointed out concerning the social feasibility of INSOTEC's T.A. delivery system for women owned/operated firms, further research must be carried out by INSOTEC due to the lack of more information about this sector.

#### IV. CREDIT DELIVERY SYSTEMS COMPONENT

##### A. Specific Beneficiaries

The credit component of the Project will be directed primarily to Level 1 firms, or micro-enterprises. These firms are important within the manufacturing sector not only because they make up 94.4% (1982) of the sector's productive units but also because they provide 39.7% (10) of this sector's employment and 15.1% of its value added.

The characteristics of these type of enterprises greatly vary from those of Level 2 and 3, not only in terms of productivity levels but also in the type of social relations and organization in production.

The owners of the micro-enterprise directly control the entire production process. They participate at the same time in the production, administration of the firm, and the commercialization of its production. It is the owner who decides upon the type, quantity, and quality of the product to be produced.

These firms have very few employees, and those tend to be family workers who receive no salary but live on the income generated by the firms. Non-family employees are paid less than in larger firms, because of the labor laws which permit the micro-enterprise owners to pay their employees lower salaries and grant them fewer social benefits compared to larger firms. According to INEC's data (1980), the average salary of each worker in the large firms was 126,066 sucres while in the micro-enterprises it was 47,134 sucres. In other words, the worker of a micro-enterprise only earned 37% as much as a larger firm.

Micro-enterprises in the manufacture sector are an important source of employment of a total of 187,249 employed people in the manufacturing sector, 39.7% work in the small establishments which provide employment to an average of 2.3 persons each. Nevertheless, employment generated varies greatly from activity to activity. While in the most modern activities employment is insignificant at Level 1 (it hardly reaches 10% of the total), in other, traditional activities such as clothes, shoemaking, wood products, these firms absorb more than half of the total employment (ex: clothes and shoemaking

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(10) Censo Económico 1980. Small establishments are considered those with less than 10 workers.

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employ 83.7% and 87.8%, respectively). In activities such as food, textiles, leather, ceramic, nonmetallic mineral products, metallic products, nonelectric machinery and other manufactured products, Level 1 firms absorb around 20-50% of total employment.

With regard to the social characteristics of micro-enterprise labor, we can say that it is of both rural and urban nature. Especially in the secondary cities, where there has been a great migration process due to the crises of the agriculture sector in the last past years, there is a high concentration of rural labor force. Another point which should be considered in the credit component analysis is land tenure and its impact on credit access. Many micro-enterprises are established in areas which have been invaded and which legally do not have property titles. This could be one of the important problems for credit access. Micro-enterprise as a social group are characterized by the decentralization of the production of its productive units, a relatively even income distribution, and a poor social and political organization.

Concerning the conditions of production, most micro-enterprises have their establishments within their households. They have a minimum capacity for investment, with initial capital usually coming from savings or informal sources such as family-friend loans, street loans, etc.

Labor is more important than capital for their production. Therefore, manual work predominates over mechanized production. They have very few machines or working instruments, they use cheap materials and hardly use semi-finished materials. These conditions permit the micro-enterprise entrepreneur to operate at low costs.

In terms of Level 1 firms' production, it varies from activity to activity. Production is greater in those traditional production activities such as shoes, clothing, wood products where they make up 77.8%, 60% and 56.5% of total production, respectively. In activities like wood, glass products, nonmetallic products, metallic products, etc., they make up from 10 to 50% of the total production. (11)

Credit access has been a great constraint to Level 1 firms' productivity and efficiency. Due to the lack of financial liquidity plus an inability to fulfill requirements of the formal credit system (ex: collateral guarantee, assets), this sector is obliged to remain within the informal credit system. Programs such as FED, FEE, and FOPINAR have represented a partial easing of this constraint. Nevertheless, the economic and financial limitations of these microenterprise credit programs have resulted in their high concentration in principal cities like Quito and Guayaquil and in a limited capacity of services within the whole sector itself.

Therefore, the Project seeks to expand these type of credit programs to micro-enterprises with demonstrated potential for social and economic growth and to the geographic areas where these needs seemed to be have been largely unattended.

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(11) Artisanry and Modernization in Ecuador (CONADE-Banco Central), Quito, 1985, pp. 82-83.

## B. Social Feasibility of the Credit Component

The social feasibility and impact of the micro-enterprise credit programs will principally depend on two aspects: the social orientation and program structure of the chosen credit institutions; and their delivery system.

In both cases, it will be relevant to learn about the socio-economic characteristics not only of the region but also of the target group: working conditions, the social relations, and forms of production. Income levels for productivity and employment may vary from activity to activity within the sector.

Therefore, familiarity and understanding of this sector will permit a better definition of this component's beneficiaries and also it will give a social perspective to the credit program design, without meaning that it will necessarily fall into a "subsidized" type of a program.

Although there has been experience in Ecuador with these type of programs (FEE, FED, FUPINAR), there are not specific data related to their social benefits and impact. Most information is at the level of credit program administration (e.g., number of loans per beneficiaries) with limited economic data (repayment record per beneficiary, volume of sales, earnings, etc.). Therefore, if some of these programs' elements were to be adopted, it would be recommendable to first evaluate the social aspects mentioned above before implementing them in other social-economic contexts.

### 1. Institutional Orientation and Program Structure

Institutional willingness to participate in this credit component does not necessarily mean that the institution itself will be socially viable for this type of programs. The social feasibility of the selected institutions will depend on the social focus they give to their program and the acceptability or consciousness of the need of having a social orientation. Most formal credit institutions work exclusively upon the conception of "pure profit", disregarding the type of social groups they deal with nor the social impact of their services. A micro-enterprise credit program will require an institution with an adequate internal organization and staff, flexible enough to adapt itself to situations with social implications, that is, capable of serving efficiently the micro-enterprise's beneficiaries disregarding socio-economic and maybe even ethnic differences. Therefore, the selection of institutions to administer the credit program should be done based on criteria such as:

- a) Goals with some type of social content.
- b) Some social credit programs (ex: credit line for education).
- c) Socially oriented values, especially at top management levels.
- d) Socially motivated staff at all levels.
- e) Familiarity with the target groups. That is, knowledge of the socio-economic working conditions, and their needs.
- f) Some type of experience in dealing with these type of clients.
- g) A good reputation among the target beneficiaries.

In addition, employees of these programs should be trained to deal closely with the social aspects of loan transactions. That is, they must be given all the information possible concerning the beneficiaries (social, economic, cultural) and the type of problems which may arise in dealing with these type of groups. A better understanding of the target groups and an awareness of its importance for Ecuador's socio-economic development may help the institutions to fulfill satisfactorily their new role and functions without falling into a "paternalistic" type of behavior (12) which usually results in a negative impact on the target groups by not permitting them to reach financial and economic autonomy and self-sufficiency.

The lack of credit at the micro-enterprise level relates not only to the fact that formal financial institutions are not interested in getting involved in these type of high cost loan transactions, but also to the inability of the beneficiaries to fulfill institutional requirements. Thus, the credit program should incorporate features which deal with these constraints.

Form-filling could be mentioned as one of the constraints. Due to the diversity of educational levels found within the beneficiary sector, not everyone will have the same ability to accomplish this requirement.

It is recommended in this case, to elaborate a simple and more comprehensible form. That is a form which is compatible with the target groups' educational and comprehension level.

Another problem which sometimes results from institutional credit type of transactions is the cost (in both money and time) which paperwork requirements and processing represent for the beneficiaries (13). Transacting paperwork should be simplified as much as possible to avoid excessive economic cost to the beneficiaries.

Therefore, the credit institution should include as part of its strategy a technical assistance component in order to provide adequate information and guidance on these matters directly to the beneficiaries by organizing them in groups or by giving it to them through their selected representatives or leaders.

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(12) This has been common in most of these type of programs due to their highly subsidized nature. In cases like FEE, their clients have not been able up to now achieve financial self-sufficiency or economic sustainability; they still highly depend on FEE.

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(13) Such has been the case of credit institutions like the BNF.

Interest rates are another subject to be carefully discussed. Unfortunately, again, there is no data concerning the social impact of FEE, FED and FOPINAR's interest rates. In any case, the credit institutions' interest rates should be consistent with the loan structure and the production unit payment capacity in order to avoid a negative social impact (e.g. poor profit and consequently, low income levels, unavailability of employment creation, etc.).

It would be useful in this program (before determining its interest rates) to carry out an evaluation of the social impact that the actual FEE, FED, and FOPINAR programs interest rates have had on its beneficiaries. That is, the impact they have had on social variables such as income, education, employment, household (e.g. improvements, actual consumption patterns on habits, etc.).

Loan structure itself has also been identified as an issue of the micro-credit programs. This could result into a social issue if the amounts and terms are not compatible with the beneficiaries' real needs and payment capacity. As has been stated in one of the the PP studies (14) "low loan amounts and short maturities may contribute to inefficiencies". Therefore, this program should take into account the different factors which define the demand for different loan terms. Based upon this information, feasible loan amounts and repayment terms can be determined for the beneficiaries.

Technical assistance has been an issue which has been separately treated in the technical assistance component analysis. Nevertheless, it is strongly interrelated to credit in the case of Level 1 firms. The question which arises is whether credit combined with technical assistance improves Level 1 firms' performance. According to the economic analysis, FEE beneficiaries who received intense technical assistance with their loans showed a better performance in handling their loans than FED clients. It seems that the latter had problems in handling loans greater than S/. 40,000 due to poor management.

Therefore, there is a reason to believe that technical assistance in basic areas of financial management is important for successful handling of loans. Due to the limitations of this sector (which have already been analyzed in the technical assistance component) in accessing the type of technical assistance offered by INSOTEC, this credit program should include in its design a small complementary technical assistance component, whose cost could be represented either in the interest rate or in the loan itself. Cost would be reduced if technical assistance was given to the credit beneficiaries on a group basis. Technical assistance content should be very simple for easier absorption by the beneficiaries. A follow-up system is very important, especially at the beginning, in order to assess the beneficiaries' performance with credit and their percentage of absorption and use of technical assistance. This will provide the information necessary for improving the credit programs.

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(14) "Credit consultancy component report", Shari Berenbach (PFP), March 1986.

That is, the beneficiary groups rely on these institutions for socio-economic type of activities (ex: social organization, product expositions, organizing markets, etc.), or as intermediary in dialogues with other public or private institutions, or for the sector's requests to other entities, etc. (15).

Therefore, graduation feasibility will rely on two ingredients: the financial and economic self-sufficiency attained by the beneficiaries through these credit programs; and the social and psychologic independence the beneficiaries have attained regarding these type of credit programs. It would be recommendable, then, for these credit programs to establish these ingredients as part of their goals. Also, their actual role and functions should be conditioned by them. Finally, due to the impossibility up to now of using the CGC as a graduation mechanism (discussed above) plus a certain incapability of the beneficiaries (either financially, socially, or psychologically) to incorporate themselves into the formal credit system, the micro credit programs should expand their loan capacity (above 1,200 dollars) until the beneficiaries have accomplished the established goals.

- The credit programs not fulfill exclusively the role and correspondent functions of a "source of credit" but rather of a "bridge to the real source of credit" (which would be the banks).
- The credit programs' actual technical assistance should be reinforced according to the established goals.
- The programs should establish a technical assistance program for graduation.
- The programs should design with the formal credit institutions an evaluation system for graduation. Both will also establish beneficiary selection criteria.
- These final evaluations should be presented to the banks for beneficiary selection.
- Programs should take part, especially the first years, in the follow-up of each graduated student.

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(15) This has especially been the case of FEE.

## 2. Delivery Systems

The social feasibility of the credit component will depend on the access to credit provided by the institutions, in which the delivery system plays an important role. Due to the fact that micro-enterprises are decentralized and less organized than the solidarity groups of the commercial sector, the delivery system will have to be designed in such a way as to be able to reach appropriately its beneficiaries. Providing access facilities to the program by conducting the beneficiaries into organization or associative type of experiences might reduce not only the burden of transaction costs for both the beneficiaries and the institution but also it would save time.

Another important aspect of the delivery system is its outreach capacity. Since many of the beneficiaries will be located outside the city proper, there may be some constraints in reaching them. As it has been mentioned before, micro-enterprises have low levels of organization and operate in an individualistic manner. Centralizing credit operations in the principal target cities may represent a discentive to beneficiaries of the area of influence due not only to the cost of time in going into the city but also the financial cost itself (transportation). A possible alternative to this problem could be to organize the beneficiaries in groups. Each group would elect a representative who would be the intermediary in the delivery system (ex: paperwork, collecting payments, etc.). This would also mean a lower cost for the credit institution itself.

Concerning disbursement, if the delivery system to the target cities' influence areas is not designed adequately, there may be certain constraints such as delays in disbursements which will represent a negative impact on the beneficiary groups' productive activities. Disbursement facilities if possible, should be made available not in the city itself but also in the surrounding areas.

### C. Graduation

One of the principal objectives of the FED and FEE credit programs has been to "graduate" the beneficiaries to the formal credit systems once they have reached the program's loan level top (around 1,200 dollars) (16). Nevertheless, this has not been achieved basically for two reasons: one, the problem of bank acceptance on a regular basis and two, the dependency of the beneficiaries on the micro-credit programs.

The Credit Guarantee Corporation guaranty loans through the bank system. In the case of the intermediate cities, greater opposition to this mechanism might be found because of conservative banking practices. On the other hand, it has been said that the CGC's capital would come basically from the Chamber members' monthly quotas. Two issues arise from this: own has to do directly with membership. Most micro-enterprise owners, due to their poor levels of social organization, are not organized at chamber levels but rather at association or gremio levels, or not at all. Most Ecuadorean small industry chambers are in its majority integrated by Level 2 and 3 firms. Therefore, it is highly doubtful that the micro-enterprise sector will be in this case a

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(16) FEE has presented five candidates to the bank. In FED's case, there is no record at all of beneficiary graduation.

beneficiary of the CGC unless they are incorporated into these chambers. Incorporation in this case might encounter serious social constraints due to the incapability of the organization's administrative and socio-economic and ideological structure to incorporate this type of group. Therefore, conflict of interests and objectives could appear.

The other issue to be considered is that the chambers found in the intermediate cities are so small and poorly organized that they are far from being able to assume the new administrative and financial roles and functions required in the case of establishing a CGC.

The beneficiary group itself could represent a social constraint for the graduation program due not only to poor performance in handling actual loans but also because of a lack of self-sustainability and self-sufficiency not only in financial and economic terms but also socially and psychologically.

#### D. Women

As for technical assistance, there has been a lack of access to credit for Level 1 owned/operated firms in the manufacturing sector. According to PRODEM's data, 89% of women had never received credit from a formal credit institution and therefore have been obliged to rely on informal sources of credit.

Due to the difficulties for women to integrate themselves into the Ecuadorean economy, not only because of the lack of credit access and technical assistance but because of socio-cultural values, this program should pay special attention to the women of this sector. For this component to be socially feasible for women owned/operated micro-enterprises, the credit program should seek to establish simple application records since women in Ecuador are less literate than men, and have less time due to their dual responsibilities (home and production). It should also establish minimal and flexible guarantees since women have more difficulties in fulfilling collateral requirements (17).

This program should also determine the loan structure according to the women owned/operated firms production activities and should assist them closely with appropriate technical assistance in record keeping, marketing and managerial skills rather than in traditional domestic skills. Women's savings have been reported to be low compared to male borrowers; this program should try to identify adequate mechanisms to stimulate savings among women borrowers and to prepare them for graduation.

Finally, since it seems that most women are found in the commerce sector rather than in the micro-enterprise one, it would be recommendable, for a greater social impact, that the design of the credit program include this sector, too.

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(17) PRODEM's survey also shows that women borrowers and have less fixed assets than men. This could be due to Ecuadorean socio-cultural values which are such that private property ownership tends to favor men.

V. SOCIAL IMPACTS

A. Impact of Migration

Migration in Ecuador has become a serious socio-economic problem, especially in recent last past years.

The crisis in the agricultural sector plus the limited job opportunities, occupational mobility, and productive activity diversification in the smaller urban areas have resulted in a diminishing labor force in the rural areas and a tremendous population growth in important urban centers, principally Quito and Guayaquil (lately Quevedo). The inability of these urban centers to efficiently absorb the migrant population has led to the creation of marginal urban areas where the most precarious conditions of living can be found.

The development of the small enterprize sector in some of these highly populated centers may not be the solution to this problem, but at least could slow down the migration process. The project has defined as the principal beneficiary cities of the coast: Quevedo, Babahoyo and Esmeraldas, and from the highlands: Imbabura and Sto. Domingo.

Migration in the Coast and Highlands  
(Percentages of population in Guayaquil and Quito which have migrated from various provinces)

<u>To Guayaquil</u>	<u>Men</u>	<u>Women</u>
Guayas	20.4%	2.7%
Los Rios	13.7%	12.5%
- Quevedo		
- Babahoyo		
Esmeraldas	8.5%	9.9%

To Quito

Pichincha	18.5%	10.4%
Imbabura	10.4%	18.5%

According to the most recent data collected through a survey of migration to Quito and Guayaquil (18), the bigger the cities, the lower the percentage of migration to Quito and Guayaquil. In the case of Quevedo, Babahoyo, Sto. Domingo, Esmeraldas, and Ibarra the percentage of migration to Guayaquil and Quito is not great, which means that their productive structure still provides certain socio-economic opportunities. The development of the small enterprize sector in these cities will have a positive impact on this migration pattern for it will provide the population of these cities socio-economic incentives through more job opportunities, diversification of

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(18) Inmigración a Quito y Guayaquil. CEPAR, Quito, Nov. 1985

production, diversification of activities and therefore occupational mobility, better income sources, social mobility opportunities, etc. Nevertheless, if the efforts of this Project are exclusively focused in these cities the impact could be negative. Lately, cities including Quevedo have been polarizing the immigration of the whole region and as a consequence, new marginal areas are starting to appear (19).

The Project has decided to also work with the areas of influence of these cities. This would mean that migration from the small urban areas could be held back to a certain extent by developing the productive structure of these areas and therefore offering the population new or improved socio-economic opportunities "in situs".

The negative social impact of this Project could rather be at rural level. Rural migration in the coast is still higher than in the highlands. In the case of Guayaquil the percentage of all immigrants who came from rural areas is 65.5%, while for Quito it is 56.4%. The crisis of the agriculture sector has pushed a great percentage of the population to search for "better" economic opportunities in the cities. In spite of all the social and cultural difficulties this displacement represents for rural people, expectations seem stronger. The implementation of a credit program for micro enterprises in secondary cities could reinforce the incentive for rural-urban migration. It could represent an economic outlet or alternative for many of the rural households. Even if these programs are to be restrictive, the concentration of programs and financial resources only in urban areas could become a strong attraction to the rural population. The Mission should therefore also seek to develop in the future the small rural enterprise sector (e.g., agro-industries) to avoid any future negative social impact which could result from a polarized income distribution (rural-urban).

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(19) The percentage of total population which is immigrant in Los Rios (Quevedo, Babahoyo) is 15.54%, in the region of Esmeraldas 17.13%, Imbabura (Ibarra) 10.85%, Pichincha (Sto. Domingo) 27.6%

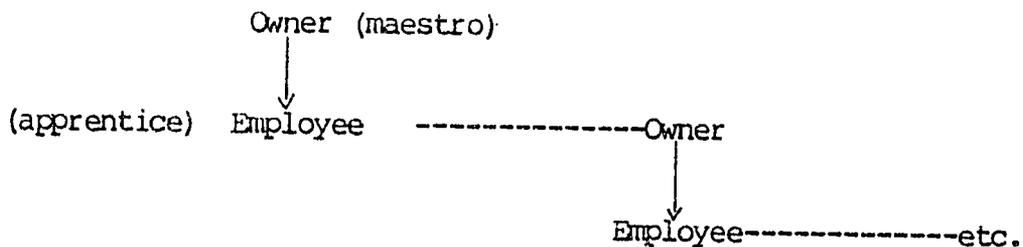
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B. Impact on Employment

There is not much data available to thoroughly analyze the impact of technical assistance and micro-credit programs on employment within the small enterprise sector. Nevertheless, it is known that the small scale enterprise sector provides employment to a large part of the labor force (20).

In the case of the technical assistance component, its impact is indicated by previous A.I.D. experiences with the small enterprise sector in other countries. Such is the case of Panama (APEAE) where it was found that technical assistance improved the operating conditions of 92 percent of the beneficiary firms and also had an impact on their employment generation capacity. As to the micro credit programs, there is somewhat more reliable data on impact on employment in the micro enterprise sector. The records of FEE and FOPINAR (21) show an average employment generation of about one job per firm per year. Nevertheless, this figure could be higher if we consider the fact that the Ecuadorean micro enterprises' employment generation is not homogeneous, but rather varies according to the type of productive activity. In the case of modern productive activities, such as electric machinery, paper, drinks, chemicals, plastics, etc., micro enterprises only absorb 10% of total employment of the manufacture sector. The more traditional productive activities (clothes, shoes, wood products, etc.), on the other hand, absorb more than half of total employment in those sectors, e.g., clothing 83.7%, shoes 87.8% (22). In other words, some micro enterprises absorb even up to over 80% of labor in some productive activities. Hence, the impact of these credit programs could easily reach an average employment generation of two jobs in firms with traditional productive activities and therefore it would be recommendable to target these programs to these type of firms.

The impact on employment may be argued by a "spill-over" effect commonly observed in Ecuador. The pattern is as follows:



(20) It has been calculated that around 30 to 70% of the labor force is found in this sector in many third world countries.

(21) FED's data on employment generation was found to be too inconsistent for analysis.

(22) "Artesanía y Modernización en el Ecuador" CONADE - Banco Central, 1985.

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That is, in most micro enterprises there are employees called "apprentices" who after a certain period of time, once they have learned their skill in a certain productive activity from the "maestro" (owner), decide to become independent and establish their own business. These programs, therefore, on one hand will stimulate this "spill over" effect, permitting a certain mobility within the micro enterprise occupational structure (from employee to owner) which generates new firms and thus expands the employment capacity of the sector.

The other important impact will be indirect employment generation which will result from increasing the purchase power of the micro enterprise sector. This will permit other productive sectors, especially within the informal sector (23), to expand and therefore generate more jobs.

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(23) This sector is very important because it satisfies the basic needs of the lower income levels of Ecuador.

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D C 20523

LAC/DR-IEE-86-8

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Ecuador

Project Title and Number : Small Enterprise Development  
: 518-0056

Funding : \$4,300,000

Life of Project : FY86-89

IEE Prepared by : Cynthia Giusti,  
O/DR, USAID/Ecuador

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments : None

Copy to : Orlando Llenza, Director  
USAID/Ecuador

Copy to : Cynthia Giusti, O/DR,  
USAID/Ecuador

Copy to : Howard Clark, USAID/Peru

Copy to : Robert Jordon, LAC/DR

Copy to : IEE File

ACTION:	
DIB	
D/DIB	/
O/DP	/
O/PE	
EXO	
O/CONY	/
O/DE	/
GDO	
FED	
U/H	
RDO	
PSD	
TRG	
ING. VEA	
DPS	
TIC	
RF	2 /
M&R	/
EMS	
WASH	
ELR	

*Maria E. Hatzidakis* Date April 11, 1986

*for*  
James S. Hester  
Chief Environmental Officer  
Bureau for Latin America  
and the Caribbean

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## Environmental Impact Consideration

### I. Project Data

Country:	Ecuador
Project Title:	Small Enterprise Development
Project Number:	518-0056
Life of Project	3 years

### II. Project Description

The Project purpose is to expand and improve technical assistance, credit, and representational services to the small scale enterprise (SSE) sector. A.I.D. funding will support the expansion of technical assistance services through private, commercial channels. With regard to the expansion of credit, A.I.D. will help finance the development of credit programs aimed at very small, productive enterprises in selected secondary cities. The credit funds will be administered by existing institutions and will be lent in relatively small amounts primarily for machinery and working capital; A.I.D. will not reserve prior right of review and approval of the loans to be made under these programs. Finally, the Project will strengthen representational services by assisting selected local and national organizations which represent SSE to improve their services to members and to increase the members' influence on policy decisions affecting them. In this regard, A.I.D. will also fund a series of studies on key policy issues affecting SSE.

The total estimated cost of the Project is \$6,200,000, which includes \$4,300,000 A.I.D. Grant and the equivalent of \$1,900,000 in counterpart. The A.I.D. resources will finance: support through a grant with a private Ecuadorean organization to expand its technical assistance program for SSE (\$1,050,000); contracts with one or more U.S. nonprofit organizations to provide technical assistance to the credit programs (\$900,000); a long term contract with a U.S. consulting firm to provide technical assistance for strengthening representational organizations (\$1,400,000) and small grants to the selected organizations to cover initial operating costs (\$120,000); short term contracts for the policy studies (\$120,000); a project coordinator (\$450,000); expenses of an Ecuadorean Advisory Board (\$80,000); and Project evaluation (\$180,000).

### III. Conclusion

All of the above A.I.D. financed activities are included in the list set forth in Section 216.2(c)2 of A.I.D.'s Environmental Procedures (Handbook 3). Such activities are categorically excluded from the General Procedures contained in Section 216.3. Consequently, an Initial Environmental Examination is not required.

Small Enterprise Development Project (518-0056)  
A.I.D. Grant Budget

COMPONENT INPUT	INPUT DESCRIPTION AND ESTIMATED QUANTITIES	A.I.D. GRANT (US\$000)
1. TECHNICAL ASSISTANCE SERVICES		840
A. Personnel	273 p/a professional and technical personnel at US\$900-1,800 per mo. 154 p/a secretarial and support personnel at US\$170-420 per mo.	370
B. Local consultants for direct T.A. activities	137 activities (group and individual) at US\$280-1,800 each. 20 p/a specialized consultants for women's enterprises at US\$1,000 per mo.	115
C. Publications	5 manuals at US\$1,500 each. Other publications.	10
D. Travel and per diem	Local per diem: 900 days at US\$40. 10 training/observational trips of approx. 15 days, at US\$2,000 each and training fees.	65
E. Vehicles and equipment	2 4WD vehicles at US\$15,000 each plus maintenance and insurance. Office furniture and equipment for field. Training equipment. Computer software and materials.	85
F. Operating expenses of field offices	Rent, utilities, office maintenance, vehicle maintenance and insurance, office supplies and services, occasional secretarial/support services.	85
G. Technical assistance to public	10 p/a of T.A. at US\$11,000 per mo.	130

II. CREDIT DELIVERY MECHANISMS		1,885
A. Technical assistance	136 p/m of local advisors at US\$1,675 per mo. 36 p/m of long term expatriate advisor at US\$10,000 per mo. 32 p/m of short term expatriate advisors at US\$11,000 per mo. 5 observational trips at US\$4,000 each. 25 observational trips at US\$2,000 each.	1,010
B. Vehicles, equipment, materials, and services for advisors	2 vehicles at US\$15,000. Office equipment. Vehicle O&M. Local travel. Communications. Audit and legal services.	250
C. Operating and capital expenses of new micro credit programs	6 programs at avg. US\$90,000 each.	540
D. Operating expenses of CDD technical team.	Salaries of 4 persons at US\$5,750 per yr. Local travel and per diem.	85
III. REPRESENTATIONAL SERVICES		470
A. Personnel	50 p/m professionals at US\$1,000 per mo. 100 p/m promoters at US\$500 per mo. 75 p/m support staff at US\$200 per mo.	115
B. Training materials and logistical costs		50
C. Local consultants and travel	15 p/m at US\$1,000 per mo.	15
D. Vehicles and equipment	1 vehicle at US\$15,000. 1 microcomputer at US\$5,000. Office equipment and for field.	25
E. Technical assistance and observational travel for LIFTE staff		65
F. Minigrants to representational organizations	10 minigrants at avg. US\$10,000 each.	100
G. Policy studies	10 studies at US\$10,000 each.	100

IV. PROJECT COORDINATION AND EVALUATION		675
A. Project coordinator	40 p/m at US\$5,000 per mo. Vehicle at US\$15,000. Per diem: 475 days at US\$40. Secretary, 40 p/m at US\$400 per mo.	250
B. Advisory Board	Promotional events. Publications. Local per diem: 8 persons at 12 days travel per yr. for 3 years at US\$45 per day.	25
C. Evaluation services	ARIES: 210 p/d at US\$400 per day burdened rate. 120 p/d consultants at US\$225 per day. Per diem: 370 days at US\$70. Micro computer network at US\$25,000. Int'l. and local travel. G&A. ICRW: 265 p/d staff and consultants at avg. daily burdened rate of US\$200. Per diem: 135 days at avg. US\$55. Int'l and local travel. Survey and data analysis. Overhead.	400
SUBTOTAL		3,970
CONTINGENCIES		630
TOTAL		4,500

Enal. Enterprise Development Project (518-0056)  
A.I.D. Grant Expenditure Schedule (US\$000)

COMPONENT/INPUT	Year 1	Year 2	Year 3	Year 4	TOTAL
I. TECHNICAL ASSISTANCE SERVICES	342	295	151	52	840
A. Personnel	116	140	86	29	370
B. Local consultants for direct T.A. activities	19	58	27	11	115
C. Publications	2	4	4		10
D. Travel and per diem	32	19	12	2	65
E. Vehicles and equipment	84				84
F. Operating expenses of field offices	11	22	22	11	66
G. Technical assistance to INSOTEC	78	52			130
II. CREDIT DELIVERY MECHANISMS	549	819	480	38	1,885
A. Technical assistance	369	407	196	38	1,010
B. Vehicles, equipment, materials, and services for advisors	110	70	70		250
C. Operating and capital expenses of new micro credit programs	40	311	189		540
D. Operating expenses of CDD technical team.	30	30	25		85
III. REPRESENTATIONAL SERVICES	160	155	130	25	470
A. Personnel	29	39	39	8	115
B. Training materials and logistical costs	26	12	12		50
C. Outside consultants and local travel	3	6	6		15
D. Vehicles and equipment	25				25
E. Technical assistance and observational travel for DIPE staff	40	25			65
F. Minigrants to representational organizations	17	33	33	17	100
G. Policy studies	20	40	40		100

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IV. PROJECT COORDINATION AND EVALUATION	174	195	195	111	675
A. Project coordinator	86	70	70	24	250
B. Advisory Board	5	8	8	4	25
C. Evaluation services	87	117	117	93	400
CONTINGENCIES	190	190	190	60	630
TOTAL	1,415	1,653	1,146	286	4,500
	31.4%	36.7%	25.5%	6.4%	100.0%

METHODS OF IMPLEMENTATION AND FINANCING

Small Enterprise Development Project (518-0056)

(a) Summary Chart

<u>Project Component and Method of Implementation</u>	<u>Method of Financing</u>	<u>Approximate A.I.D. Fundi (US\$000)</u>
<u>I. Credit Delivery Mechanisms</u>		
A. HBL3 Cooperative Agreement to U.S. PVO - technical services, training, commodities, operating expense support for local implementing agencies.	Direct reimbursement.	1,885
<u>II. Technical Assistance Services</u>		
A. HBL3 Cooperative Agreement to Ecuadorean PVO - technical services, training, commodities.	Direct reimbursement.	840
<u>III. Representational Services</u>		
A. Subgrant to Ecuadorean PVO under Cooperative Agreement described in II, above - technical services, training, commodities.	Direct reimbursement to subgrantee.	370
B. Subcontracts to Ecuadorean entities under Cooperative Agreement described in II, above - policy studies.	Direct reimbursement to Cooperative Agreement recipient.	100

IV. Project Coordination and Evaluation

A. A.I.D. PSC for Project Coordinator, vehicle, support services.	Direct payment.	250
B. Local subcontracts under Cooperative Agreement described in II, above - expenses of Project Advisory Board.	Direct reimbursement to Cooperative Agreement recipient.	25
C. A.I.D. direct contracts for Project evaluation services, using funds under Cooperative Agreement described in II, above.	Direct payment to providers of evaluation services.	400
<u>Contingencies</u>	One of methods described above.	630
<u>Total</u>		<u>4,500</u>

(b) Justification for Departures from Preferred Financing Methods

None of the proposed methods of financing departs from the preferred methods of financing listed in Section I.A.3. of the Payment Verification Policy Implementation Guidance, dated December 30, 1983.

(c) Assessment of Host Country Capabilities

The Project contemplates two host country implementing agencies which will directly receive A.I.D. funds: the PVO recipient of an A.I.D. Cooperative Agreement; and a PVO which will receive a subgrant under that Cooperative Agreement.

A financial analyst from the Mission's Office of the Controller reviewed the financial management systems of the proposed Cooperative Agreement recipient. In addition, at the Mission's request, the proposed recipient contracted a financial review by Price Waterhouse. These analyses concluded that the proposed recipient's accounting procedures are consistent with generally accepted accounting practices.

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The Mission financial analyst also reviewed the financial management systems of the proposed subgrantee. The analyst recommended that certain internal controls be improved. The Cooperative Agreement will include the requirement that acceptable internal controls be implemented prior to disbursement of A.I.D. funds to the subgrantee. A.I.D. and/or an independent accounting/audit firm will verify the adequacy of the controls.



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Robert K. Clark  
Controller  
USAID/Ecuador

Population, Migration, and Unemployment Data by Provinces and Cities<sup>a</sup>

Province <sup>b</sup>	Net Migration as a Percent of Population 1974	Change in Net Migration over 1974-82 as a Percent of Population Increase, 1974-1982	Percent Increase in Population of Major Cities 1974-1982	Rate of Unemployment of Major Cities 1974	Rate of Unemployment of Provinces' Urban Areas 1974	Rate of Unemployment of Provinces' Urban Areas 1982
Ecuador					4.39	6.87
Guayas	10.64	25.69	Guayaquil 46 Milagro 45	Guayaquil 5.6 Milagro 5.0	5.49	7.40
Pichincha	18.23	35.97	Quito 45 Sto. Dgo. 119	Quito 3.2 Sto. Dgo. 3.8	3.2	4.49
Azuay	- 13.50	5.96	Cuenca 44	Cuenca 3.7	3.53	5.6
El Oro	10.47	0.52	Machala 53	Machala 5.4	4.89	7.8
Manabi	- 13.02	- 213.96	Portoviejo 71 Manta 56 Chone 42	Portoviejo 4.6 Manta 6.5 Chone 8.9	5.38	10.57
Tungurahua	- 9.46	- 6.31	Ambato 31	Ambato 3.5	3.52	5.3
Esmeraldas	4.15	- 22.48	Esmeraldas 50	Esmeraldas 6.7	6.26	15.1
Imbabura	- 14.12	- 105.17	Riobamba 26	Riobamba 4.3	4.30	6.14
Loja	- 18.06	- 274.42	Loja 50	Loja 3.5	3.56	5.38
Morona Sotoca	- 3.75	- 34.78	Quevedo 54 Bahahoyo 52	Quevedo 4.1 Bahahoyo 3.6	3.92	8.71
Imbabura	- 8.72	- 17.65	Ibarra 28	Ibarra 3.4	3.45	8.4
El Azuay	- 16.66	- 283.98	Tulcán 27	Tulcán 3.1	3.52	8.59
El Cotacachi	- 13.75	- 19.31	Latacunga 31	Latacunga 3.2	3.31	6.17

<sup>a</sup> Cities for which unemployment rates available.  
<sup>b</sup> Listed by size of largest city in 1982.

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SCOPE OF WORK FOR COOPERATIVE AGREEMENT FOR THE  
CREDIT DELIVERY MECHANISMS COMPONENT

A. General

The successful applicant will provide assistance to all activities within the Credit component of the Small Enterprise Development Project. The successful applicant will also be encouraged to seek innovative ways to coordinate with the other Project components, particularly to the extent that those components are implemented in the same geographic areas as the credit activities. For example, a local representational organization, which is being assisted under the representational services component to develop its membership services, could help promote the microenterprise credit program and serve as a referral/screening agency for potential credit clients. It is also expected that in-country personnel of the successful applicant will participate on the Advisory Board which will assist in overall Project coordination. The successful applicant is encouraged to promote the formation of similar coordinating mechanisms at the local level in the various secondary cities where the new microenterprise credit programs will be implemented.

The following four sections describe the expected accomplishments, general parameters, and key implementation matters, for each of the activities within the Credit Component. The application must clearly show how the applicant proposes to meet (or exceed) the given targets within the framework described for each activity, taking into consideration the detailed background information provided.

B. Activity 1: Development of New Micro-credit Programs

1. Expected Accomplishments

New microenterprise credit programs will be established in an estimated six secondary cities. It is expected that, by the end of the Project, these programs will have attained, or be well on their way toward achieving, financial self-sufficiency and will have established secure, commercial sources of financing for their credit lines. Each program will have established an ongoing monitoring and evaluation system (including baseline data) to support program management and to measure the social and economic impacts of the program on the client firms.

To develop these micro-credit programs and achieve these goals, the successful applicant will execute a program of institutional development. The applicant will propose an appropriate methodology for developing the new micro-credit programs. The methodology should reflect lessons learned from the two existing micro-credit programs in Ecuador as well as from the experiences of the applicant elsewhere. There is much that can be learned from the two existing micro-credit programs in Ecuador and, whenever possible, the methodology should encourage collaboration and learning exchanges. The applicant should also address the need to promote the "graduation" of micro-credit clients to the formal banking system, and indicate how this will be approached.

2. Parameters.

a. Target group. The micro-credit programs will be targeted on nonagricultural enterprises classified as Level 1 (5 or fewer employees and assets under US\$7,000) which are involved in manufacturing or productive services; purely commercial enterprises are not included in the target group. It is recognized that the structure of the small enterprise sector in a given secondary city may require some deviation from these parameters to ensure program viability. For example, it may be necessary to include some commercial vendors to achieve the required portfolio size, or to admit some firms which exceed the Level 1 size criteria. However, such deviations should be kept to the minimum necessary.

b. Secondary cities. The criteria for selecting the secondary cities where the new micro-credit programs will be developed include the following:

- Population growth trends (including migration)
- Unemployment trends
- Economic growth potential (in the context of a balanced national development pattern)
- Degree to which credit needs are now being attended by formal sources

On this basis, six secondary cities have been selected: Manta, Portoviejo, Quevedo, Santo Domingo, Esmeraldas, and Ibarra. During the early stages of the Project the successful applicant may propose changes (or additions) to the cities identified above, based on further analysis of local institutional capabilities, the structure of the micro-enterprise sector, etc. Any new secondary cities proposed by the successful applicant must meet the above criteria.

The coverage of the micro-credit programs need not be limited to the city proper, but may extend into the surrounding suburbs/hinterlands as deemed necessary or desirable.

### 3. Implementation Guidelines

a. Pre-implementation actions. In preparation for its institutional development activities, the successful applicant will perform the following actions in-country:

- Assessment of the two ongoing micro-credit projects to ascertain lessons for the new programs and possibilities of using the former as training models. (This assessment will be in conjunction with Activity 2, "Strengthening of Existing Micro-credit Programs", described below.)
- Identification of probable implementing institutions in each secondary city. Preliminary investigations have already been conducted in the targeted cities, but further investigation is required. The applicant's proposal will include specific institutional selection criteria.
- Surveys of the microenterprise population in each secondary city to determine, with greater accuracy, the size, composition, and socioeconomic characteristics of the enterprises and their demand for credit and other services. The successful applicant will use this information to design appropriate programs for each city. The applicant's proposal should include a brief description of the proposed survey methodology, including the variables to be measured.
- Assistance to the proposed implementing institutions to develop detailed workplans to establish their micro-credit programs and specific targets. The applicant's proposal will include an outline for these workplans. A.I.D. will be given the opportunity to review and comment on the workplans prior to the initiation of implementation.

b. Timing of program start-ups. The pre-implementation actions described above are expected to take place, for the most part, during the first 6-9 months following signature of the Cooperative Agreement. Support for initiating the new programs will begin immediately thereafter and continue for the remainder (approximately three years) of the Project. Applicants are strongly encouraged to plan to initiate all of the micro-credit programs simultaneously, or nearly so. This is considered necessary in order to provide each program maximum time to develop within the life of Project. Any proposal for a more staggered start-up pattern should be fully justified in the proposal.

c. Inputs The applicant will describe the size, structure and qualifications, of its proposed staffing for the new microenterprise programs. Applicants are encouraged to develop an in-country staffing organization which is geographically decentralized to the program areas and which emphasizes the training and use of Ecuadorean nationals.

The applicant will describe the types and estimated amounts of training (in-country and abroad) which it proposes to provide to the local implementing institutions.

The Cooperative Agreement will also include funding for a limited amount of commodities needed for the successful applicant's in-country staff. The applicant's proposal should present a proposed commodities list and budget. The successful applicant will be responsible for directly procuring these commodities in accordance with the standard provisions of the Cooperative Agreement.

Finally, the Cooperative Agreement will provide funds for initial operating expenses of the implementing institutions (staff, equipment, services, etc.) The operating subsidy is expected to decrease each year. The applicant's proposal will describe the procedures for controlling and disbursing these funds, including procurement responsibilities.

In addition, the successful applicant will be expected to control and allocate seed capital funds to the various implementing institutions. It is expected that local currency funds will be made available through the Ecuador ESF local

currency program and disbursed directly to the successful applicant for this purpose. The application will describe the proposed arrangements for controlling and disbursing these funds to the local implementing institutions.

C. Activity 2: Development of Existing Microenterprise Credit Programs

1. Objectives

The Project will seek to improve the performance of the two existing A.I.D. supported micro-credit programs (FED and FEE). The following specific objectives have been identified:

- Develop access to, and the capacity to manage, a variety of capital sources, including the commercial banks.
- Develop the internal program and financial management capacity needed for effective portfolio management and financial controls, thereby ensuring smooth lending operations and permitting an increased volume of operations.
- Further develop lending and technical assistance methodologies, to accelerate the volume of lending while increasing development impact. As a corollary to this objective, monitoring and evaluation systems to assess program efficiency and impact should be improved.
- Strengthen mechanisms for promoting the "graduation" of program clients.

The successful applicant will conduct an initial assessment of the existing programs which may suggest additional needs and objectives, or modifications to the objectives listed above.

2. Implementation Guidelines

a. Key activities As described above, the successful applicant will be expected to conduct an initial assessment of the existing institutions and programs. The purpose of this assessment will be to better understand the situation, problems, needs and prospects for each program, as a basis for developing, if warranted, a detailed technical assistance workplan for each

program. The applicant's proposal will include a detailed outline of the areas to be covered by the assessment and the methodology for carrying it out. On the basis of the assessment, and if the program's prospects so warrant, the successful applicant, in collaboration with the staff of each program, will propose a detailed workplan with specific objectives and targets.

b. Timing It is recommended that this Activity be initiated as early as possible under the Cooperative Agreement.

c. Inputs The successful applicant will provide technical assistance and possibly training for the staff of the existing programs, financed under the Cooperative Agreement. The structure, level of effort, and duration of the technical assistance will be determined by the successful applicant in light of its assessment of the needs and prospects of each program. No long term advisors should be proposed for this Activity. The Cooperative Agreement may finance a modest amount of commodities for the existing programs. No credit capitalization funds will be provided through the Cooperative Agreement or from other A.I.D. sources for the existing programs, nor is it expected that local currency funds will be available for this purpose.

D. Activity 3: Development of Financial Bridge Mechanisms

1. Expected Accomplishments

The successful applicant will provide technical support for the strengthening of two types of financial mechanisms which could potentially facilitate the graduation of microenterprises to commercial financing.

First, the successful applicant will seek to establish the viability of the Credit Guarantee Corporation mechanism for providing credit to small enterprises. Specific objectives for the life of Project include:

- The operation of the CGC's for small enterprise credit in Pichincha and Azuay provinces.
- The participation of at least six commercial banks and/or private financieras in the guarantee system.
- Delivery of loan guarantee and technical services to an estimated 350 small enterprises.

Second, the successful applicant will support the increased effectiveness of FOPINAR in channeling credit to smaller enterprises. Expected accomplishments include:

- An increase in the number and amount of FOPINAR rediscounted credits for smaller enterprises, particularly for those enterprises "graduating" for the new micro-credit programs established under the Project.
- Improved efficiency of FOPINAR's administrative systems.

## 2. Parameters

a. Target group. The financial bridge mechanisms are intended to increase commercial bank lending at the lower end of the SSE sector (Level 2 and, to some degree, Level 1) where access to formal credit has been highly constrained.

b. Linkage to micro-credit programs. Efforts will be made, to the extent practicable, to establish linkages between the bridge mechanisms and the micro-credit programs in order to facilitate "graduation". In the case of the CGC in Pichincha Province, the Project should promote the movement of clients of the FED program to the CGC system. With regard to FOPINAR, the Project will encourage an increased allocation of resources (primarily from the IBRD) to the secondary cities where the new micro-credit programs are being developed. At the same time, efforts will be needed to motivate both FOPINAR and the participating financial institutions in those cities to increase the volume of lending to the target group enterprises. Direct relationships between the participating financial institution and the micro-credit programs should be promoted to facilitate referrals of "graduating" microenterprises to the FOPINAR rediscount lines.

## 3. Implementation Guidelines

a. Inputs. The successful applicant will propose a program of short-term advisors and possibly short term training to the existing CGC technical team and FOPINAR to meet the objectives described above. The proposed assistance program should be flexible in responding to the needs previously identified and others which may arise in the course of implementation. As a general guideline, it is expected that areas of assistance will include financial analysis, management, promotion, and others suggested by the applicant.

The Cooperative Agreement will include funding for the CGC technical team (salaries, official travel) during the life of the Project. This funding will be managed by the successful applicant. No funding for commodities or capitalization will be provided under the Cooperative Agreement.

Prior to A.I.D. approval of technical assistance to FOPINAR under the Cooperative Agreement, A.I.D. will seek the following written commitments from FOPINAR:

- To modify its promotional program directed at participating financial institutions to place greater emphasis on lending to the target group clients in the selected secondary cities.
- To ensure the availability of sufficient credit to the targeted cities to meet the commercial credit demands of enterprises "graduating" from the micro-credit programs and other target group enterprises.

b. Workplans. As the initial step under this Activity, the successful applicant will develop, in collaboration with the CGC technical team and FOPINAR, detailed first year workplans, including specific targets and a budget.

c. Evaluation. The successful applicant, in coordination with the implementing agencies and the Project evaluation advisor, will develop a monitoring and evaluation system (including collection of baseline data) to assess the institutional and beneficiary impact of the Activity. If deemed appropriate, these systems should be institutionalized in the implementing agencies.

E. Cooperative Agreement Administration

1. A.I.D. Supervisory Relationships

A.I.D. oversight of the Cooperative Agreement will be provided by the Chief of the Office of Private Sector Development in the A.I.D. Mission in Ecuador and by the Project Coordinator contracted by A.I.D.

A.I.D. reserves the right to prior review and approval of:

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- Professional personnel assigned by the successful applicant.
- Workplans for the various activities, and significant changes thereto.
- Selection of the secondary cities and micro-credit institutions, and changes thereto.

2. Reports

The successful applicant will provide consolidated quarterly progress reports to A.I.D. which detail, for each Activity under the Cooperative Agreement, physical progress toward targets, financial status, and major problems and corrective actions.

F. Technical Selection Criteria

Included below are the technical selection criteria and their relative weights which will be used to evaluate applications.

1. Qualifications and Experience of Proposed Personnel (40 percent)

Note: The applicant is required to make assurances that the personnel whose bio-data are included in the application will, in fact, be available to staff the Project should the applicant's organization be chosen. If USAID/Ecuador has not made its selection of an applicant with sixty (60) days of the closing date for applications, approved substitutions of personnel by the applying institutions will be considered.

a. Experience in the development and administration of credit and assistance programs for informal and small-scale sector enterprises.

b. Experience with the design and use of program monitoring and evaluation techniques.

c. Experience with Latin American small business enterprise development programs.

d. Fluent Spanish.

e. Availability of personnel at the earliest possible date.

f. Experience of the home office staff in the management of overseas programs.

2. Capabilities and Previous Experience of Applicant Organization (20 percent)

The applicant should describe its institutional capacity and experience to undertake this Cooperative Agreement. In evaluating the capabilities and experience of the applicant, the selection panel will consider the following:

a. Experience with similar types of programs aimed at improving the small enterprise sector.

b. Successful and relevant experience with the administration and implementation of U.S. Government grants, Cooperative Agreements or contracts.

c. Administrative support capacity, including the management of finances, personnel and the orderly carrying out of program requirements.

3. Applicant's Understanding of the Project Requirements and the Soundness of its Technical Approach (40 percent)

The applicant should provide a demonstration of its understanding of the purposes and requirements of the project. In evaluating the quality and responsiveness of the application the selection review panel will consider the following:

a. Demonstrated understanding of the project and the context in which assistance is to be provided.

b. Proposed methodology for implementing the three Activities which satisfactorily addresses the specific objectives of each Activity as well as the cross-cutting issues of institutional strengthening, sustainability, and "graduation" mechanisms.

c. Presentation of a management plan for the Cooperative Agreement which is responsive to the concerns of this RFA and sufficiently flexible to encompass the different sectors, cities, and institutions of the project and to allow smooth adjustments to change in circumstances during the project.

Drafted by O/DR:RRoser:MJSviercovich (3336G)

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SMALL BUSINESS COORDINATOR  
POSITION DESCRIPTION

A. Basic function of position

The contractor is a small enterprise development advisor who will assist the Mission with the coordination and implementation of activities related to small business development in Ecuador.

B. Major duties and responsibilities

- a. Develop and maintain close working relationship with Ecuador private small business organizations providing advice and guidance to them as appropriate.
- b. Coordinate USAID program development efforts in the field of small enterprises, including the design and supervision of studies as appropriate.
- c. Analyze and prepare reports on activities and opportunities for the development of small business.
- d. Monitor and advise on Mission activities under the Small Enterprise Development Project. This will include preparing drafts of all documents required for the orderly financial and programmatic management of the Project by the Project Manager.
- e. Work closely with INSOTEC, CIPTTE, U.S. contractors, relevant ministries, the advisory board, the financial-banking sector and other private and public institutions involved in the small business sector to ensure coordinated development of Project activities.
- f. Prepare periodic summary reports for the Project Manager covering the financial and programmatic status of Project implementation and the identification of issues to be addressed by the Project Manager.

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