



EVALUATION
OF THE
NON-TRADITIONAL AGRICULTURAL EXPORTS PROJECT

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PREPARED FOR:
PRIVATE SECTOR OFFICE
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EXECUTIVE SUMMARY OUTLINE

EVALUATION PURPOSE

The purpose of the evaluation, as stated by the Mission Director, was to provide answers to four basic questions:

1. Did Project No. 518-009 accomplish its purpose?
2. If it did not, why?
3. Should the Project be continued or extended?
4. If the Project is to be extended, how and in what form?

EVALUATION RESULTS

1. Did the Project accomplish its purpose?

YES : Within the stated purpose of the Project Document.

NO : In relation to the measure of achievement of an increase of US\$ 63 million in exports of non-traditional agricultural exports by the PACD.

2. If it did not accomplish its purpose, why?
 - a. The original Project design was incomplete and faulty.
 - b. The Outputs were insufficient to accomplish the Purpose.
 - c. The measures of achievement were overestimated and inappropriate and did not allow for the time lag inherent in agricultural export products.
 - d. The budget was insufficient and not realistic.
 - e. The time required to develop and change attitudes of participants or potential participants was not taken into consideration.
 - f. The Project was not managed properly nor adequately by USAID.
 - g. There was no continuity of technical assistance, advisors or management.
 - h. The investment credit facility did not perform as

expected and there were too many delays.

- i. The contract or agreement between USAID and the Central Bank was confusing and caused delays in implementation.

3. Should the Project continue or be extended?

YES : The Project has made important gains which should not be discarded and it should be extended as a redeveloped Phase II effort. The activities completed by the current Project can be considered to be a Phase I effort setting the stage for a Phase II developmental effort.

4. If the Project is to be extended, how and in what form?

- a. The new design should be developmental. It should stress technical assistance and the development of a production and marketing base from which to launch a full-scale export marketing program.
- b. The Project redesign should be undertaken immediately before the current PACD.
- c. The Project re-design should be undertaken by a team of specialists consisting of a marketing economist/marketing specialist and a financial/organizational specialist, plus ancillary inputs. The re-design can be accomplished in 45 days with a total of 100 person/days.
- d. The Phase II Project should be based upon a strategy to be developed and adopted that utilizes the systems approach and provides technical assistance, commodities, and training.
- e. The new design should be built upon the gains already made and should utilize the basic institutional structure that is now in place.

SECTION I

INTRODUCTION

A. Assessment/Evaluation Purpose

The purpose of the evaluation, as stated in Delivery Order No. 11, PDC-14061-00-7007-00 is to thoroughly analyze the structural components of the Non-Traditional Agricultural Export Project (Project No. 518-0019) and to assess the direct impact that each of the components has had on production, export, and employment generation in the non-traditional agricultural sub-sector during the lifetime of the Project. (Implementation: September, 1984. PACD: June 30, 1988.)

In the briefing meeting in USAID Ecuador, the mission director was emphatic in his instructions to the assessment team. The mission wanted direction as to what to do and how to do it. In essence, the purpose of the project assessment was to provide answers to four questions:

1. Did the Project achieve its purpose?
2. If it did not, why?
3. Should the Project be extended or continued?
3. If the Project is to be continued, in what form and how?

B. Methodology

The assessment team consisted of a finance specialist, an institutions specialist, and an agricultural production and marketing specialist. To develop the base for the assessment the activities of the Project and the functioning of the sub-sector were examined from three aspects; 1) the financial aspects; 2) the institutional aspects; and 3) the technical and operational production and marketing aspects. The team studied all available documents, correspondence and pre-project studies and interviewed participants, non-participants, producers, exporters, would-be producers/exporters, bankers, ministry officials, officers of public and private institutions, and individuals and representatives of companies and agencies involved in or related to the non-traditional agricultural export sub-sector. The areas visited and studied included: Quito and surrounding areas; Guayaquil and surrounding areas; Manta and surrounding areas; and Cuenca and surrounding areas.

The findings were then applied to the four project components and the stated project outputs to determine whether the project had achieved its purpose. The information and insight

developed as a result of the examination of the sub-sector was utilized as the basis for a determination of the overall worth of the project and its future direction.

C. Project Goal, Purpose, Activities, Outputs (Verifiable Indicators) and Target Group

Non-Traditional Agricultural Export Project
Number: 518-0019

1. Project Goal

The goal of the project is to promote economic growth through the accelerated development of non-traditional agricultural-based exports.

2. Project Purpose

The project purpose is to promote non-traditional agricultural-based exports.

3. Project Activities

The project purpose will be achieved by:

a. strengthening the capacity of existing private sector organizations to provide support services to agribusiness, including facilitating contacts between Ecuadorean firms and external sources of technical and marketing information and investment;

b. supporting a more active and effective role for the private sector in promoting GOE policies and strategic planning which favor agribusiness and export development; and

c. providing complementary financing to help carry to fruition specific agribusiness ventures generated under the project.

4. Project Outputs

a. A self-financing, computerized trade and investment intermediation service.

b. A series of six trade workshops, bringing together Ecuadorean agribusiness and foreign and national experts.

c. Twenty-seven trade and investment missions between Ecuador and the U.S.

d. At least three major analyses of public policies relating to export promotion, and strengthened private sector

efforts to advocate improved policies.

e. Approximately eight strategic-level studies of international prospects for Ecuadorean agribusiness products that have high export potential.

f. Ten model feasibility studies to promote certain specific products.

g. Financing of at least 30 pre-investment studies for export-oriented projects undertaken by private firms.

h. A line of credit to help finance approximately 27 export-oriented agribusiness projects with an average total value of \$220,000 each.

i. A private sector Agribusiness Advisory Board to facilitate improved communication among sector leaders, the GOE, and USAID, particularly on important policy issues affecting agribusiness and agribusiness exports.

5. Project Target Group

a. Private-sector groups which will implement the various project activities.

b. Selected agribusinesses which are oriented to production of non-traditional goods for export.

c. Income and employment generation for industrial workers in agribusiness, for farmers and farm laborers, and for supply firms which sell inputs to agribusiness enterprises.

6. Project Components

a. Information and Support Services

- i. Intermediation
- ii. Automation/Computerization

b. Policy and Planning

- i. Studies (4 phases)

(1) describe and analyze local production, processing, and marketing systems for selected products with export potential.

(2) tap into computerized data bases in the U.S.

(3) tap knowledge of experienced traders in market countries to ascertain logistics, regulations and procedures of

exporting.

risk products. (4) model "feasibility" studies of selected high

c. Agribusiness Finance Facilities

d. Agribusiness Advisory Board and Advisor

SECTION II
PROJECT ANALYSIS

A. Project Design

The AID/GOE Non-Traditional Agricultural Export Project was conceived, developed, and implemented with little "technical" input from the standpoint of agriculture, agricultural production and agricultural and food marketing.(ANNEX A) The Project was designed as an informational/promotional and agri-business financing project. As stated by DEVRES in their nearly three-year involvement with the Project, "the project design had a promotional orientaion yet was expected to produce developmental results." (ANNEX G) The project design failed to concentrate on the priority of developing the sub-sector to enable it to export, which is a long-run activity involving the development and upgrading of the entire subsector. Rather, it concentrated on a short-run activity of promotion and information, targeting individuals who could produce and export a small volume but failing to develop a required solid production base and marketing base.(ANNEX A)

The stated purpose of the project was inappropriate for the task to be undertaken and the project outputs, as stated, were insufficient and inappropriate to achieve the \$63 million increase in non-traditional agricultural exports, as projected, over a three-year period. (ANNEX C) The outputs were promotional and informational in nature and even if the project had achieved 100% of its target outputs, it would not have achieved the projected increase in exports by the PACD.

The project design also failed to involve and utilize the public sector, rejecting it as inefficient and cumbersome. The total effect of the project was thereby restricted. (ANNEX A) However, the project was successful in developing and utilizing private institutions. This achievement was one of the major areas of success of the project. (ANNEX C)

The basic institutional framework utilized in the implementation of the project has performed well. (ANNEX C) FEDEXPOR, ANDE, and the Advisory Board carried out their functions well. With more support and a slightly different project orientation, these institutions could have made even more significant gains. The success of these institutions must be attributed to a key individual in FEDEXPOR and in ANDE. However, for the future, these institutions must be fully developed and staffed to enable them to operate based on the ability of the institution and its full staff.

B. Project Implementation and Management

The project contracted with five different institutions or companies and, in effect, there were five implementing agencies. The Banco Central was the implementing agency for the credit mechanism. There was not, however, one institution designated as the implementing agency for the promotional/informational aspects of the project. In the opinion of the marketing specialist, this is a major fault of the project which led to duplication of effort and missed opportunities. (ANNEX A)

A stated output of the project was the establishment of "a self-financing, computerized trade and investment intermediation service". An office which was to have been of FEDEXPOR was established in the U.S. with management and services provided through a contract with a U.S. consulting company. The contract was between AID and the firm DEVRES and was for the development of an informational service and base. A major problem arose with respect to the office in the United States since FEDEXPOR expected a representational office with intermediation services. (ANNEX A) It would have been better, perhaps, had the contract been executed in such a way that FEDEXPOR would have had more association with, and control over, its office. This would have facilitated eventual take-over and, perhaps, would have eliminated many problems.

One of the basic problems with the project was lack of management and lack of continuity of management and technical assistance from USAID. At times, there was no AID staff management and no advisor. (ANNEX A and C) Another problem in USAID management and project design was the failure to assign a specialist to the FEDEXPOR office to provide market analysis and train staff in the utilization and dissemination of market intelligence.

Surprisingly, the project achieved most of its outputs in spite of the mismanagement and faulty design. (ANNEX A and C) The institutions, individuals, and agencies involved in the project operated well and carried out their responsibilities extremely well. The major failing seems to be that the project missed opportunities and accomplishments. These could have been achieved had the project design been more complete and adequate and had there been good continuous management and assistance. That the Project succeeded in some areas is a tribute to the sub-sector, its institutions and individuals. It is evident that there is great interest and great potential for the development of the non-traditional agricultural export sub-sector.

C. Project Components

1. Information and Support Services

One of the stated outputs was the establishment of a self-financing, computerized trade and investment intermediation service. This was not directly undertaken. (ANNEX A) The major activities undertaken were the setting up of an external office to collect information and the establishment of a computer and telex network to convey and receive the information collected. The collection and transmission of information and the performance of other services was to be facilitated through a contract with a private-sector consulting firm in the U.S.

Although the collection and transmission of information was conducted reasonably well, the expectations of FEDEXPOR, for whom the office and activity was established, were not met. FEDEXPOR required a representational office with informational services, as expressed in the stated project output. The AID contract with the U.S. firm was for informational services and provision of short-term consultants to conduct seminars and render specific technical assistance. The contract proved to be ambiguous and the U.S. firm, DEVRES, failed to obtain clarification from USAID. (ANNEX A)

From the standpoint of information, the Project did succeed in establishing an informational base, a base that can be further developed and built upon. (ANNEX A) However, the Project failed to provide or develop the means, through technical assistance, to analyze the information, market news and research collected. It further failed to provide for the capability of FEDEXPOR to analyze, prepare, utilize and disseminate the type of market intelligence required in an export program.

From the standpoint of FEDEXPOR and its membership, including trading companies, there was little in the way of representational or intermediation services provided to them through this component. In part, this may be the result of unclear project objectives, an ambiguous contract between AID and DEVRES, and a lack of knowledge concerning the requirements of a developing export sub-sector. (ANNEX A and C) In part, it may be due to the lack of control or direction that FEDEXPOR had over the external office which was, in reality, an office of FEDEXPOR. Yet, FEDEXPOR lacked initiative and follow-through concerning the leads and contacts that were made. USAID and FEDEXPOR also failed to take advantage of the office in Miami by not establishing one of FEDEXPOR's employees in the office to learn the "business" and prepare for takeover of the office upon termination of the project.

The support service mechanism failed to provide the

necessary support to achieve one of the major outputs, the trade missions between the United States and Ecuador. (ANNEX C) Although there will have been 13 trade missions from Ecuador to the U.S. and other countries by the PACD, there have been no missions from the U.S. to Ecuador. There are some doubts on the cost-effectiveness of this particular mechanism although some of the participants have noted that they gained much through their participation.

2. Policy and Planning

The policy and planning component was, in reality, a research component. Little was undertaken in the area of policy or planning. (ANNEX A and C) The targeted research, feasibility studies, and investment studies were fairly well prepared. The degree to which they were utilized and their usefulness is difficult to assess. However, the mechanism and ability to carry out such research was well demonstrated. Another factor that should be considered is that there are public institutions that have the staff and the capability to undertake studies of this type. These were either not utilized or were inadequately utilized. In some cases there was, undoubtedly, an overlap or duplication of effort. The major policy undertaking was the completion of three studies or analyses of public policy. These were completed and utilized by FEDEXPOR in its efforts to improve public policies related to non-traditional agricultural exports.

3. Agribusiness Finance Facilities

The credit mechanism did not work well even though more than US\$4.5 million were disbursed. (ANNEX B) There were problems between the Central Bank and USAID over interest rates, counterpart funds, and disbursements; problems between the Central Bank and the PFI's about overdrafts, the quality of the sub-loan appraisals and credit analyses; and problems between the PFI's and their clients about delays in disbursements. In combination, these problems led to inordinate delays, complaints, and unrest. USAID's excessive use of confusing amendments and implementation letters to solve the problems added more confusion to an already confusing situation. In reality, the finance facility of the project was only moderately supportive of the project purpose. (ANNEX B and C) Disbursements to date have fallen considerably short of the authorized total and only the equivalent of US\$50,000 of counter-part funds has been disbursed. Disbursement delays have discouraged many participants and have had a negative effect on the Project's overall reputation.

The contribution of the finance facility could clearly have been more effective if planning, implementation, and required adjustments had been more capably managed. Also, if the project design had been more developmental in nature and more technically-oriented, inherently risky undertakings could have

been undertaken by those with less financial means. (ANNEX B and A) However, the project represented a very new and high-risk initiative for Ecuador and the finance facility was instrumental in getting risktakers to undertake sub-projects which can be considered to be innovative and demonstrative in nature. Those that could afford to take advantage of the finance facility and at the same time could afford to take a great risk were those with the greatest ability to absorb a loss.

4. Agribusiness Advisory Board and Advisor

The Agribusiness Advisory Board, or Junta de Asesores, is one of the major institutional successes of the Project design. (ANNEX C) It achieved its representational and coordinating role through regular meetings. The Advisory Board can and should have a wider representation from the sub-sector and a greater role in future activities to expand and develop the non-traditional agricultural export sub-sector.

The advisor, provided as part of AID's technical assistance component, achieved a great deal in the early period of implementation of the project, especially in coordinating and providing organizational support and assistance to the developing institutions. (ANNEX C and A) The services of the advisor, however, were intermittent or sporadic later in the project and were suddenly terminated, much to the consternation of many participants. Technical assistance in marketing, marketing technology, and production technology was not provided in a sufficient or meaningful way. (ANNEX A) Much of this can be related to the informational or promotional nature of the project design. As has been stated, the project was not a developmental marketing project; absent, therefore, was a technical assistance complement to introduce and facilitate adoption and utilization of required production and marketing technology.

SECTION III

CONCLUSIONS

- A. The basic and fundamental conclusion of the assessment is that the project, as designed, did achieve a measure of its "stated" purpose. It did promote the production and exportation of non-traditional agricultural export products, and did establish an extensive interest among producers and entrepreneurs. It also established the base of an informational network. The Project did not, however, achieve the measure: US\$63 million increase of non-traditional export products within the three year period as projected. The design of the project, the components of the project, and the stated outputs were neither sufficient nor appropriate to achieve the protracted increase in exports.
- B. There exists a great potential for Ecuador to produce and export both fresh and processed non-traditional agricultural products. There also exists a fundamental, but elementary, basis for future development of a sound production base and an aggressive marketing base. Good institutions, both public and private, exist and have been assisted to varying degrees by the Project. The project, however, failed to provide for substantive technical assistance with continuity and longevity of effort in the areas of marketing development, postharvest technology and production technology.
- C. The project, as designed, was an information, promotion and finance project. What was, and is, needed is a "development" project oriented to the development of the potential of the non-traditional agricultural sub-sector.
- D. There was no technical input into the design of the project.
- E. There was no technical component, either production or marketing, in the Project.
- F. The target group was poorly and incorrectly defined.
- G. The stated purpose of the Project was to promote, not to develop.
- H. An external office is required to effect the development of the sub-sector but, until the sub-sector develops and expands, it cannot afford an independent office exclusive of USAID assistance.
- I. The public sector is invaluable to the development of the non-traditional agricultural export sub-sector but was not

utilized or involved in project design, implementation or operation.

J. A solid production and marketing base must be established with the assistance of the project. A marketing information/promotion, finance and/or development project cannot succeed without a solid, dynamic foundation.

K. The project should be continued but with major adjustments to the original design.

L. The current project and its activities can be viewed as a Phase I activity. By establishing an institutional framework and an informational base, it has laid the foundation for a Phase II effort.

M. The Agri-business Finance Facilities have been only moderately supportive of the project's purpose, having achieved relatively limited incremental non-traditional agricultural exports and other expected economic impact.

N. The Agri-Business Finance Facilities were not well managed, nor was their implementation based upon a commonly understood or accepted set of standards for loan applications, loan appraisal/credit analyses, disbursement, counterpart requirements, monitoring, evaluation or follow-up. As a consequence, already strained relations between the Central Bank and the PFI's were strained further, and PFI's viewed the investment credit facility as a riskier proposition than should have been the case.

O. There are three alternatives for the readjustment of the Investment Credit Facility of the Phase II Project.

1. Leave the facility in the Central Bank.
2. Transfer the facility to the Corporación Financiera Nacional (CFN).
3. Transfer part of the facility to the CFN, splitting the credit line between the Central Bank and CFN.

At this time, the best alternative is not clear. The difficulty in choosing is due in part to legal complexities, and in part to uncertainty regarding the reaction of the Central Bank to alternative two or three. Bank reaction may be modified following the impending change in government.

P. The financial assistance provided to the Institutions responsible for the major activities of the Project (FEDEXPOR, ANDE and the Advisory Council) was grossly inadequate. It was insufficient for them to develop organizational structures and

the capability and capacity to undertake their roles. These institutions have functioned well in spite of financial problems. Adequate financial assistance at a realistic level must be provided to them to assure their full development and the successful execution of their roles.

Q. A major problem of the project was the lack of management and continuity of management on the part of USAID.

SECTION IV
RECOMMENDATIONS

- A. Continue or extend the project as a Phase II activity. The current project should be readjusted or redesigned as a Phase II "developmental" project, building upon the groundwork established during Phase I. The new design will determine the cost and the new PACD.
- B. The project redesign should be accomplished immediately, before the current PACD, June 30, 1988.
- C. USAID should contract immediately for a team to prepare a redesigned Phase II Project to be completed before the PACD of June 30, 1988 to avoid extensive damage to the project base that is now in place.
- D. The new design should maintain the current institutional framework (Figure 1) with adjustments and assistance to strengthen technical, organizational, and operational aspects.
- E. Phase II of the project should be developmental in nature and provide a substantial technical assistance component. It should be oriented to the establishment and functioning of a sound production base and a dynamic marketing base and to the full development of the non-traditional agricultural export sub-sector.
- F. The project must be designed on a technical basis with the full involvement of technically "literate" specialists in production (horticulture), postharvest technology, food technology (processing), marketing, finance and organizational management.
- G. The primary target group must be the producers, the farmer/producers, and the processor/producers required to achieve bases for production and marketing.
- H. The market information and data development activities should be continued. The Project Purpose should be "to develop a sound, dynamic, and profitable non-traditional agricultural export sub-sector capable of achieving Ecuador's potential in the international market."
- I. Involve, utilize and, where necessary, assist public sector institutions. A concerted effort should be undertaken to cement good relations between USAID/The Project and the public sector institutions.

J. The technical assistance component should consist of:

1. A Long-Term Marketing Economist/Marketing Specialist as Major Advisor;
2. A Medium-term Horticulturist;
3. A Medium-term Management/Institutional/Financial Specialist;
4. Short-term Market Intelligence/Situation/Outlook/Analyst Assignments;
5. Short-term Postharvest Technology Specialist Assignments;
6. Short-term Food Technology Specialist Assignments;

K. The project and its activities should be implemented and based upon a national strategy of development of the sub-sector. (ANNEX F) The preparation of the national strategy should be both a priority and a primary responsibility of the Advisory Council.

L. The project purpose should be "to develop a sound, dynamic, and profitable non-traditional agricultural export sub-sector capable of achieving Ecuador's potential in the international market."

M. FEDEXPOR should be the implementing agency for the developmental sub-project and at this time, the Central Bank should be the implementing agency for the financial facility.

N. ANDE should be further developed and assume the role of the coordinating agency.

O. The Advisory Council (Junta de Asesores) should be made into a planning and monitoring board to review, approve, and monitor budgets, operating plans, and programs. It should be utilized as, and should function similar to, a board of directors in the planning, development, adoption, and implementation of the national strategy for the development of the non-traditional agricultural export sub-sector. The Junta de Asesores should be expanded to include representation from all participants in the sub-sector, including, among others, transportation, packaging, farmers, and processors, all Camaras.

P. Adequate financial assistance should be provided to FEDEXPOR, ANDE and the Junta de Asesores to enable them to develop organizational structure, capability and capacity to undertake roles in the development of the non-traditional agricultural export sub-sector.

Q. The Investment Credit Facility should be continued and expanded to provide credit to producers that have production/marketing projects or activities that complement the adopted strategy of development of the sub-sector.

R. The credit mechanism must be strengthened and streamlined. The Central Bank should continue as the implementing agency for the credit line while a study is undertaken to assess the long range cost/benefit of transferring the role of implementing agency of the Investment Credit Facility to the Corporacion Financiera Nacional (CFN). Strong consideration should be given to transferring the Facility to the CFN.

S. In order to establish and successfully implement loan facility standardization, and at the same time to help isolate and eliminate differences between Central Bank and PFI personnel, the Mission should sponsor and fund specialized joint training for these personnel. Such training should focus on development of standards appropriate for the continued implementation of the Investment Credit Facility; on meaningful techniques for agribusiness export loan appraisal/credit analyses in the Ecuadorean context; and on achieving a better mutual understanding of the goals and operations of the respective institutions.

T. The Investment Credit Facility should be amended to permit the use of funds for working capital and not just fixed assets.

U. A credit guaranty facility should be established to facilitate making loans available to medium and smaller entrepreneurs.

V. USAID is not well equipped to manage or monitor a project of this type. It must upgrade its capability to undertake and properly implement the project through additional technical assistance or training programs for AID staff.

W. The project should remain in the Private Sector Office. However, the project must be cooperatively implemented between the Agricultural Development Office and the Private Sector Office.

X. FEDEXPOR should be reorganized to more fully provide a marketing function to its membership and to better undertake the role of catalyst in the development of the non-traditional agricultural export sub-sector. (ANNEX A)

Y. FEDEXPOR should expand its activities in marketing as a means of obtaining new members. The services provided should be undertaken for members on a fee basis. The fees should be on a "cost plus" basis for the initial activity plus a small percentage of the dollar or Sucres value of the income generated.

Activities to expand membership and provide income toward financial independence include:

1. Sub-project (Enterprise) Analysis and Development
2. Market "Intelligence" Reports
3. Product Development
4. Market Development
5. Provision of Technical Assistance in marketing and information and technical services in production technology.
6. Pre-inspection Services
7. Sales/Intermediation and Representational Services in Target Markets

Z. A service contract is required, similar to the one now in effect with DEVRES, to provide market information, market development services, and training to FEDEXPOR. However, the scope of work and terms of the contract must be specific and must facilitate development of the non-traditional agricultural export sub-sector in Ecuador. FEDEXPOR staff must be stationed in the office and a specialist must be assigned to the FEDEXPOR office in Ecuador to demonstrate and teach how to utilize and disseminate market information.

ANNEX A

TECHNICAL/OPERATIONAL ASPECTS OF THE PROJECT

A. Introduction

The AID/GOE Non-Traditional Agricultural Export Project is an agricultural project. As such, it is inherent that specific requirements of a highly technical nature concerning production and marketing (preharvest and postharvest technology) be taken into account. The actual project contains virtually no technical aspects and, consequently, little can be said about the technical/operational aspects of the existing project.

During the early part of the investigations it became apparent that there were gaping "holes" in the project design and implementation. These were especially critical in three technical aspects: the physical preparation and presentation of products; the physical movement of products; and the actual availability, volume and continuity of products that were or could be presented and offered to external markets. Specific examples of problems include: 1) the difficulty of obtaining cartons; 2) the unavailability of glass jars and caps for processed products; 3) the high cost of cans; and 4) a critical aspect, the unavailability or shortage of transport, especially air transport. At this early stage of development of the non-traditional agricultural export sub-sector there is already competition between non-traditional export products for the limited air cargo space. The following example was witnessed in Guayaquil. A truck load of fresh fish destined for U.S. markets belonging to a fresh fish processor and exporter was returned to the plant. The space that the exporter had reserved for his shipment from Guayaquil had been given away in Quito, where the flight had originated, to a flower producer.

Observations on "what should have been done" and "what should be done" about project design, composition, activities and management are of greatest significance for the future continuation and success of the project. In this section a brief assessment is made of what the project did and a commentary is presented on the sub-sector and the project. The commentary is to be used as a guide in the development of a Phase II extension of the Project. ANNEX B and C contain detailed analysis of the Project as it was designed and implemented in terms of institutional aspects and financial aspects--what was and what is.

B. Critical Aspects of the Project and the Non-Traditional Agricultural Export Sub-Sector

1. Project Design

The USAID/GOE Non-Traditional Agricultural Export Project was conceived, developed, and implemented with virtually no "technical" input, especially from the standpoint of agricultural production and agricultural and food marketing. The project was designed as an information and finance project concentrating on these areas plus promotion, but failing to concentrate on the export priority. It did not determine whether there were, in fact, products to export, the technology in place to produce for the external market, and the technology to permit the marketing of quality products. It did not consider the principles of volume, quality and continuity of product offerings. For example, the project document erroneously refers to buyers, retailers and manufacturers in the target markets as "information sources". This de-emphasizes the fact that buyers and retailers are in fact the clients, the ones to be served, not mere information sources. It is the buyers that the producers, shippers and exporters must serve and satisfy in terms of product, volume, quality, and continuity.

The project design erred in specifying the target group or groups. The project document identified the following: 1) the various institutions that would be involved in implementing the project; 2) selected agribusinesses which are oriented to production of non-traditional goods for export; and 3) industrial workers, farm laborers and supply firms. The producer was considered an after-thought or a tertiary beneficiary. (See Section B, 12, Target Groups) A major error in conceptualization of the project design is reflected in the stated purpose, ". . . to promote non-traditional agricultural-based exports". Promotion of non-traditional agricultural exports was undertaken in two ways: 1) promotion of agricultural products in targeted markets, and 2) promotion of the concept or potential of production and export of non-traditional exports to producers or potential producers in Ecuador.

The in-country promotional project activities were highly successful and resulted in country-wide appreciation of the potential of non-traditional agricultural exports and keen interest in producing and exporting agricultural products. Target country promotion activities were also successful in a few cases. The major limitation, however, was the absence of actual products to export and technical know-how to prepare and market them. In several instances where sales had been made by the Miami office, there was a lack of follow-through on the part of FEDEXPOR or its members. The failure to follow through, however, was not a fault with FEDEXPOR, with the Miami office or with the producer/members. Rather, it was a result of errors in

conceptualizing the factors required for an export sub-sector, a failing in the project design.

Another major error in project design was the virtual rejection of the public sector as a vital factor in the accomplishment of the project purpose and a major facilitator of export development in the sub-sector. There are many public sector agencies, like ministries, institutions, institutes and other bodies that do undertake activities that impact directly on, or are related to, non-traditional agricultural exports. These include: regulatory functions; facilitating functions; developmental functions; assistance/extension functions; research activities; phyto-sanitary restrictions; and many others. The project could have achieved more, perhaps, had it officially utilized the public sector agencies.

Commentary

A basic fallacy exists in the design of many non-traditional agricultural export projects. The thinking is that, "all that is required to achieve the production and export of non-traditional export products is: 1) to concentrate solely on the private sector; 2) to provide basic "market" information; 3) to identify buyers in target markets and prospective producers in the developing country; and 4) to introduce one to the other." It is believed producers and buyers will automatically form an agreement for a joint venture. All problems will be automatically eliminated and the production and export of products will be facilitated. In the case of a developing country like Ecuador, it is very tempting to begin to ship small quantities of products, either fresh or processed, without first fully developing the domestic capabilities of production and marketing with respect to volume, quality, and continuity. It is impossible to market a product that does not exist. Furthermore, a product only exists when there is a volume base coupled with the means and capability to prepare and market the product in terms of form, time, place, and price, and in terms of product presentation, volume, quality and continuity.

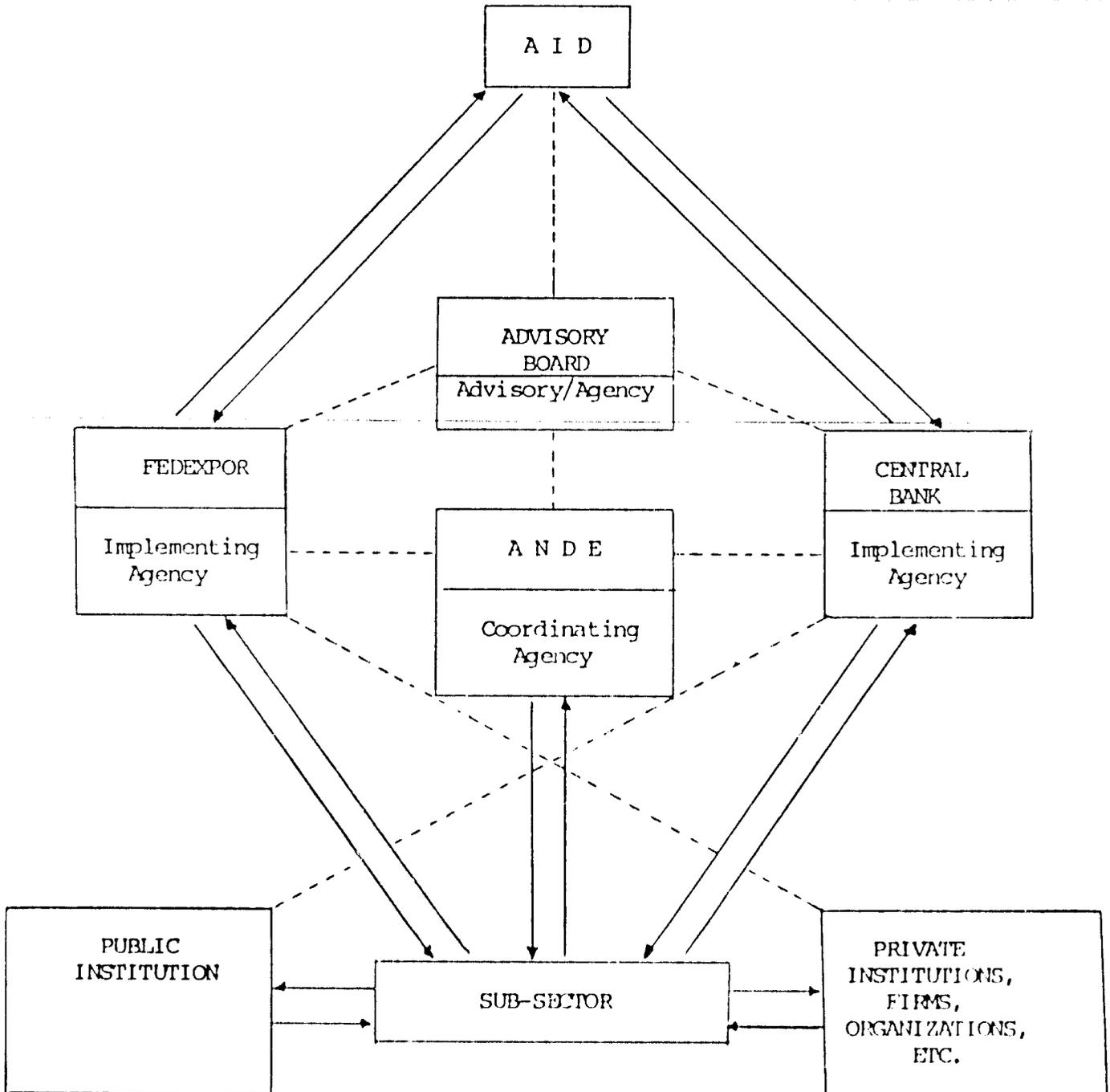
The project design should have taken into consideration the development of the sub-sector and the development of a production and marketing base before launching a program of promotion and representation in the target market(s). Design should also have concentrated on the development of an export capability and emphasized the development and establishment of a base in production and marketing from which to launch an export program. (See Figure 1.)

2. Promotion and Market Information/Intelligence

The Project as designed is a promotional/informational

FIGURE I

PROJECT IMPLEMENTATION
MANAGEMENT/OPERATION



project and not a developmental project. From the standpoint of establishing a computerized collection and reporting system and amassing large volumes of basic, raw information, the project accomplished its objective. However, the objective was, perhaps, not adequate for the job to be done. The project design failed to provide for the establishment of a market intelligence capability within the principal user and distributor, FEDEXPOR. On several occasions, DEVRES had recommended that a specialist in market intelligence be provided to FEDEXPOR in Quito to train and demonstrate the use and dissemination of information and data collected. However, USAID did not respond positively to the recommendation. Nonetheless, the project does have an established market information system and data base that can be developed and utilized further.

Commentary

Once market news or information is provided, it must be utilized. Market news, market information, and market research are inputs into a process that can be referred to as market intelligence or market comprehension. The project provided for collection of information but failed to provide for the analysis or development of usable market intelligence.

Information utilized by producers and marketing firms can be classified into four general categories:

a. Crop Reports

Crop reports relate to pre-harvest conditions and harvested quantities in the country, in target market countries, and in competing countries.

b. Market News or Market Reports

Market news is a periodic report on wholesale and retail volume, quality, price, supply situation, demand situation, source of supplies by crop, etc.

c. Market Information

Market information is generally a more "stylized" type of information and generally consists of periodic "Situation Reports" and "Outlook Reports". These provide a scenario for each crop relating to past and present crops, projections of future crops, and an explanation of events shaping present and future markets and prices.

d. Market Intelligence

Market intelligence is a subjective evaluation of the above three types of information undertaken by an analyst

with good personal knowledge of market forces and the demands of consumers.

The development, distribution, and utilization of market intelligence is a unique and personal undertaking of each firm or organization. The uniqueness and completeness of the intelligence developed by each firm determine the difference between success, moderate success or failure of the firm or program.

3. Production Technology

The project included a small amount of technical assistance for educational purposes in the area of production technology. However, the introduction and adoption of modern technology was not a primary objective or output of the project. That more emphasis was not placed on production technology and the introduction and adoption of appropriate technology is a major error in project design.

Project design failed to consider and utilize the various public ministries and institutions that could provide information and assistance in the area of production technology. There are good institutions that can be utilized, that can be upgraded and can serve as resource bases for the development of the sub-sector. These institutions should be brought into the scope of the project and assisted in providing required research, production technology, and information to the sub-sector.

Commentary

There currently exists in Ecuador some of the very latest production technology, but not necessarily all in one place or utilized by every producer. For example, the very latest techniques in plasticulture, trickle or drip irrigation, and other technology are utilized by many farmers. The important point, however, is that the technology does exist in Ecuador and can be introduced and utilized through concentrated effort. For this, technical assistance is required.

There is a need to improve cultural practices, such as the preparation of adequate seed beds, pest and disease control (spray programs), varieties, harvesting techniques, handling, and other aspects of production. This requires the involvement of public sector institutions and a program of assistance respecting finances and technical assistance. In terms of trained and qualified producers, there are numerous well-trained individuals, both young and middle-aged, that are eager to undertake the production and exportation of non-traditional agricultural crops and products. The training institutions in Ecuador are adequate to provide a basic education in agricultural subjects and food science. With additional technical assistance, these individuals

can gain a more in-depth knowledge of technology appropriate for the external markets.

There are several processing firms engaged in the production of various types of products in jars, cans, and frozen form. Although a great potential exists for processed products in foreign markets, the quality of products now produced is not adequate for the export market. However, the capability to produce new and exotic products for export and the technology to undertake the production of these products does exist in Ecuador. There are fairly well trained, but inexperienced, food technologists in the Country. There are institutions capable of designing plants and equipment and there is a capability to construct plants and fabricate equipment.

The missing factor that can be supplied through the project is technical assistance in the utilization and application of the technology for production of products with sufficiently high quality for external markets. A major constraint, and one that must be addressed by the project in any further extension, is the lack of imaginative development of products acceptable to consumers in the world market. This reflects a basic lack of understanding and comprehension of consumers in target markets. This major constraint cannot be solved through the provision of information; technical assistance is again required in product development and presentation.

4. Marketing and Postharvest Technology

The Project placed major emphasis on the collection and provision of market information. Once market news or information is provided, there must be some utilization of the information. As pointed out in the section on market information, this important component was not provided in the project design.

The project was to undertake what is referred to in the project Document as "Intermediation". In effect, the project was to initiate sales of non-traditional products to identified distributors in the United States. The principal instrument was the FEDEXPOR office in the U.S. with the assistance of the consulting company contracted by USAID. The sales effort proved to be fruitful in many cases. For example, snow peas, flowers, shrimp and fresh fish were marketed successfully. In other cases, however, it proved to be a wasted effort and probably harmful to the long-range success of the sub-sector. In the latter case, products were offered to the market and orders were taken but there was no product to deliver. There was neither a base of production of the products and nor a base of marketing technology to support the sales effort.

Several of the products that were marketed successfully with a substantial increase in volume were products that had already been marketed (e.g., shrimp). Other products (e.g., flowers) received the assistance of experts from Colombia and were well financed in their own right because many investors were bankers. Other non-traditional crops and products did not fare as well because of the failure to recognize the requirement for a "product" in terms of quantity, quality, and continuity.

Commentary

In general, the basic principle in market development is that "you cannot market a product that you do not have." To have a "product" to market or sell requires that you have, in place, the capacity and capability to produce the commodity (production technology), and to properly prepare, package and ship the product in the volume and in quality required, and with the continuity required by the buyer (the marketing or postharvest technology). This principle was not properly understood in the design or implementation of the project.

Although there exists a high degree of production technology in the country, there is a dearth of marketing or postharvest technology. As in all countries, including the developed countries, producers willingly invest in production equipment and technology. But when it comes to marketing equipment or marketing or postharvest technology, they fail to plan and invest in adequate or appropriate equipment or technology. The usual response in Ecuador is that producers are thinking of forming an

association or group of producers and they are planning a joint packinghouse and equipment. These plans are always in the future, however, and there is no sense of urgency to put into place what is required.

A great problem in Ecuador is the absence of postharvest technology and know-how. There are virtually no specialists with training and adequate experience in the field. There is no awareness of the complexity or critical nature of postharvest procedures for fresh products. The thinking of many producers is that they "can get by" with make-shift packing houses and equipment and without pre-cooling equipment. The project has given very little guidance or assistance of substance to producers in this area. Seminars do not substitute for direct assistance, education or extension training. Most individuals and companies do not understand that they are dealing with a living organism where maturation is taking place and where the metabolism rate is increasing after harvest, especially as the internal temperature of the fruit or vegetable increases.

Another major problem is the failure to recognize or understand that the image or reputation of a shipper or exporter or of the country from which products are exported can be seriously eroded or destroyed by poor-quality produce or improper grading, packing and/or handling. Also, the marketing of fresh products differs greatly from the marketing of processed products. Likewise, the reaction of buyers and the reflection on the exporter or country differs greatly. A buyer that receives poor-quality processed products will usually demonstrate his displeasure to the processor/shipper and not buy from him again. A buyer of fresh products, however, will reflect his displeasure on the country of origin. In the one case, that of processed products, the processor/shipper is at fault. In the case of fresh products, which are not branded, the entire country receives a bad reputation because of the actions of one individual.

5. Institutions/Facilitating Services

The Project identified several private-sector institutions that were, in effect, target groups and at the same time implementing agencies of the project. Several new private-sector organizations or institutions were developed as a direct or indirect result of activities of the project or implementing agencies.

The project erred, however, in not involving and including public institutions as essential elements in the development of the sub-sector. USAID relations with some of the public institutions were noted to be very strained. In one instance, an official in the Ministry of Industry who is responsible for the Ministry's non-traditional export programs refused to meet with

evaluators because we were related to USAID. Apparently, the project had stepped on some toes and had not involved the Ministry to a sufficient degree.

The project could have achieved more and eliminated some of the problems encountered had the project and its development involved the public-sector institutions. There are problems with the public-sector institutions, but there are even more problems without their full support and involvement. In the final analysis, the project design failed to identify, involve, and utilize existing public institutions and some private institutions as well as departments or offices within USAID itself.

Commentary

Public institutions include ministries, agencies, universities, technical schools, camaras, parastatals, and others. In reality, they are facilitators on the one hand and stumbling blocks on the other in the development of the sub-sector. However, they are invaluable in the successful achievement of the basic goals, purposes, and objectives of an export-oriented project. To achieve the greatest utility and the maximum benefit from the project in the least time, with the least outlay of funds, it is absolutely necessary to utilize, involve, assist and inform "every" participating individual, institution or agency identifiable as being involved or related to the sub-sector. Each has positive attributes to impact positively on the project. Each has negative attributes, but these too can be upgraded and eventually utilized. To purposely reject a public or private institution simply because someone believes that it is inefficient or encumbered in red tape, as was done in the project design, is to limit the scope and the potential success of a venture or project. Every available source of assistance in the country must be utilized and upgraded to achieve the potential of the sub-sector.

There exists in Ecuador a number of institutions that have programs and capabilities that can impact upon and facilitate the successful development of the non-traditional agricultural export sub-sector. Some of these are:

a. Ministry of Industry

Through the Department, Commercialización de Productos de External, the Ministry has developed programs oriented to the development of the non-traditional agricultural sub-sector. Programs consist of promotion and development of brochures, organization of producer/exporter organizations, collection and dissemination of market information, organizing and funding group visitation to other countries and other programs. Many of these programs are funded by bilateral or

multilateral agencies. The programs and efforts of the Ministry were not included in the AID Project and no attempt was made to utilize, coordinate or involve the Ministry in a meaningful way.

b. Ministry of Agriculture

Through the Department, Dirección Técnica de Agro-Industria, the Ministry provides services in the development of the sub-sector. Available services relate to production technology and assistance in the preparation and presentation of required "tramites". The Dirección Técnica can also call upon and utilize specialists from other departments of the Ministry. The Dirección Técnica de Agro-Industria is involved in the Junta de Asesores.

c. Agricultural Extension Service

The Extension Service, Department of the Ministry of Agriculture, is an institution that has varying degrees of capabilities. It could be utilized to a greater degree in the provision of services and the dissemination of production technology. It has not been involved or associated with the project.

d. INIAP

INIAP, an agricultural research department of the Ministry of Agriculture, has several research stations located in various parts of the country. It undertakes basic research, largely in the more traditional crops, but also undertakes some research on non-traditional crops. It is expanding its activities in non-traditional crops in response to industry demand. It has the capability and capacity for additional research on request and the capability of providing valuable assistance in production technology, plant protection recommendations and programs, soil analysis, demonstration plots, and other invaluable services. The institution has not been utilized by FEDEXPOR and other agencies and was, basically, overlooked or rejected by the project design.

e. Bilateral and Multilateral Projects

In addition to the above, there are many projects that are now being implemented or designed by USAID and other bilateral or multilateral agencies. A few of the most important are the following:

(1) FUNDAGRO:

A research/extension project with a private institute funded by USAID, it is now near the implementation stage. When operational, it should be utilized to the fullest in

future implementation of the project. It is a project under the Agricultural Development office (ADO).

(2) IDEA:

An independent foundation involved in policy analysis and related to the Ministry of Agriculture, it is funded by USAID and is a project under ADO.

In addition to the above, there are many projects that are now being implemented or designed by other bilateral or multilateral agencies. There are several finance projects now being funded by IDB and the World Bank.

There is a major project of the EEC to establish packaging institutes in the countries of the Andean Pact, including one in Ecuador. The institute or center will be located within the Instituto de Investigación Tecnológica of the Escuela Politécnica Nacional de Ecuador. Related to, and very much involved in the development of the packaging center, is the association of packaging manufacturers and users, ASOEMBALAJE. Packaging is very critical in most developing countries and Ecuador is no exception.

In the final analysis, the Project design failed to identify, involve, and utilize existing public institutions and some private institutions, and, in fact, departments or offices within USAID itself.

6. Product Development/Market Development of Processed Products

Very little product development or marketing development was undertaken in the project. Most of the project effort was related to identifying commodities that could be produced in Ecuador with market potential and collecting market prices. The project design did not identify the development of products or markets as a critical area. No technical assistance was provided in this area. In meetings and seminars attended throughout Ecuador, it was apparent that producers and exporters were well aware of the void in know-how in this area.

Although the export of fresh products was promoted vigorously, the project placed little emphasis on processed products. FEDEXPOR, on the other hand, did recognize the potential of processed products. FEDEXPOR was unable to make a meaningful penetration in the processed market, however, because of poor quality of product, poor presentation and lack of knowledge of consumer taste and demand.

The new project design must include technical assistance and other assistance in the area of product development, market

development, and processed product design and presentation.

Commentary

Ecuador has a tremendous potential to produce and export non-traditional agricultural products both fresh and processed. The problems associated with fresh products, including phytosanitary restrictions, distance from markets requiring air shipment, lack of air freight space, high cost of air freight and other factors, place fresh products in a high cost, high risk category. In addition, most countries in South and Central America and the Caribbean are attempting to produce the same crops. The opportunity for Ecuador is to take a different approach and develop new and different products to meet a "latent" demand--a demand that exists for high-quality, tropical and sub-tropical specialty food products.

Probably the greatest potential for Ecuador exists with processed specialty tropical products. These require less production volume and have a greater value added. The requirement for technical excellence, however, is much higher than for fresh produce, although the investment may be lower. Simply because a fruit, vegetable or other commodity is grown or can be grown in a given country it is not, automatically, convertible to an exportable product. By definition, a fresh exportable product is a commodity that has a production base that permits production of the commodity in a volume, in the quality, and with the continuity of production required by a market. Also required is a marketing base that permits or facilitates the proper pre-cooling, grading, packing, handling, and shipping of the commodity so that quality is maintained and the product reaches the final consumer in the same or nearly the same condition as when it was harvested. For processed products, the same criteria apply except that there is also a requirement for more creativity in development and a greater comprehension of the current or latent consumer demand. In reality there is no way to "second-guess" the market as to which products are, or will be, in demand. Those individuals and companies with the greatest comprehension of consumer desires, likes and dislikes, and the greatest degree of creativity to develop products that will meet the latent consumer demand in the international market place will succeed in penetrating the market.

Product development and marketing development should be undertaken simultaneously. However, to do so requires ingenuity and creativity and an in-depth knowledge of international markets and the their consumer demand. Very little product development or marketing development was undertaken in the project. Most of the project effort was related to merely identifying commodities that could be produced in Ecuador and might have market potential and to collecting of market prices. Some technical assistance was provided in the form of periodic visits of

production experts and postharvest experts to participate in seminars and to give some individual assistance. However, the overall effort was more informational than developmental.

7. Linkages

A major error in project design was the failure to establish linkages between the project elements and the public-sector institutions. These public-sector institutions could have complemented project efforts and provided valuable assistance and support. The Project further failed to link the activities and capabilities of the Agricultural Development Office to the project activities. The failure to develop linkages and utilize the capabilities of other institutions has undoubtedly limited the overall results of the project and, in some cases, has resulted in strained relations.

The major linkage with the international market was to have been the FEDEXPOR office established in the United States, ultimately in Miami. This linkage has had limited success, in terms of a representational office, as far as the users are concerned. Perhaps the greatest fault was in establishing the office for FEDEXPOR by means of a contract between USAID and DEVRES, rather than directly between FEDEXPOR and DEVRES. Thus FEDEXPOR had virtually no control over the office and no permanent link for the time when the contract with DEVRES is terminated.

Another linkage that only partly established is that between the producers and the implementing agency, FEDEXPOR. This linkage required manpower which was not available nor provided for under the project. The organizational structure of FEDEXPOR should have provided for a field staff to contact and maintain relations with the grass-roots elements in all regions of the country.

8. Infrastructure

The project design did not address the development or upgrading of the infrastructure, per se, but relied upon uncoordinated and unplanned individual effort--the residual of information and contacts between identified buyers and potential producer/shippers. Failure to identify the constraints exercised by undeveloped infrastructure on exports of non-traditional agricultural exports has had, and is having, serious repercussions on exports. At present the major transportation to foreign markets is by air. Space is limited and products often compete with one another. (e.g., as recounted above, a shipment of fresh fish from Guayaquil that had reserved space to New York was returned to the plant and placed in storage because the space had been given to a flower shipment from Quito where the flight originated.) The new project design must include transportation

and other infrastructure within the scope of the project.

Commentary

The basic infrastructure of the sub-sector or system consists of transport, storage, communications, input manufacture and distribution, and credit. Communications are adequate and no major problems are envisioned. The topics of transport, inputs and credit have been examined in other sections. Storage, however, is critical. There is little available commercial storage for non-traditional products in Ecuador. This shortage is especially acute at the point of departure. One enterprising individual has stationed a refrigerated container at the airport and rents space to shippers. Storage must be addressed in the Phase II Project.

9. Production and Marketing Inputs

Production and marketing inputs were not included in the project design as critical to the success of the Project and to the development of the sub-sector. This is a major conceptual error. The new project design must include the provision of adequate production and marketing inputs as a critical area of development.

Commentary

The provision and availability of inputs is critical to full development of the export sub-sector. The project did not directly address the constraints of inputs but relied upon a promotional/informational base to resolve the problems that existed. Basically, the major requirement is a strategy and plan of development from which all manufacturers and distributors of inputs can identify and project future requirements and future opportunities. When all participants in the sub-sector and all related industries recognize that there is a concerted effort to develop and expand the export of non-traditional agricultural products, each will have an indicator of future demand for his particular product and can "tool-up" accordingly. Each will be able to determine that required future volumes of the sub-sector will be substantial and each will be more willing to provide its required inputs.

Currently, the situation with respect to various types of inputs is the following:

a. Equipment - Production

Almost all production equipment is imported but can be obtained if the dollars can be obtained. In general, the very latest equipment is utilized by the more progressive farmers.

b. Equipment - Processing

Processing in Ecuador is limited and equipment utilized is small-to-medium size. Equipment for use in the processing of fruits and vegetables can be designed and fabricated in the country with more sophisticated equipment imported. Much of the equipment to be utilized in the future will be to facilitate manual labor.

c. Equipment - Marketing (Postharvest)

Modern grading, packing, handling, and pre-cooling equipment is almost non-existent. Little knowledge of the need for or the use of this type of equipment is present in the country. Simple grading and packing aids could be fabricated in the Country while more complicated equipment must be imported. The basic problem is to create an awareness of the need for such equipment in the export of fresh produce.

d. Fertilizer

Basic fertilizers are available but special formulations are difficult to obtain and costly trace elements must be imported.

e. Chemicals

Herbicides, fungicides, insecticides, and waxes are available at present but are expensive.

f. Fuel

Fuel is plentiful and low cost.

g. Cartons

Good quality cartons are manufactured in Ecuador for the banana industry. At present, the quantity required by non-traditional exports is very small and the acquisition of cartons for specific purposes is difficult. Cartons must be ordered in large quantities well in advance.

h. Jars

There is one important jar manufacturer in the country whose major output consists of bottles for Pepsi cola, beer, and the like. The styles of jars that can be made are limited: to obtain jars requires a relatively large volume order for the small industry now in existence.

i. Cans, Tin

There is one major manufacturer of tin cans in the country. Cans can be obtained but they are costly.

j. Jar Lids/Caps

High-quality jar lids must be imported.

k. Packages/Wrappings

The basic material is imported. For fine, high-quality boxes for candies or other products, materials must certainly be imported.

l. Finance

Finance is a facilitating input, difficult to obtain and costly. There are several bi-lateral and multi-lateral programs in the country to assist in providing finance. This subject is covered in depth in another section.

10. Training/Education

Training and education were not directly part of the scope of the project. However, project participants were exposed to new ideas and knowledge through workshops and periodic visits by technical experts. Nonetheless, this exposure fell far short of that needed to the participants to where they have full command of export production and marketing. The new project design must supplement the present level of knowledge in the country.

Commentary

The availability and quality of basic education and training in agriculture and in agriculture food marketing are variable. There is a good polytechnical school in Guayaquil for basic agriculture and a good polytechnical school in Quito for food science. Training and education in agriculture and food marketing are very limited and elementary. There are, however, many well trained individuals that have received degrees from universities in the U.S. and Brazil. A good base of knowledgeable individuals thus exists to develop the sub-sector and serve as counterparts to technical assistance experts.

11. General Profile of Interest Groups

A large and interested audience for non-traditional agricultural exports exists in Ecuador. The audience ranges from small farmers, to bank presidents, to some of the richest industrialists in Ecuador. All have an interest in diversifying,

for varying reasons, into export products. Some seek to create a new type of venture; some seek an increase in returns from their farm or property; some have as their objective to market a manufactured "input" (e.g., tin can) with the agricultural product serving only as a facilitating factor; some view non-traditional agricultural exports as a short-term earner of dollars. Each entrant into the sub-sector has a different background and a different reason for taking up production and exporting of non-traditional agricultural products. Flower production and exporting operations are currently dominated by bankers. Those desiring or having an interest in starting a processing venture are largely industrialists or bank related individuals. Those desiring to produce fresh fruits and vegetables for export are largely agriculturists/industrialists. The background, training, and experience of those desiring to enter non-traditional agricultural production and export are varied but heavily skewed to those with little, if any, actual training, background and/or experience in agriculture or agribusiness.

The fact that many entrants or aspiring entrants into non-traditional agricultural export products are not farmers or trained agriculturalists is not, in itself, a bad sign. An industry such as this, in its infancy, is a very high-risk business and requires a shake-down period of learning, adoption of new technology, and innovation. Those who enter into an industry first are the risk-takers and innovators. They pave the way for those who may have more knowledge and skills but do not have the financial backing to take the risk. Normally, however, these early entrants into the sub-sector seek short-term profits and gains. If the sub-sector is to grow and achieve its potential, the base of the industry is, and must remain, the producer.

12. Target Groups

A major fault of the project design was the designation of target groups. The producers--the farmer/producer and the processor/producer-- should have been the target groups. The Project document lists the organizations, such as FEDEXPOR and ANDE, as target groups. In reality, they are agencies that facilitate the implementation of the project. The second group designated is "exporters cum producers," not producers per se. The real base of the sub-sector, the real producers, was not considered a target group but a residual beneficiary.

Table 1. Identified Project Target Groups

The export groups or target groups can be identified and classified as follows:

- I. Exporters (*) - Service Companies/Trading Companies
- II. Producer/Exporters (Shippers)
 - A. Farmer/Producer/Shipper
 - B. Processor/Producer/Exporter
- III. Producers
 - A. Farmer/Producer
 - B. Processor/Producer

*The exporter (commercial or professional) may facilitate the actual exporting (mechanics) of commodities, providing a service to the producer/exporter or producer. Forwarding or Clearing Agents provide mechanical services in exporting or importing may be in this classification.

The actual targeted groups should be groups II and III.

Commentary

The project design should have identified the farmer/producer and the processor/producer as the major target groups. (See Table 1.) They are the major elements of the export sub-sector that will establish the required production and marketing bases.

13. The Agricultural and Food Marketing System in Ecuador

Commentary

The agricultural and food marketing system in Ecuador is basically the same as in every other country of the world. It consists of various structures, both public and private, that facilitate the realization of certain higher order functions--assembly, concentration and disbursement--of agricultural commodities and products. It is also composed of numerous intermediaries involved in various second order functions, such as wholesaling, retailing and exporting. There is also a

multitude of individuals, firms, organizations and government agencies or departments that facilitate the performance of lower order functions of buying, selling, transport, credit, processing, storage, grading, packing, grades and standards, information, inputs, regulations, risk-bearing, and others.

To properly analyze and comprehend the marketing system in Ecuador and the international marketing system, it is necessary to recognize that there is a hierarchical order of marketing functions. In the creation of time and place utility of agricultural commodities and products, the higher order functions of assembly, concentration and disbursement are undertaken through the second order functions of wholesaling, retailing, and exporting. These, in turn, are facilitated through a myriad of lower order functions that are, or may be, performed many times throughout the marketing system as the commodities move through the various market channels from the producer to the ultimate consumer.

The problems in the development of the sub-sector can largely be identified and resolved, over time, with the adoption of an overall strategy of development. The problem with the project is that it is not a development project and could not focus or direct the efforts of others on the problem. In effect, every problem inherent in the sub-sector is an opportunity waiting to be developed. With the correct approach and an overall, long-range plan or strategy, these problems or opportunities can and will be identified. They will further facilitate the export of non-traditional agricultural products.

C. Devres/Fedexpor/USAID Operation and Relationship

1. USAID/DEVRES Contract

The Contract for Technical Assistance to service the first Project Component, "Information and Support Services", was given to DEVRES. The contract, which was between USAID and DEVRES, was to assist FEDEXPOR in establishing a self-financing, computerized trade and investment intermediation service, and an automated and computerized market information system.

The Contract between AID and DEVRES was ambiguous and required, as explained by DEVRES staff, "several months to determine what the project was to do." To DEVRES staff, it seemed to be only a way of spending money. One example given was President Forbes' visit to Washington, D. C. A U.S./Ecuadorian Conference for businessmen was organized with DEVRES participating. About \$60,000 of project money was utilized plus indirect costs of an unspecified quantity.

Direction by USAID was "ad-hoc" as the Project proceeded and was dominated by the USAID/Quito Private Sector Officer. At

first, DEVRES staff believed that the Project would consist of promotions at fairs and expositions and "teaching" FEDEXPOR how to promote export products. However, the services and activities performed were directed by USAID Private Sector Office. As the requirements of the Project changed, DEVRES reportedly made many suggestions as to additional services and technical assistance that should be provided. There was however, little apparent flexibility and comprehension in USAID thinking. For example, DEVRES reportedly recommended that a specialist be provided to FEDEXPOR to interpret market reports and data and help in developing the distribution and utilization of the information provided. However, USAID did not approve this recommendation.

2. FEDEXPOR Miami Office

The FEDEXPOR/DEVRES office is located near to the Miami International Airport and next door to the offices of Arlington Petroleum and Trading, the only private oil refinery in Ecuador. It is related to the Grupo Clasa Ecuador, an agricultural subsidiary of the Ecuadorean holding company CLASA.

The office is well equipped to carry out an informational program and DEVRES staff have designed an efficient and effective information gathering and reporting system. Extensive files on a broad range of products are well kept and easily accessed. Information has been gathered in depth and sent to FEDEXPOR Quito on such diverse subjects as rabbit production and marketing, angora goats, a multitude of fresh fruits and vegetables, processed products, wood products, fish, and many others.

3. DEVRES Miami

The present staff of DEVRES in Miami has excellent experience. The Senior Associate in charge of the services provided under the contract to FEDEXPOR is Ezekial Villasenor. Mr. Villasenor has extensive experience in produce trading in California where he was associated with a fruit and vegetable producing and wholesaling firm. He has excellent contacts in, and a good rapport with, the industry. One staff member is responsible for the automation and computerization of the information-gathering and reporting activity. He has excellent experience and has developed an efficient computerized system both for information-gathering and reporting and for routine office records. The servicing activity of DEVRES is, reportedly, not a full-time activity. Therefore, to lower its overhead, DEVRES experimented with several activities to help defray costs. In May of 1987, DEVRES established Verano International, a trading company, to utilize more fully the staff employed. The offices of Verano are adjacent to, and connected with, the FEDEXPOR office. Some of the FEDEXPOR equipment is shared with Verano and some of Verano's equipment is shared with FEDEXPOR. For example, the telex number is FEDEXPOR's but the telex machine

Verano's. A very detailed computerized system of checks and balances is utilized to determine what equipment is utilized for which operation and charges are made accordingly. The DEVRES staff providing services to FEDEXPOR are utilized part-time for Varano. In addition, Verano has two full-time employees.

When the contract with USAID was implemented, DEVRES established an informational base, made contacts with potential buyers and investors, and participated in trade fairs to display Ecuadorean products. Reportedly, DEVRES attempted to act as a representative and tried to sell products for FEDEXPOR and its members. DEVRES reports that FEDEXPOR failed to react and follow through to leads. When sales were made, FEDEXPOR or members of FEDEXPOR failed to follow through with samples and personal contacts. Participation in trade fairs and expositions was attempted but it was too costly and difficult to exhibit products. A representational presence was determined to be more cost-efficient.

The information collection and reporting system has been excellent from the standpoint of the volume and quality of market information and data collected and sent to FEDEXPOR Quito. However, the DEVRES staff report that they feel isolated. They feel that the information flow is one way and that they receive insufficient response, information, and communication from FEDEXPOR. They believe that FEDEXPOR has not taken advantage of their office in Miami and has not tried to make it a real FEDEXPOR office.

DEVRES had, reportedly, recommended to FEDEXPOR that a staff member be stationed in Miami to operate out of the office and learn the "business". This was an attempt to create a feeling that the Miami office was the office of FEDEXPOR, and to facilitate the transfer of the office when the Project terminated. That this did not transpire was, evidently, a problem with USAID and FEDEXPOR--both in terms of finances and of comprehension of needs. The DEVRES/FEDEXPOR office in Miami is also responsible for the provision of technical experts for various activities, such as lecturers in the various trade workshops sponsored by FEDEXPOR. They have provided names and contacts of individuals for such activities but FEDEXPOR made the ultimate decisions, often not using the recommended experts.

DEVRES believes that the people participating in the project in Ecuador have not heeded their advice nor comprehended the vital concepts of marketing. Basically, DEVRES believes that they have neither communicated nor cooperated with them in good faith.

Allegedly, a sizeable sum of money in the project has gone unused. This is because many activities that were to be undertaken were not desired at the time by USAID or FEDEXPOR.

Some of these non-approved activities include travel and technical assistance. DEVRES has offered to extend services under the contract at no-additonal-cost based on this surplus.

4. FEDEXPOR Quito/Guayaquil

FEDEXPOR's principal office is located in Quito with a branch office located in Guayaquil. The Quito office is linked directly with the office in Miami. In turn, the Quito office is connected directly with the Guayaquil office and relays information and data to that office on a regular basis. From the standpoint of equipment, FEDEXPOR is well equipped to receive market information and data. DEVRES has installed a system and software package that permits timely receipt of information.

The offices of FEDEXPOR are fairly well managed at present. DEVRES reports that at one time this was not the case and that the offices were "very" disorganized. The present organizational structure is not conducive to undertaking a full-scale marketing/catalyst role. To be effective, the staff complement of FEDEXPOR must consist of more trained and experienced marketing professionals.

Allegedly, when the Project commenced, the Executive Director of FEDEXPOR was not well liked by the USAID Private Sector Officer. Reportedly the present Executive Director, who had been an employee of FEDEXPOR, was picked by USAID and eventually made the new Executive Director. Under this new leadership, organization and management have improved and FEDEXPOR has expanded its membership and prestige.

5. Current Relationship Between DEVRES and FEDEYPOR

The relationship between FEDEXPOR and DEVRES began on an excellent note. However, with the passage of time and due to changing opinions, an ambiguous contract, a poorly conceived project, and domineering and erratic management by USAID, relations became tarnished. The expectations of FEDEXPOR at times could not be carried out by DEVRES; at times, FEDEXPOR follow-through to DEVRES initiatives was not forthcoming. The staff of FEDEXPOR was too small and inexperienced to fully utilize the information and to follow through on the leads provided by DEVRES. At times, the members of FEDEXPOR did not comply with their commitments, especially in terms of following through and consummating a sale when the preliminaries to a sale had been made. DEVRES reports that the flower producers were especially difficult to work with and it was difficult to get them to cooperate. In the course of the assessment, it was noted that the flower producers, although only in operation for one or one-and-one-half years, felt that they were self-sufficient in terms of knowledge and marketing and needed no help.

Currently there is formal communication between the Miami office and the Quito office. However, each office senses isolation and a lack of communication. DEVRES believes that FEDEXPOR is not equipped to fully utilize the data provided and to follow through on market leads. FEDEXPOR, on the other hand, believes that the Miami office should be a fully representational office, making sales and solving problems of shippers.

D. Conclusions and Recommendations

1. Conclusions

The Promotional/Informational approach utilized in the project is of a short-term nature, usually aiding or assisting a limited number of well-to-do individuals, and undertaking short-term activities with short-term objectives. Usually the results are rapid and showy but of short-term duration. It is not an approach oriented to or facilitating the development of a long-term, permanent foundation strengthening the grass roots elements of the industry. In this case, the grass roots are the farmer/producer and the processor/producer. The approach utilized does not foster permanent, dynamic and expanding production and marketing bases--the requirements for an export-oriented, non-traditional agricultural sub-sector.

By contrast, the basic goal or objective of the project should be to develop a sound, dynamic, growing and profitable non-traditional agricultural export sub-sector capable of achieving Ecuador's potential. The establishment of a sound production base and a strong and dynamic marketing base are the essential components of a successful non-traditional agricultural export sub-sector or system. A country, such as Ecuador, may produce various commodities or have the capability of producing new commodities, but without a sound production base and marketing base they do not have a product or products to market. (Figure 1-A).

To achieve the full development of the sub-sector requires adoption of a national policy and strategy. This strategy would serve as a guideline for participants in the sub-sector with respect to the development and upgrading of individual enterprises. (See Table 2) Years of effort have shown that it is ineffectual to upgrade a sub-sector or system by picking or choosing only one or two components of the sub-sector and concentrating development efforts on these. All components, entities, and functions of the system must be addressed simultaneously to achieve lasting and permanent development.

The services provided by DEVRES to FEDEXPOR and the Project in general were invaluable. Without these services the Project could not have achieved a fraction of its accomplishments. Although there were problems throughout the life of the project,

FIGURE I - A

DEVELOPMENT OF A PRODUCTION
AND MARKETING BASE
FOR EXPORT

I L L U S T R A T I O N

MANGOS

Expand Mango Exports X Tons: Dollar Value \$ Y

Market Development

Market Development
(Marketing of Postharvest
Technology)

Production Technology

- Improved Transport
(Availability/Cost)

- Packing Houses,
Equipment, Storage.

- Improved Harvesting
and Handling

- Improved Cultural
Programs

- Improved Preventive
Spray Programs

- Varieties

- Irrigation

Marketing Base

Production Base

Expand Production Tons.

Expand Hectares Ha. (New Producers)

Expand Nursery Production

Plant Material/(Varieties)
Equipment (Other Inputs)
Finance

PLAN

PHASE II
DEVELOPMENTAL

CONCEPTION

DEVELOPMENT
STRATEGY

TIME REQUIRED TO ACHIEVE THE GOAL.
5 - 7 YEARS

F E D E X P O R

PHASE I
INFORMATIONAL

they were minimal. The strained relations that are in evidence are more the result of poor project design and faulty, and sometimes domineering, management by the former USAID staff. The recommendations of DEVRES, and likewise the desires of FEDEXPOR, went unutilized and unheeded due to a lack of understanding of the task to be undertaken.

The major complaint by FEDEXPOR is that the Miami office is not functioning as a representational office. On the other hand, DEVRES points out that a representational role was attempted but that there has been no activity or follow-through on the part of FEDEXPOR or its membership when sales leads were made. This is not a fault of either party but a fault of the project design and conceptualization. It is evident that the Miami office could not survive or be cost-effective as a FEDEXPOR office only. The production and marketing base now in place in Ecuador does not warrant such an office and could not support such an activity without the assistance of USAID. In the extended project, the office and the contract to maintain the activities in the office should both be continued on a "need" basis. The services provided by DEVRES are invaluable to FEDEXPOR which does not have, nor will have for some time to come, the capability and capacity to operate effectively on its own. In the future, as Ecuador's potential is developed and the volume of exports expands, FEDEXPOR could have its own independent representational office.

2. Recommendations

a. Extend and Re-Design Project

The Non-Traditional Agricultural Export Project should be extended and re-designed or re-cast to emphasize the development of the sub-sector. In essence, the present Non-Traditional Agricultural Export Project funded by USAID can be considered as Phase I of a longer-term developmental effort. The extension and re-casting of the project may be considered a Phase II effort.

b. Project Goal or Objective

The basic goal or objective of the Project should be to develop a sound, dynamic, growing and profitable non-traditional agricultural export sub-sector capable of achieving Ecuador's potential.

c. Prepare and Adopt National Policy and Strategy for the Development of the Non-Traditional Agricultural Export Sub-Sector

As part of the new project thrust, and to set a base for the operation and activities of the project, a national

developmental strategy for the non-traditional agricultural export sub-sector should be prepared and adopted. (See "A National strategy for the Development of the Non-traditional Agricultural Export Sub-Sector in Ecuador, A Model," Appendix E.)

d. Redesignate the Principal Target Group

The Target Groups of the Project should be 1) the Producer (the Farmer/Producer or the Processor/Producer); and 2) the Producer/ Exporter (the Farmer/Producer/Shipper and the Processor/Producer/ Exporter). (See Table 1.)

e. Directly Involve the Public Institutions

The public-sector ministries, institutions, agencies, parastatals, autonomous organizations, and the like should be directly involved in the development and implementation of the project and should be involved and utilized in the development of the sub-sector. They should be utilized to improve the overall climate for the export of non-traditional agricultural products and to facilitate exports through changes in the laws regulating or controlling exports and/or the acquisition of required inputs.

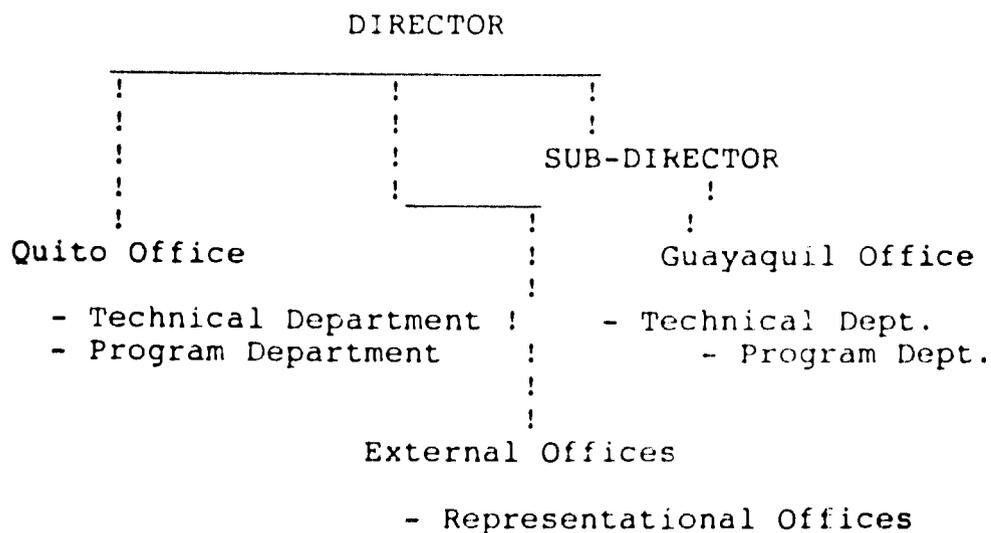
f. Utilize a Systems Approach in the Implementation and Operation of the Project

A "systems approach" should be utilized in the development of the sub-sector and in the design and implementation of the extended Project. In this approach, the sub-sector is viewed as a "system" of complementary, inter-related and interdependent individuals, institutions, structures, functions, services, and activities. Utilizing the systems approach, facets of the system are developed simultaneously, including developing and upgrading skills and capabilities; upgrading and establishing required organizational structures; upgrading and establishing required infrastructure; and upgrading, introducing, and adapting the required production (pre-harvest) technology and required marketing (postharvest) technology.

g. Reorganize FEDEXPOR

Table 2 presents a recommended restructuring of FEDEXPOR. The staff of FEDEXPOR should be trained and experienced in marketing with a minimum of "chiefs" and a maximum of functional employees. The Assistant Director should be made Director of the Guayaquil office.

Table 2. FEDEXPOR - - PROPOSED COMPOSITION/ORGANIZATION



DEPARTMENTS

Local: Quito/Guayaquil
(Developmental)

A. Technical Department B. Program Department

1. Marketing - Liaison

Marketing Specialist Liaison Specialist

Marketing Analyst/ - Information/Publication
Specialist

2. Production - Extension/Education

Production Specialists- Field Staff

External

C. Representational Offices

- Miami

_ Other ?

h. Expand the Services and Activities of FEDEXPOR to Increase its Membership and its Financial Position

FEDEXPOR should expand its activities in marketing as a means of obtaining new members. The services provided should be undertaken for members on a fee basis. The fees should be on a "cost plus" basis for the initial activity plus a small percentage of the dollar or Sucres value of the income generated. Activities to expand membership and provide income should include:

- o Sub-project (Enterprise) analysis and development.
- o Market "intelligence" reports.
- o Product development.
- o Market development.
- o Provision of technical assistance in marketing; provision of information and assistance on production technology.
- o Pre-inspection services.
- o Sales/intermediation and representational services in target markets.

i. Redefine and upgrade the roles and involvement of other agencies or institutions

ANDE should be given a coordinating role to bring together the various industries, organizations, and individuals that are involved in or related to the non-traditional agricultural export sub-sector or system. It should develop a long-term national strategy for the development of the non-traditional agricultural export sub-system based on a systems approach.

JUNTA DE ASESORES - The Junta or Advisory Council should be given an involvemental/coordinating role. Its membership and composition should be expanded to include all participants in the non-traditional agricultural export sub-system. The Council should be utilized to inform, coordinate, plan, and involve all participants in the development of the system.

ANNEX B

EVALUATION OF THE FINANCE FACILITIES COMPONENT OF PROJECT NO.518-0019. (PROJECT LOAN NO. 518-T-058)

I. Impact on Production, Export and Employment Generation.

A. Results to March 31, 1988 versus Plan

A quantitative comparison of results to date versus the impact forecasts for Project 518-0019's Investment Credit Facility and Reimbursable Fund is provided in the chart which appears on the following page.

Basic data forecasts were obtained and confirmed from the project paper, including the logical framework, and from discussions with Mission personnel. Actual results to date were developed: through a review of the O.R.O. & Asociados, Cia. Ltda. March 8, 1988 Study; through field visits; through an examination of disbursement documentation and of the Project files, including previous evaluations; and through the completion and analysis of impact profiles covering the 22 sub-loans accomplished to date, together with examination of other undertakings which did not use project monies directly but which did reflect production, export and/or employment generation impact as a result of the project at large. Results to date were also confirmed in discussions with Mission personnel, Central Bank officials, and officers of the participating financial institutions (PFIs).

1. Disbursements.

AID disbursements from the Investment Credit Facility have totalled US\$ 4.6 million. Counterpart disbursements have totalled S/.20.0 million, equivalent to approximately US\$50,000. Disbursements from the Reimbursable Fund have totalled the equivalent of US\$140,000.

2. Economic Impact.

Direct impacts from sub-projects which have received loans from the Investment Credit Facility include cumulative incremental exports of US\$6.05 million and a cumulative net foreign exchange gain of US\$5.20 million. In addition, project loan funded activities generated a cumulative value-added increment of US\$3.20 million and 475 new, full-time and full-time equivalent jobs. Fixed asset investment increments from project loan funded activities were equal to US\$6.20 million. Cumulative aggregate net income earned by the sub-borrowers amounted to the equivalent of US\$462,000; and incremental wages earned, totalled

US\$590,000 for the aggregate number of sub-project workers. Incremental farmer supplier income, based primarily on demand for grain and grain by-products from a shrimp feed processor, totalled US\$1.2 million.

In addition to the direct economic impact achieved to date through the project loan, there has been further, indirect impact from export operations which did not borrow from the Investment Credit Facility but which started-up or expanded as a result of other aspects of Project No. 518-0019. These results have been adjusted from estimates provided by O.R.O. & Asociados, C. Ltda. in its March 8, 1988 study on the subject. They indicate some US\$2.5 million in incremental export sales; value-added increments of approximately US\$2.2 million; and employment generation of close to 1200 jobs, mostly the full-time equivalents of part-time and seasonal field labor requirements.

B. Analysis of Results/Variations

1. Disbursements.

As shown in the Project Results Chart, the financing facilities, that is, the Investment Credit Facility and the Reimbursable Fund, have been changed over the life of the project from their original amounts. The Investment Credit Facility, through the Loan Agreement as amended, was increased from US\$ 4,000,000 (9-28-84) to US\$ 8,000,000 (8-31-86). The Reimbursable Fund, which is the FEDEXPOR grant-funded facility for financing feasibility studies and technical assistance, was originally set at US\$ 300,000. It has since been reduced to US\$144,000 and, more recently, to US\$ 134,000.

2. The Investment Credit Facility.

While disbursement of the US\$4.0 million originally authorized for this Facility had been accomplished by August, 1987, the disbursement process was and continues to be, tortuous at best. In this process only two PFIs - both of them finance companies or financieras - have done the on-lending. Out of the total of 22, one of the financieras made 15 of the sub-loans; the other financiera made the balance of 7 sub-loans. Counterpart disbursement from the GOE has been limited to only the equivalent of US\$50,000, disbursed just recently.

Initial AID disbursement from the Investment Credit Facility did not occur until 12-26-85, that is, 15 months after the signing of the loan agreement. As evidenced in the pertinent project implementation letters, one part of the delay concerned clarifications in, additions to, and compliance with the conditions precedent. The specific areas which took the most time were: a) the execution of a fiscal, finance agency contract satisfactory to AID, between the Ministry of Finance and the Central Bank of Ecuador (CBE); b) the presentation to AID by CBE

of a satisfactory statement and description of CBE's procedures for carrying out the project; and c) the execution, satisfactory to AID, of subsidiary agreements between CBE and the PFIs for carrying out the Project.

From the project files it is clear that considerable time was taken in the drafting and review of these documents. Specifically, the CBE was slow in presenting its drafts and AID, which had problems with the drafts, could not resolve these problems quickly. The slow resolution of these problems was the result of several factors. As regards CBE-originated delays, according to a 2-26-85 AID memorandum, delays could be attributed to the lack of an authoritative person in charge of the Project at CBE, and to the apparent low priority which that person placed on the execution of the Project (518-T-058). The memorandum went on to say that a new, more interested and capable person would soon be in charge of 518-T-058 at CBE. As regards AID-originated delays, it appears that the Mission was not entirely clear itself on what exactly it wanted in each of the documents. It also seems that it had difficulty in communicating with CBE and assisting CBE in finalizing the necessary changes to the documents. Reportedly, the Private Sector Office was engaged in the launch of a variety of other activities at the time and consequently may have failed to dedicate sufficient continuing effort to CBE's fulfillment of the conditions precedent to 518-T-058. On the other hand, the CBE had several other much larger financial facilities to launch and/or monitor. The size of these facilities required significant amounts of CBE personnel time.

Despite the appointment of a new person at CBE to take charge of 518-T-058, it was not until 7-3-85 that CBE satisfied the conditions precedent in force at the time. And it was not until 12-26-85 that AID accomplished the Facility's first disbursement to the CBE. Subsequent to this date, additional disbursements were made but only at an uneven pace. Further transaction analyses of disbursements--a grand total of 28--reveals average elapsed time of four to six months between credit application dates and actual dates of receipt of funds by the end-users, that is, by the "sub-borrowers". In some instances elapsed time exceeded nine months.

The reasons for these delays were as follows:

- o Failure of AID to establish, in a timely fashion, a revolving fund that would help to eliminate delays between the time a credit application was fully approved by the PFI, the Advisory Board, the CBE and AID, and the time that AID could fully process voucher forms 1034 through Mexico. (The latter rarely takes less than 30 days).
- o Failure of the CBE and the PFIs to respect the spirit

of the project and to advance any fresh counterpart loan funds at all.

- o System illiquidity and related overdraft status of the PFIs, which made it difficult for the PFIs to advance funds to sub-borrowers for subsequent rediscount.
- o Differences, clarifications and disputes concerning applicable rediscount and sub-borrower interest rates. AID's policy regarding these rates was that they should be at market value and should approximate positive real interest after deducting inflation. Sub-borrowers and others argued that new agribusiness projects required preferential fixed rates. On the other hand, PFIs, which did not trust the CBE to process rediscount applications on a timely basis, were unwilling to loan monies at preferential rates when they might have to fund such loans at a loss--because of the relatively higher costs of own capital and of issuing financial certificates and other instruments--for extended periods of time. PFIs also argued that because of the high risk of new, non-traditional agribusiness projects, the five point interest provided them under 518-T-058 was/is not really sufficient.
- o Clarifications, and probably a negative CBE reaction, as to AID's disbursement currency policy whereby AID disbursements for local currency costs of the Project are only to be effected in local currency. Under this policy AID brings dollars into Ecuador and exchanges them at the highest free market rate. The policy justification is that this exchange rate will be higher than that which would be obtained through the Central Bank and that consequently greater amounts of local currency will be available to the project for any given amount of dollars. (As a rule, most international lenders do disburse dollars directly to the CBE which then enjoys a measure of control over their conversion to local currency. Informally, CBE officials argued that if the country would be owing dollars to AID, it should be receiving disbursements in dollars. They also pointed out that, at one stage, because of diminished dollar demand in the market, AID was unable to find buyers at a beneficial exchange rate for the project, and had to delay effective disbursement as a consequence.)
- o AID has also changed its policy twice during the project concerning the disbursement of funds to cover

dollar costs. First, it held that dollars would be disbursed to cover such costs. Later, it provided that local currency proceeds from AID's dollar exchanges would have to be converted back to dollars in order to open letters of credit or otherwise cover dollar costs. Finally, this policy reverted to the first position again.

- o CBE delays in examining and approving sub-project credit rediscount applications presented by the PFIs. According to CBE officials, roughly 60% of all rediscount applications are returned to PFIs for lack of adequate documentation, insufficient data, incorrect or incomplete analysis, and/or ineligible applications. According to some PFI officials, the return figure is closer to 100%. According to these same officials, it also takes up to two or three months before the CBE finally accepts and approves the corrected application. During this period, at least in theory, a PFI will have disbursed market-cost funds to the end-user at a preferential rate incurring a negative spread and consequent loss.

In point of fact, the PFIs rarely, if ever, effect such disbursement. Instead, they may issue a check and require that the sub-borrower endorse his check back to the PFI. This generates a "disbursement document" (the check) which the CBE may accept as evidence that the sub-borrower has received his disbursement. Based on this evidence, CBE may effect the rediscount, that is, may credit the PFI's account to fund the loan. The loser in such a transaction is usually the sub-borrower and his agribusiness project, particularly if the PFI--even after its account has been credited by the CBE--still takes more time than necessary to finally effect disbursement. The results are the same, or worse, in instances where the CBE applies the rediscount proceeds to the PFI's overdraft. When this occurs, PFI management, reasoning that the transaction really provides them with no "fresh" resources, may choose to "leave" the corresponding funds in higher-yielding commercial loans or other assets for as long as possible, in direct detriment to the agribusiness sub-borrower whose project funding needs may become urgent. (As an alternative, PFIs sometimes choose to issue a guarantee to the sub-borrower and suggest that with this guarantee he obtain credit, say from a commercial bank, until such time as the PFI can be assured of its rediscount at the CBE. Even if the sub-borrower does obtain funds on a timely basis using such a guarantee, the cost of these funds, at commercial rates, plus the cost of the guarantee, if incurred for an unreasonable period of time, can seriously impair the sub-project's chances of success.

Further on the subject of returned applications, PFI

officials argue that the CBE should not examine sub-project feasibility at all since that is the role of the PFI which believes it has adequate, competent staff to accomplish the proper credit and feasibility analyses. They also state that the CBE analysts are not always competent to conduct such analyses and that their reasons for returning applications are not justifiable, particularly in light of the time needed to analyze and cure the alleged application defects. Finally, the PFIs note that since they are taking the commercial risk in the rediscounts, their analysis of the credit should suffice for approval purposes with the CBE needing only to examine a sub-project's eligibility under 518-T-058.

As in many--if not all--countries, the Central Bank argues that it is the incompetency of PFI analysts which leads to the approval delays. Officials of CBE point to the fact that rediscount applications are often incomplete and/or incorrect given the terms of 518-T-058. They also state that the corresponding project feasibility analyses are often poor and lacking in requisite detail. Finally, they note that feasibility analyses are sometimes contracted out to private consulting firms which do not use CBE methodology or which simply carry out poor analyses.

CBE officials also argue that, as borrowing agent for the GOE under 518-T-058, the CBE must be responsible for both credit and foreign exchange risks and that to properly carry out this responsibility they must perform their own evaluation of sub-project financing requests before approving a rediscount.

Understandably, there is considerable disagreement between the CBE and the PFIs as to who is most at fault for the approval delays. It seems clear that both parties share some responsibility for the delays, depending upon the particular credit application in question. (Recommendations as to how to reduce delays in the future are offered below.)

3. Counterpart Contributions

Counterpart contributions have been poorly defined. Initially, as set out in the Loan Agreement between AID and the Republic of Ecuador, the borrower (GOE) was to provide not less than the equivalent of US\$ 2,000,000 to the Project, including costs borne on an "in-kind" basis. Annex I to the Loan Agreement delineated the counterpart contribution in relation to the total investment costs of financed sub-projects by stating that AID would finance on average 65% of such investment costs ("total project cost") with the Republic of Ecuador (GOE)--through the CBE. The latter would be responsible for making available through the Investment Credit Facility financing for that portion of total project costs not covered by the AID loan. It was estimated that such contribution would average 25% of total

project costs. By deduction, and from P.I.L. No. 1, it is clear that the remaining 10% of total project costs would be provided from the sub-borrower and/or the PFI.

Then, largely in response to the fact that the GOE, through CBE, had put up no counterpart funds at all for the project, AID, by Amendment No. 2 to the Loan Agreement dated August 31, 1986, established a new condition precedent for disbursement of any amounts in excess of US\$ 4,000,000. This condition provided that the GOE must first submit to AID satisfactory evidence that it had made available for Investment Credit Facility activities at least 200 million Sucres to be used jointly with loan funds provided by AID for such activities. (Notably, this condition precedent was silent as to whether, exactly when, and in what ratio these Sucres might have to be disbursed for project financings. CBE officials indicated that from discussions with AID, they had the impression initially that the entire 200 million Sucres had to be disbursed as counterpart to the first US\$ 4,000,000 before AID would disburse any part of the second US\$ 4,000,000.)

Later, through P.I.L. No. 17 dated 11-4-86, AID established that the source for the 200 million Sucres was to be economic support funds from Agreement ESR 518-0058, earmarked for the Investment Credit Facility. These funds were to be transferred from the Ministry of Finance to the CBE into a designated account for the Investment Credit Facility. On 11-25-86, the CBE provided AID with evidence of the appropriate accounting entries for the 200 million Sucres, thereby nominally fulfilling the pertinent condition precedent. AID recognized this fulfillment in P.I.L. No. 18 dated 12-15-86.

Then, by Amendment No. 3 to the Loan Agreement dated 6-8-87, Annex I was replaced in its entirety. In the pertinent counterpart contribution sub-section of the new Annex I (Section III.E.), it was stipulated that AID loan funds would finance up to 50% of total project costs with the remaining 50% to be financed from three sources; namely, the GOE, the participating institutions and the clients (sub-borrowers). It further specified that this counterpart financing (the latter 50%) would be defined (broken-down) by means of implementation letters.

P.I.L. No. 21 dated 5-29-87 (in effect two and one half weeks before the issuance of Amendment No. 3!) reiterates and justifies as already occurring, the 50/50 total project cost finance-sharing between AID and Ecuador. It then goes on to specify that the breakdown of the non-AID 50% share should be: client 25%, CBE 15%; and PFIs 10%.

P.I.L. No. 27 dated 3-18-88 provides a new global breakdown related no longer to total project cost but now to the sub-loan financing alone, called "total loan amount." Of this total loan

amount, AID provides 65%, the CBE will provide 25%, and the PFI will provide 10%. In addition, sub-borrowers will be required to certify that their "in-kind" contribution represents no less than 20% of total sub-project cost, which amount will not be considered as part of the sub-loan. (In other words, 80% of the project costs may now be financed under the Investment Credit Facility.)

P.I.L. No. 27 further specifies that before AID will make new disbursements under 518-T-058, the GOE--through the CBE--must first disburse the equivalent of US\$ 150,000 from its 200 million Sucre fund. The basis for this figure of US\$ 150,000 is that it represents one-half of the roughly US\$ 300,000 which AID had already disbursed from the second tranche of US\$ 4,000,000 for the project, and that the corresponding 2:1 ratio would be in compliance with P.I.L. No. 21 on this subject. (The relevant interpretation of P.I.L. No. 21 is probably subject to some confusion but it has been accepted by the CBE.)

To say the least, the counterpart contribution issue could have caused disbursement delays if only because of the time necessary for each party to interpret the stated requirements, especially because these were changed on several occasions and because in each instance they were open to very different interpretations.

Personnel changes at the Ministry of Finance, the CBE, at AID and at the PFIs since the signing of the Loan Agreement (there have been five Ministers of Finance) have caused disruption. In the case of the CBE, during the period 9-18-84 to date, there have been three changes with regard to personnel in charge of Project Loan 518-T-058. At AID, after the July, 1987 departure of the Project Manager, there was no full-time replacement responsible for the Project until January/February, 1988. (Officially there still is no Project Manager for the Project). There have been two AID Directors as well since the Project started. Additionally, the President and a key Loan Officer from the PFI which has participated to the greatest extent in the Project had left that financiera by early 1987.

4. The Reimbursable Fund

As shown in the Project Results chart, disbursement from this grant-funded facility have totalled US\$140,000 out of an originally authorized total of US\$300,000. (This original authorization has since been reduced to US\$134,000.) Only 11 completed feasibility studies have been financed from the fund, out of a projected total of 30 such studies. Five of these studies led to sub-projects that were financed from the project loan. Ten of the eleven studies led to actual start-up sub-projects. Only one of the studies entailed start-up technical assistance from a management standpoint.

The original authorization cutback and the shortfall in the fund's study output bear qualification. As regards the cutback, demand for financing from the facility was slow at the time that the cutback was effected, and funds for relending were already available from the facility's first repayments. The proceeds from the budget reduction (US\$166,000) were also need elsewhere in the project. As regards the shortfall, part of the problem must be attributed to the difficulties and bad reputation of the Investment Credit Facility. These tended to discourage potential fund users both because of the uncertainty about obtaining future sub-project finance and because of the apparent difficulty of working with the PFIs. At the same time, largely because of the problems of the Investment Credit Facility, promotion of the fund was also inadequate. At present, there are some US\$40,000 (in Sucres) in the fund. These monies are being relent at a slow pace despite reported fresh demand. The virtual full-stop of the Investment Credit Facility, diminished interest in the fund from the PFIs, the approach of the P.A.C.D., and the nearness of the Presidential election all seem to factor into the slow use of the fund at this time.

(As regards the PFIs and their possible active interest in the Fund, it is worth noting that the original plan for disposition of interest and principal payments to the Fund has not been implemented. Specifically, as planned, 50% of interest payments were to be for account of the PFIs, and, after 15 years, all of the Fund's principal repayment balance was to revert to the PFIs as assets. In practice, only 25% of the interest payments are for account of the PFIs and the remaining interest as well as the principal balance revert to FEDEXPOR which continues to administer the Fund.)

It is probably fair to expect that together with improvements in the implementation of the Investment Credit Facility, demand for and implementation of the Reimbursable Fund will also pick up.

5. Economic Impact

The significant variances between forecast and actual economic impact from the project must also be qualified.

Measurement of the project's economic impact is complicated by the fact that the project paper and logical framework failed to adequately specify a number of important indicators. At the same time, for one of the indicators which was specified, it is virtually impossible to derive a meaningful measurement. The important indicators which were not specified, but for which the project has thrown off measurable results, include project-attributable net operating foreign exchange increments, value-added increments to the economy, incremental jobs, sub-borrower

incremental income, land-use increments, incremental worker income, and incremental farmer-supplier income. The faulty indicator from the logical framework suggests that the measurement of achieving the project goal will be real per capita GDP growth of 2.5% p.a. and annual increases in agricultural sector output of 5%, both by 1990. Because these indicator levels cannot be verified before 1990, and because they could occur or fail to occur for reasons substantially unrelated to the project's activities, they are probably not valid for helping to draw any conclusions about achievement of the project goal.

Analysis of the key variance between forecast project results and actual results, that is, the fact that total exports of non-traditional agricultural products barely reached US\$9.0 million versus a projection of US\$63.0 million for the cumulative period ending with the P.A.C.D., reveals that the the shortfall is only explained in part by the slow, poor implementation of the Investment Credit Facility. There were other, mitigating circumstances, which were not taken into account in the forecast. The most important among these is the fact that all agribusiness project outputs require a reasonable lead time before they can move from concept to market. Depending on the different types of crops and products involved, the necessary lead time can be greater or lesser, but it will rarely be less than one to two years. In the case of Project 518-0019, the expected lead time should have been even greater because of the new and risky nature of the undertaking. A closely related factor is the time that is required to achieve a national, multi-sector awareness of and interest in a new initiative such as non-traditional agricultural export.

The project has contributed significantly to creating this awareness and interest. And the movement from concept to market has begun, however gradually. Plantings are increasing as are plans to start and/or expand processing facilities. These are the beginnings of production and marketing bases, and over the next three to five years, incremental exports can be expected to grow apace. In this sense, the US\$63.0 million indicator was clearly too ambitious given the Project's time frame. In fact, total exports of non-traditional agricultural products for the last three years, which were only in limited measure attributable to the Project, were barely equal to US\$50.0 million.

II. Key Factors in the Operation of the Finance Facilities

A. The Sub-Borrowers/Sub-projects and Credit Demand

A fundamental AID concern in implementing the Investment Credit Facility has been for the "right" people to get loans for the "right" sub-projects. In this context, the Mission has run into a problem common to most development finance undertakings:

into a problem common to most development finance undertakings: how best to define and redefine, over time, the desired targets. The following discussions treat this subject in relation to the implementation of Project Loan 518-T-058. The pertinent recommendations are summarized in section IV.

1. Definition of Targets

It is difficult and probably imprudent to draw very strict eligibility criteria, but enough has been learned about credit demand to be able to begin to both draw some lines and to better orient the sub-project/sub-borrower identification process. For example, the project's financings to date are too skewed by product-group and function. (Flowers, shrimp/fish versus fruits, vegetables, and other products; and primary production versus processing.) The financings have also been going to principals who enjoy greater access to finance than do most. Neither of these two project short-comings is entirely negative, even when it occurs in tandem with the other, especially if considered within the context of a high-risk, still relatively young undertaking.

Additionally, at this point in time, the project's financing component is hampered by a bad reputation because of delays in disbursements. Under the circumstances, it is not unreasonable to expect that only those best able and willing to "wait" for financing, including sub-borrowers and PFIs, will even consider making and processing a loan application. For the continuation of the project, however, AID should make it clear that some sub-projects will simply not be eligible for 518-T-058 financing even though they might have been previously.

2. Drawing Lines

The basic line to draw will disqualify those sub-projects that come from already well-financed product groups and functions and that also are sponsored by principals who ought to be able to obtain financing from sources other than the AID facility. If a sub-project falls into one of these two categories, but not the other, it ought to be examined closely to ascertain its impact in that other category. All other things being equal, then, if a new vegetable sub-project were to be proposed by a well-to-do principal, such a sub-project should be eligible for financing under 518-T-058. Alternatively, if a relatively small farmer or grouping of several small farmers were to apply for financing a cut-flower (carnation) production sub-project, this, too, should be eligible.

The specific definitions of what constitutes, from time to time, an acceptable product group or function, or principal should be established in writing whenever possible. They should be established in terms of sub-classes and orders of magnitude.

given to which kind(s) of cut flowers is to be produced. Roses, Gypsophila, Carnations, Alstroemeria and Statice have already been financed by the project, as well as by various sources--including foreign investors--especially available to the well-to-do. But there are other flowers, such as Lilliums, which can be grown in Ecuador and which could reasonably be financed under 518-T-058 even though the principals for such a sub-project might be well-to-do.

Ranges for defining which sub-borrowers have greater or lesser access to finance are perhaps more difficult to establish, but net worth ceiling figures can be selected as guidelines.

To a considerable degree, especially in what must still be considered the "early" stages for the Investment Credit Facility, decisions about and application of definitions or eligibility criteria will be a subjective exercise. But, also to a considerable degree, officers in AID, in the PFIs, in ANDE, in FEDEXPOR, on the Advisory Board, and at the Central Bank should by now be able to readily distinguish and substantiate which sub-projects and principals ought to receive financing from the project's finance resources and which should not. Acting on these distinctions will depend on the corresponding officers' and institutions' ultimate willingness to assume greater risks or to cause others to assume greater risks, as well as on the project's contributions toward reducing risks. (Means include the use of credit guaranty facilities, standardized loan appraisal and credit analysis, and improved technical assistance to sub-projects.) It will also depend on being able to recognize and, most importantly, being able to assist technically in the development, launch and/or expansion of worthy sub-projects.

Some examples of undertakings whose principals have recently (March-April, 1988) expressed a need for start-up or expansion finance and which demonstrate the types of credit demand that the Project should target for financial support follow:

a. Examples of New Credit Demand

o A crab export project, located outside of Guayaquil, being undertaken by a small entrepreneur who needs to obtain finance for processing and cold-storage facilities.

o A vegetable freezing/export and vegetable farming operation being undertaken outside of Manta by a small entrepreneur--a Nicaraguan expatriate--who is U.S.-trained and is already experienced in operating such businesses. The entrepreneur is seeking start-up capital for plant and equipment.

o A new fruit/vegetable processing business being considered by a banker, in Guayaquil.

o A processing plant project being undertaken in Quito by a builder seeking to diversify from the depressed construction business into an agribusiness. The principal intends to use an empty building which he owns as the structural base for his plant. He requires technical assistance to select processing equipment and he requires financing for this equipment.

o A project to produce long-hair (Angora) rabbits for wool and wool-product exports, being undertaken by well-to-do entrepreneurs outside of Quito. The project requires start-up capital.

o A project, outside of Quito, that requires expansion capital and technical assistance in order to increase processed food exports. This small company already has a domestic sales base and it purchases raw materials from a number of small and medium farmers to whom it provides agricultural technical assistance.

It should also be noted, as the team did, that a steady stream of entrepreneurs passes through the offices of FEDEXPOR in Quito and in Guayaquil with projects that require financing, technical assistance or both. These projects should be reviewed on a regular basis to determine if financial and related technical assistance can be recommended, where such assistance could not or was not recommended at the time that the project was first presented.

A significant development that highlights credit demand and potential credit demand has been the formation and formalization of non-traditional agricultural export associations. These groups, which have arisen as a direct result of the project, can eventually serve as a rapid channel for transmitting members' financial needs. There already exist associations of asparagus, snow-peas, berry and quinoa producer-exporters. In every instance they are beginning to study and coordinate planning for pertinent financial needs. (At one meeting an asparagus producer detailed his current financial needs--for about US\$ 100,000--but said that he was having trouble finding this amount. Others from the association pointed out that the project line was to be reactivated shortly and that he should begin now to apply for financing through one of the PFIs.)

b. Loan Applications

The ability of principals to present satisfactory loan applications, including the presentation of feasibility studies, is an important step in ensuring that the "right" people and sub-projects obtain finance from the Project.

To date under the Project, there has been no standardized

loan application format made available to sub-borrowers. Much less has there been any kind of guidance or short training for sub-borrowers in the preparation of loan applications and feasibility studies. As a consequence, some applications have reportedly been haphazard affairs, often prepared by third parties without proper knowledge of the requisite eligibility and/or feasibility criteria for loan approval. This can only have contributed to delays at the CBE. Conversely, if the situation can be corrected, then it will facilitate the approval process at the CBE.

c. Working Capital Versus Fixed Assets

In examining the project paper and project documentation, it is clear that the intention has been to use the Investment Credit Facility to finance term assets (fixed assets). Short-term working capital needs were expected to be covered by the PFIs or by the sub-borrowers themselves. Structurally, this is a sound approach, but for new, non-traditional agribusiness undertakings, especially for Project Loan 518-T-058, the strict application of this structure has probably meant that fewer good projects were actually funded than would otherwise have been the case.

Specifically, all businesses need a mix of working capital and of long-term finance. If, however, a business gets one type of finance but not the other, it can incur in "mismatching" and, ultimately it can suffer losses. Similarly, if the mix for a particular sub-project requires significantly more of one type of finance than of the other, and if it cannot find sufficient money of the first type (say, of working capital), then the business may go forward at too slow a pace or, more likely, its principals will postpone or terminate the undertaking.

It is difficult to state with absolute certainty that these problems have seriously affected the implementation of Project loan 518-T-058. But it is for certain that if proceeds from the Loan could be used to finance working capital needs of sub-projects, there would be more financing of sub-projects than has heretofore been the case. The principal reason for this is that where working capital needs make up the greater part of a loan request to a PFI, it means that the PFI will be required to fund the largest part of the sub-project's loan requirements. And since PFIs are often not sufficiently liquid and are averse to taking significant risk--particularly as in the case of non-traditional agricultural export projects--they tend to either "short-change", shelve or turn down such working capital finance applications. A partial remedy to this problem is to delineate "core" or "permanent" working capital needs--those which are on-going to support expansion/growth--and to treat these the same way as term assets are treated for purposes of providing finance. The proper solution, however, is to recognize that if the goal of

a finance facility is to support the launch and expansion of sub-projects, then no availability distinction should be made between long and short-term credit, just as there is no distinction between the "color" of short and long-term money. This is related to another failing of the project, namely, the failure to adequately consider the financing of "economic units".

d. Economic Unit Financing

One of the PFI interviewees--the chief agribusiness credit analyst for that particular institution--remarked that many of the project financings that he had looked at were "isolated". To demonstrate what he meant, he drew a square that represented a farm Unit and he drew another much smaller square, within the first to represent the AID-funded sub-project. The point was that the smaller area, because it was planted to a non-traditional crop and because it was specifically financed by the AID-PFI loan, was treated as a "project" when in reality, it was only a part of a project. The implication was, and is, that if the non-traditional aspect is an integral part of a larger physically and operationally inter-related unit, then perhaps some part of the financing ought also to attach to the rest of the unit, not just to the non-traditional undertaking. In other words, financing should be applicable to sub-project undertakings which include non-traditional exports as a key initiative but which are not totally dependent on such exports, at least in the beginning. A typical example would be the financing of a farm operation where as much as one half of the loan might cover traditional crop needs, provided that the other half were applied to a non-traditional export crop initiative. Another example would be the proportional financing of domestic processed food operations, provided that an adequate export expansion or new export initiative were undertaken at the same time by the processor.

Success at implementing "economic unit" financing in a project such as 518-T-058 depends significantly on the understanding and skills of analysts and officers at the PFI, the Central Bank and at AID. Misunderstanding or lack of understanding, together with inadequate skills engaged for the "economic unit" financing can easily lead to the misuse of funds. But properly undertaken, such financing can enhance and improve the entire project.

B. The Participating Financial Institutions (PFI)

Although only two PFIs have been involved to date in making loans under the Investment Credit Facility, their performance has been entirely representative of PFIs in general. In fact, given the nature of the Project, the absence of greater PFI interest and participation is also quite notable.

1. Lending and Liquidity

PFI's seek to invest (lend) resources where they will be safest and where they will yield the greatest profit.

While most PFI's, when they are hesitant to lend, will argue that they have no resources, i.e., that there is no liquidity, the fact is that PFI's have constant cash inflows and therefore "constant liquidity". The sources of the inflows, apart from borrowings from the Central Bank or from off-shore lenders, include: proceeds from the issuance of financial or money market instruments and from the repayment of loans with interest, in the case of finance companies (financieras); and deposits, proceeds from the issuance of financial or money market instruments and from the repayment of loans with interest, in the case of commercial banks. The question, though, from the standpoint of liquidity from these two classes of PFI's for the Project, is how they apply their cash inflows. In this sense, use of liquidity for loans to sub-borrowers under the AID Project will depend upon how competitive such use is perceived to be against alternative uses. As suggested above, use "competitiveness" for the PFI's is normally a direct function of a mix of risk and relative profitability. Thus, the lower the risk and the higher the profit from a particular use, the more likely such use will be selected by the PFI and conversely, the higher the risk and the lower the profit from a particular use, the less likely it is that such use will be selected by the PFI.

Sub-project financings under 518-T-058 are higher in risk than most loans and, historically, in real terms, they are not especially profitable. They are higher in risk because of the inherently risky nature of most agricultural and agribusiness ventures, especially new initiatives such as the export of non-traditional products. They are riskier still because of AID's goal of providing finance to those who need it most, which usually means those who are less able to provide the PFI's with requisite guarantees/collateral. As to profitability, despite the nominally satisfactory five-point spread which the Project affords to the PFI's, after considering the extraordinary amounts of management time which the PFI's may have to devote to achieving loan rediscount at the Central Bank, the real spread is significantly diminished. If one adds to this the actual effect of having to advance funds at interest rates that are below the PFI's real cost for those funds during a period of uncertain length before the Central Bank will effect the rediscount, then the final real spread diminishes still further.

Under such circumstances as these, it is easy to understand why some potentially effective PFI's might shy away from involvement in the Project. It is also easy to see why even an involved PFI, to avoid any real loss whatsoever as the result of incurring a negative interest spread, would engage in

disbursement delay tactics until, or even after the time at which the Central Bank credits the PFI account, that is, effects the rediscount.

Further on the subject of liquidity, it is only fair to note that, in broad market terms, PFIs in Ecuador have been quite illiquid over the past two years. This has been the result of their inability to mobilize greater amounts of savings from the public as well as of capital flight. Other causes include Ecuador's loss of oil revenues; a large number of bad loans; bad loan management and defective funding practices. A further factor has been official monetary policy, which has been tightened in order to try to hold down inflation. For the finance companies, illiquidity is manifested in overdrafts at the Central Bank, for commercial banks through their inability to meet reserve requirements. The consequence for all PFIs is that they are less able or even ineligible to fund new loans, particularly those that might otherwise be risky. On the other hand, Project loans like 518-T-058 can become a solution to illiquidity since they are sourced abroad in hard currency and are readily available for disbursement once eligibility and feasibility criteria have been met for sub-loans.

2. Loan Appraisal Standards and the CBE

In addition to the risk/profitability consideration that characterizes a PFI's performance, there is also the issue of its loan appraisal and processing procedure. In situations where the PFI will fund a loan from its "own" resources, that is, from deposits, paid in capital, reserves and proceeds from the issuance of money instruments, the appraisal and processing procedure usually moves at a quick pace. But when the source of loan funding is a third party, and where the third party retains and exercises the right to conduct its own appraisal, the pace can slow down sharply. This has been the case with the CBE under Project Loan 518-T-058. And while it is true that in a number of instances, particularly in the case of the PFI "Financiera Guayaquil", appraisal and processing have gone smoothly, there are fundamental implementation weaknesses in documentation and personnel that have seriously hampered disbursements and have even discouraged PFIs from presenting loans for rediscount.

The project's greatest documented weakness is the absence of an adequate "Reglamento de Crédito" or Credit Implementation Guideline. The Reglamento de Crédito is an instructive from the Central Bank to the PFIs that sets forth the eligibility and feasibility criteria which must be met by a sub-project in order to obtain approval for a financing. To date, there is not an adequate Reglamento de Crédito for the Project and as a consequence there are no clear, explicit standards for PFI presentation of their loan application analyses or for Central Bank response. This tends to exacerbate the already considerable

differences of opinion that exist between PFI and CBE personnel concerning methods and skills employed in analysing and appraising projects.

From interviews with analysts and officers at both PFIs and at the CBE, it is clear that all of these personnel have the skills to perform decent loan appraisals and credit analyses. But for Project Loan 518-T-058, they are limited in their performance by two factors in addition to the lack of an adequate Reglamento de Crédito. First, appraisal and credit analysis for loans to non-traditional agricultural export undertakings in Ecuador is a relatively new field, by definition. Such appraisal and analysis requires a combination of skills and experience found among only very few analysts and officers at either the PFIs or the CBE. Second, and much more important, is the fact alluded to earlier, that personnel from the PFIs and from the CBE have an abiding distrust for each other, founded on their belief that the others are not competent to perform proper loan appraisal and credit analysis. As a consequence of these weaknesses, then, it is small wonder that loan disbursements have been slow and that new proposals for rediscount from more PFIs are not in evidence.

3. Post Disbursement

Another weakness of PFIs is seen in post-disbursement follow-up. All PFIs have supervisory/monitoring programs to keep abreast of borrower performance in general and of the use of loan monies in particular. But these programs vary widely, their implementation is often faulty or not even undertaken and, under Project Loans such as 518-T-048, they are rarely, if ever, coordinated with follow-up programs by the CBE. Nor do the PFIs and the CBE have common standards for monitoring, reviewing, and/or reacting to loan performance.

4. Other PFIs

A final note concerning PFI participation in the project concerns the fact that only two PFIs have been involved and that both are finance companies (financieras).

While lack of greater PFI involvement in the Project has been due chiefly to the reasons already given, the problem is also partly attributable to the fact that primary emphasis was placed on involving financieras in the Project. There was little consideration of alternatives. It is true that financieras, as term lenders, are appropriate PFIs, but this does not mean that other financial institutions cannot or will not do term lending for non-traditional agricultural export undertakings. Specifically, the Project's managers and others have perhaps not had adequate contact with commercial banks or with other financieras or, in particular, with the Corporación Financiera

Nacional (CFN). CFN is a public sector, autonomous development finance company. It has the liquidity, counterpart fund availability, loan identification, analysis and appraisal skills to effectively participate in the Project as a PFI. (Its officers have also expressed keen interest in having CFN become associated with the Project.)

ANNEX C

EVALUATION OF THE PERFORMANCE OF THE INSTITUTIONAL FRAMEWORK USED TO CARRY OUT THE IMPLEMENTATION OF THE NON-TRADITIONAL AGRICULTURAL EXPORTS PROJECT

I. CONCLUSIONS

Despite the fact that most of the outputs of the project have been completed, the stated purpose as measured by an increase of \$63 million in the value of non-traditional agricultural exports over a three-year period, has not been accomplished. The actual, accumulated value for the three years (85-87) falls well below the target. There is ample evidence that the project is working its way towards the objective. However, it should not be expected that the project is going to get there without first making adjustments to the original Project design, which, it is now evident, overestimated the capacity to generate exports in such a short period of time.

The institutional framework used to carry out the implementation of the Project has performed reasonably well, in some cases better than expected. Such is the case of the Advisory Board. It continued to meet regularly even after USAID practically withdrew from the scene as a result of the departure of the Project Manager and the Agribusiness Adviser in or around July, 1987.

USAID has done a good job in starting up and establishing the Project, also in creating a functional institutional framework and building up technical know-how where there was none. It has failed, however, to properly monitor the activities of the Project, allowing it to nearly come to a complete stop.

The Credit mechanism did not work well, notwithstanding the fact that more than \$4.5 million has been disbursed. The problems between the Central Bank and USAID about interest rates, counterpart funds, and disbursements; between the Central Bank and the PFI's about overdrafts, the quality of the analyses performed in projects, etc.; and between the Private Financial Intermediaries and the clients about delays in disbursements, all caused interminable delays, complaints, and unrest to all involved. USAID's excessive use of Amendments and Implementation Letters to solve the problems, added more confusion to an already confusing situation.

ANDE and FEDEXPOR have performed quite well doing what the project expected of them. FEDEXPOR, however, has relied heavily on the actions of one person, its Executive Director. In doing so, FEDEXPOR has failed to build so far the kind of organization that would be needed in the future to continue the actions of the

Project without USAID financial assistance.

The Project seems to be stalled at this time. Despite the important gains made in the past few years, there are signs that a plateau has been reached. It will be hard to move ahead due to the limited technical knowledge of the Ecuadorean executives about where and how the project should proceed in the future. Unless timely external technical assistance is provided the possibility is quite real that the project will come to a complete stop.

II. RECOMMENDATIONS

The implementation of the Project should be continued with adjustments to the original design. The new design should determine the new PACD. The adjustments should be made before the current PACD expires on June 30, 1988.

The new design should consider leaving the current institutional framework serving the project unchanged, with the exception of the Central Bank and the Private Financial Intermediaries, whose participation in the future should be weighed carefully. A few adjustments should be made however, to strengthen it technically and operationally, so that it can function more efficiently and in a self-sustaining manner in the future. To strengthen the institutions technically and operationally, including some selected clients, the new design should consider providing the assistance of two long-term advisors, a production/marketing specialist and a management specialist. Both should be contracted for the duration of the project. (See Annex 1)

The management of the project should be strengthened by giving the Advisory Board not only the authority to coordinate the actions of all the participating institutions but also the authority to approve the workplans and budgets submitted by the implementing agencies, monitor progress during implementation, and make decisions about important matters affecting the project. This authority should be further strengthened by broadening the membership of the Board by adding important institutions of the private and public sectors that have not yet had a relationship with the Project but whose contribution would be useful.

The USAID role in the project should also be examined carefully in the new design. At this time, the Office of the Private Sector is not yet well equipped technically and operationally to handle the project without some assistance from external technical specialists. To resolve this weakness, USAID should contract technical assistance to redesign the project as soon as possible. The same team should also be asked to install a monitoring system for the project in the Private Sector Office. The system installed would allow the PSO to have control of the

project at all times using the right progress indicators.

The credit mechanism must be strengthened and streamlined. To do that, the norms contained in the current Subsidiary Agreements must be clarified substantially and others should be introduced to establish and standardize the methodologies recommended to prepare, analyze, evaluate, and monitor projects. Additionally, mechanisms for disbursement of funds from USAID down to the ultimate recipient must be simplified and shortened. These tasks require designing, negotiating, and establishing the new agreement, then training people to apply it correctly. To carry out the first three tasks just mentioned, the project needs two man/months of short-term technical assistance that should be contracted as soon as possible as part of the redesign team. Training can be assigned to the recommended long-term management consultant.

In order to ensure that FEDEXPOR becomes institutionally, technically and economically capable and self sustaining, it is important for the new project design to include sufficient technical assistance to help FEDEXPOR strengthen its capacity to analyze market information, process and disseminate production and marketing information, and establish a permanent capacity to analyze policies in-house or with the help of consultants.

III. RESULTS ACCOMPLISHED WITH THE IMPLEMENTATION OF THE PROJECT

As of March, 1988 the Project had accomplished the following results:

A. In General

By means of information dissemination, word-of-mouth, and demonstration effect, the project has become a well-known entity in Ecuador owing to its potential to serve as an instrument for generating higher incomes for investors in the agricultural and agroindustrial sectors and foreign exchange for the country. The project has raised the awareness of the public, agricultural and agroindustrial institutions, private organizations, and businessmen about Ecuador's potential to produce and industrialize non-traditional agricultural products for export, particularly from the Sierra.

The project has changed the general negative perception by the government and people of "exporters". It is now widely accepted that anybody who has the will, the know-how, and the product-to-sell, can become an exporter. This explains why there has been a surge of small and medium entrepreneurs looking for opportunities to get into in the non-traditional agricultural and agroindustrial export activities. Without trying, the project has made it very attractive for professionals working in other disciplines to enter non-traditional agricultural and

agroindustrial export activities due to its potential for higher earnings.

B. In Relation to the Projected Output Targets

1. FEDEXPOR'S Outputs

a. TARGET: "A self-financed computerized trade and investment intermediation service" (Information System). FEDEXPOR has not established a computerized trade and investment intermediation service. FEDEXPOR has established a computerized information system with the assistance of a short-term external consultant and a full-time Ecuadorean systems analyst. The system is not yet technically ready, however, to produce information to become self-financed.

The computerized information system consists of four microcomputers not yet inter-linked. Two of them, an IBM XT and an IBM AT, have been installed in FEDEXPOR's Central Office in Quito; one IBM XT in the Regional Office in Guayaquil; and one IBM XT in the office of the Wood Manufacturers Association (AIMA.) The System uses Lotus 1-2-3, dBase, and Word Perfect software.

The system allows retrieval of processed information that can be used directly and information used as reference to locate the client's needs in FEDEXPOR's Technical Library.

The following illustrates some of the titles that have been stored in the System:

- Estadísticas de Exportación
- Directorio de Exportadores del Ecuador
- Directorio de Afiliados a FEDEXPOR
- Directorio de Importadores
- Sistema Bibliográfico de Información de Comercio Exterior
- Sistema de Contabilidad General
- Sistema de Información y Seguimiento con DEVRES
- Sistema de Demandas de Productos Ecuatorianos en el Exterior
- Servicio de Regulaciones Internas de Comercio Exterior
- Perfiles de Mercado de 21 Productos (Frutas y Vegetales)
- Creación de Archivos de Precios de Flores Naturales en Florida
- Creación de Archivos de Volúmenes de Importación de Flores Naturales en EE.UU.
- Creación de Archivos de Precios de Frutas y Vegetales en Nueva York
- Cuadros Estadísticos Varios
- Regulaciones Expedidas en el Acuerdo de Cartagena
- Empresas Afiliadas y el Certificado de Abono Tributario (C.A.T.)

- Otros (Proyecciones, Estadísticas, etc.)

The information system established by FEDEXPOR is intended to provide marketing, technical assistance, and financing information to users. At this time, the system can satisfy some requests for information but it is not yet in a position to satisfy requests for outputs that require sophisticated analysis and formats with adequate visual appearance. To consolidate the work already done in this area, it is important to continue updating and completing the files. It is even more important to start programming appropriate formats for the outputs. This is a complex and time-consuming job that requires the assistance of an specialist. The new design of the Project should make available the services of an agricultural advisor with experience in computer information processing and distribution.

b. TARGET: "A series of six trade workshops, bringing together Ecuadorean agribusiness and foreign and national experts." FEDEXPOR sponsored the following four workshops:

- o "Estrategias de Exportación" Held on July 15-18, 1985
Participants: 55 from Guayaquil, Manta, Quito, Machala and Ambato.
Instructors: INCAE
- o "Normas y Técnicas para exportar a los EE.UU. productos agrícolas y agroindustriales" Held on March 11-14, 1986
Participants: 45
Instructors: US Dept. of Agriculture (APHIS) (PPQ) and US Customs Officials.
- o "Alimentos enlatados, principios de control de procesamiento térmico, acidificación, y evaluación de los cierres de los envases" Held on December 1-5, 1986
Participants: 60
Instructors: University of Puerto Rico
- o "Técnicas de post-cosecha y manipuleo de productos perecibles para la exportación" Held on July 22-24, 1987
Participants: 52
Instructors: William Bolton and George Wilson

Evaluations of these workshops show positive results. Most participants thought the workshops were useful and gave high marks to the majority of the participating instructors. FEDEXPOR still needs to carry out two more workshops to meet the target established by the project. One of them is scheduled to take place on April 11-13 in Guayaquil. The topic: "Industrialización de Frutas y Vegetales."

c. TARGET: "27 Trade and Investment Missions between

Ecuador and the U.S."

FEDEXPOR sponsored 12 commercial missions, two to countries of Latin America, one to Puerto Rico, and nine to the U.S.A. A total of 46 people from the private and public agricultural sectors of Ecuador participated. The list of Missions is as follows:

- Misión Comercial a Chile (Visit to PROCHILE)
- Misión Empresarial a Miami (Flowers, Fruits & Veg.)
- Misión Empresarial a New Orleans (CBI)
- Misión Empresarial a San Francisco and Los Angeles (Fruits and Vegetables/Produce Marketing Corp.)
- Misión a EE.UU. (Leon Febres' visit)
- Misión Empresarial a New Orleans (U.F.F.V.A.)
- Misión a Washington, D.C. (DEVRES)
- Misión a Puerto Rico (CBI and Technolog.Inst.P.R.)
- Misión a New Jersey (Visit to Rutgers University)
- Misión a Orlando (Feria U.F.F.V.A.)
- Misión a Costa Rica y Guatemala (Non-Trad. Prod.)
- Misión a Houston (Feria U.F.F.V.A.)

There is no hard evidence to substantiate the real usefulness of these missions, but several people who traveled were very impressed with the results. Visits to Puerto Rico, Guatemala, California, and New Jersey, for instance, were highly praised.

This information indicates that the program of visits is less than 50% completed with respect to the original target and that no missions have come from the United States to Ecuador as was expected by the project. No further visits should be programed until the project's current design has been adjusted.

d. TARGET: "At least three major analyses of public policies relating to export promotion, and strengthened private-sector efforts to advocate improved policies"

FEDEXPOR commissioned the preparation of three studies to deal with important problems affecting the exporters of non-traditional agricultural and agroindustrial products.

- o "Encuesta de Opinión sobre las medidas económicas del 11 de agosto de 1986." by asesor Consultoría.
- o "Análisis de la Problemática de las Exportaciones de Productos No Tradicionales del Ecuador." by Eco. Rodrigo Orbe/CENDES
- o "Propuesta de Alternativas al Problema Cambiario Actual del Ecuador." Nov. '87 by Colegio de Economistas de Quito.

These and other works have served FEDEXPOR to acquire important knowledge to advance informed opinions about the problems affecting the business of exporting. As a result, FEDEXPOR has become influential in governmental policy-making in favor of the exporters. Some areas of policy in which FEDEXPOR has been influential in Government decisions are cited here:

- o In 1986 FEDEXPOR's influence contributed to the Government's decision to free foreign exchange transactions from government controls. This measure, allowing exporters to use the private banking system to carry out their foreign exchange transactions, greatly favored them.
- o In 1985 FEDEXPOR's influence contributed to the Government's decision not to terminate FOPEX. FOPEX is a subsidized credit mechanism that allows exporters to finance their pre and post shipment costs at preferential interest rates.
- o In March 1988, FEDEXPOR's influence contributed to the Government's decision to let exporters value exports made before March 3, 1988 at the rate of exchange of the free market and not at the official rate of exchange which was almost 30% below.

FEDEXPOR's current influence in Government's policy decisions regarding exporters is not all of it due to the project, but there is no question that the project has been instrumental in increasing it substantially. Besides policy, FEDEXPOR is also influential in important forums presided by the highest authorities of Government. Some of them, of which FEDEXPOR is a permanent member, are: "Comité Administrador de Abono Tributario;" "Comisión Asesora de Comercio Exterior;" "Comisión Interinstitucional de Envase y Embalaje;" "Comisión Interinstitucional de Transporte;" and other forums to which FEDEXPOR is invited to participate such as international gatherings, and mixed government-private sector commissions.

Despite the successes just described FEDEXPOR does not yet have the capacity to analyze policy in-house as envisioned in the original project design. Most of the work FEDEXPOR does in this area is done by outside consultants or by the deputy executive director. He is a very able economist, but lacks the time to dedicate himself to it fulltime. The adjustments to be made in the project's original design should take into account the convenience of establishing such in-house capability in FEDEXPOR. This consultant believes it would be more cost-effective for FEDEXPOR to buy the services elsewhere than to establish its own capacity to analyze policy in-house.

e. TARGET: "Financing of at least 30 pre-investment studies for export-oriented projects undertaken by private firms."

FEDEXPOR has approved 11 requests for financing of pre-investment studies undertaken by private entrepreneurs. (See Annex 3.) The total amount financed to date is approximately \$140,000. Since the initial fund of \$300,000 for this purpose was reduced to \$134,000 by USAID, the only funds available to continue financing pre-investment studies are those coming from repayments. Most of the studies financed fall under two categories, flowers and fruits and vegetables. The majority of the studies financed were later implemented.

These targets were the specific outputs the project expected FEDEXPOR to produce. In the process of producing them, FEDEXPOR also completed the following additional tasks:

- Provision of technical assistance on seven occasions to non-traditional agricultural and agroindustrial producers who needed inputs and production and marketing technologies. Foreign and national specialists were contracted to carry out these events.
- Promotion of more than 16 new products in foreign markets such as Canada, United States, and Japan.
- Active promotion of the project through publicity by means of brochures, newspaper articles, monthly bulletins, newsletters, posters, and TV appearances.
- Training of four Commercial Attachés serving in Germany, Chile, Spain and Brazil.
- Diverse types of assistance to approximately 56 firms, organizations, and institutions.

2. ANDE's Outputs

a. TARGET: "Approximately eight strategic-level studies of international prospects for Ecuadorean agribusiness products which have high export potential. These and other ongoing studies are expected to lead to ten "model" feasibility studies to promote certain specific products."

ANDE has sponsored and monitored the execution of fourteen strategic studies, two feasibility studies, and four "model" feasibility studies of agribusiness products with export potential. Additionally, it has produced very useful cost analysis studies for Quinoa, Arveja China, Mora, and Frambuesa. Eight of the studies were prepared by U.S. firms and sixteen by Ecuadorean firms or individual consultants. All were contracted

and their work supervised by ANDE.

The number of "model" studies produced falls short from the target, however, this reduction had been agreed to by ANDE and USAID due to budget restrictions.

The studies prepared correspond to export-oriented products for which markets existed, were detected by the project, or where there was a marked interest on the part of agribusiness exporters. Two "model" studies for instance, were prepared in response to interest from The Sheep Husbandry Association and from a Dairy Plant. In the case of the latter, the study gave rise to a new agribusiness product called "Sustileche" which is a milk substitute.

The process of selecting the products for study appears to have been very involved. First, a selection of 40 products with export potential including flowers, fruits and vegetables, medicinal herbs, spices, dairy products, and fishery products was made. Second, a brief production and market study was conducted to analyze the potential for each one. Third, the 40 products were grouped into eight product groups. Fourth, ten products were selected. These became the objects of feasibility studies. Results of the studies were made public by ANDE. Agribusiness firms, agricultural associations, and individuals responded with interest and requests for more information. As a result of the studies five producers associations were formed: Esparragos, Quinoa, Mora and Frambuesa, Arveja China, and Babaco and Tomate de Arbol. Also, an industrial association to produce packing material for exports.

In sum, ANDE's participation in the production of the studies can be said to have been beneficial to the project. ANDE's ability to reach a wide audience of potential exporters, among them agricultural associations with thousands of members, makes it easier for the project to disseminate the results of any study. This has contributed greatly to the good image the project has projected in Ecuador.

b) TARGET: "A private sector agribusiness Advisory Board to facilitate improved communication among sector leaders, the GOE, and USAID, particularly on important issues affecting agribusiness and agribusiness exports."

Four months after the project officially started, ANDE formed the Advisory Board to facilitate improved communication among leaders of the private and public sectors, USAID, and the Project. Board Members selected were ANDE, FEDEXPOR, chambers of agriculture, chambers of industry, Ministry of Agriculture, and the Private Financial Intermediaries participating in the Project. The representative of USAID became an Adviser to the Board. Later, the Ministry of Industry, the Central Bank, and

the Ministry of Foreign Relations became members. To date, the Advisory Board has met on 41 occasions, 36 times in Quito, and 5 in Guayaquil. ANDE served as the General Secretary of the Board.

The main functions of the Board have been to coordinate the actions of the institutions participating in the implementation of the project and to establish fluid communication between the private and public sectors involved in or related to non-traditional exports activities. The Advisory Board carried out its functions in the facilities provided by ANDE and was assisted by a "Working Group" created by the Board to analyze specific aspects of the project for which it needed alternatives and recommendations. The working group was made up of substitute members of the Board, who were chosen in relation to the subjects to be analyzed. The working group met on 150 occasions during the life of the Project.

Based on the opinions of the people and institutions which participated in the Project and on my own observations of the work performed by the Advisory Board, it can be said that the Advisory Board did an excellent job of coordination and, more importantly, of giving direction to the Project. In the future the Board should be expanded to include selectively the institutions that have a relation with the non-traditional agricultural exports sector. Moreover, its authority should be upgraded to be able to approve workplans, budgets, and monitor the actions of the implementing agencies of the Project.

3. Central Bank's Outputs

a. TARGET: "A line of credit to help finance approximately 27 export-oriented agribusiness projects with an average total value of \$220,000 each."

The Central Bank of Ecuador, acting on behalf of the Ministry of Finance, established the Investment Credit Facility to provide credit to export-oriented agribusiness projects. The initial capital was supposed to consist of \$4,000,000 provided by a loan from USAID and \$2,000,000 by the counterpart contribution of the Government. In 1986 USAID increased the loan to \$8,000,000. The Government's only contribution has been S/.200,000,000. (equivalent to \$500,000 at the current rate of exchange in the free market.)

To date, 22 projects have been financed with an average value of \$210,000 each. A total of \$4,617,499 has been disbursed from USAID loan funds and S/.20,000,000 from the GOE counterpart funds.

The Investment Credit Facility has been inoperative since early 1987 due to disagreements between USAID and the Central Bank about the amount and use of counterpart funds and the level

of interest rates. See the Annex B of this report, Evaluation of Financial Aspects of the Project for more details on the subject.

The operation of this line of credit has not been very fluid. It has had many problems and delays in the past and continues to discredit the well-deserved reputation of the project. The investment credit facility should be examined carefully during the redesign of the Project.

C. In Relation to their Contribution to the Achievement of the Project Purpose

The purpose of the project, as defined by its measure of achievement, namely an increase of \$63 million in the cumulative value of non-traditional agricultural exports over a three-year period, has not been accomplished. Since the outputs of the project have been completed successfully with the possible exception of the Investment Credit Facility, not achieving the purpose means that the outputs and the purpose were not sufficiently interrelated. This indicates a failure in the project's original design. Either the purpose's measure of achievement was overestimated or the outputs were insufficient or irrelevant for the accomplishment of the purpose. The project's original design should undergo an adjustment.

IV. COMPOSITION AND PERFORMANCE OF THE INSTITUTIONAL FRAMEWORK USED TO CARRY OUT THE IMPLEMENTATION OF THE PROJECT

The institutional framework of a project is defined most often by its separate components. Usually they are: the target-sector in which the project takes place; the legal environment which sets the rules of the game; the target-beneficiaries; the participant institutions; and the management.

The Institutional Framework of the Project under evaluation is made up of the following separate components:

A. The Target Sector

The target-sector selected for impact by the project has been the non-traditional agricultural sector. Such sector is currently better defined in terms of its exports than in terms of composition and such characteristics as investment, value added, and employment. Statistics about the sector vary substantially from one source to another. This leaves no other alternative but to use those of the Central Bank, which are the most widely accepted by the private and public sectors of Ecuador.

According to Central Bank statistics, non-traditional agricultural exports represented 0.7% of all exports in 1984 and 1.0% in 1987. Compared to agricultural exports, it represented 4.0% in 1984 and 3.5% in 1987. The following table illustrates

these relationships.

EXPORTS	1984	1987
Total Exports (US\$000)	2,463,950	1,905,512
Agricultural Exports	423,283	565,440
Non-traditional Agric. Exports	17,337	19,655

There isn't any way of knowing what the level of non-traditional agricultural exports will be in the future but knowledgeable people consulted indicated that, as a result of the actions generated by the project, important increases would occur, way above the 13% registered during the period 1984-87.

Almost all of the non-traditional agricultural export activities taking place in the country are the result of influence of the project (with the exception of the shrimp activities.)

B. Legal Environment

The implementation of the project took place within the guidelines set out by the following legal instruments:

1. Laws Governing the Agreements

"General Agreement for economic, technical and related assistance between the Government of the United States of America and the Government of the Republic of Ecuador." Signed: April 17, 1962. Published in the Official Register No. 143, dated April 27, 1962.

"Foreign Assistance Act of 1961"

2. Decrees

"Decree No. 122." Published in the Official Register No. 27, dated September 18, 1984. By which, the Ministry of Finance accepted a Loan of \$4,000,000 from USAID for purposes of the Project.

"Decree No. 2165." Published in the Official Register No. 561, dated August 29, 1986. By which, the Ministry of Finance accepted an additional \$4,000,000 loan from USAID for purposes of the Project.

3. Agreements and Amendments

"Loan Agreement No. 518-T-058" dated September 18, 1984. Approved the use of \$2,000,000 and set PACD September 30, 1987. Was amended four times as follows:

First Amendment: September 28, 1984. Authorized the use of up to \$4,000,000 of loan funds.

Second Amendment: August 31, 1986. Authorized the use of up to \$6,400,000 of loan funds and the exchange of loan resources at the highest available free market rate.

Third Amendment: June 8, 1987. Deleted Annex 1 and substituted a new one for it.

Fourth Amendment: July 23, 1987. Authorized the use of up to \$7,500,000 of loan funds and indicated an additional \$500,000 could be available.

"Grant Agreement with ANDE No. 518-0019-G-00-4120-00" dated August 31, 1984. Approved the Grant for \$400,000 but authorized the use of up to \$230,000. Set PACD July 31, 1986. Was amended four times as follows:

First Amendment: September 26, 1984. Authorized the establishment of the Advisory Board and increased the grant and the authorized use of the grant by \$10,000 to \$240,000.

Second Amendment: May 19, 1986. Extended the final contribution date for the \$410,000 to July 31, 1987.

Third Amendment: Extended the expiration date to September 30, 1987.

Fourth Amendment: Extended the expiration date to April 30, 1988.

"Grant Agreement with FEDEXPOR No. 518-0019-G-00-4119-00" dated September 11, 1984. Approved a Grant for \$800,000; set the PACD to September 30, 1987 and authorized the use of the grant up to \$223,000. Was amended six times as follows:

First Amendment: December 18, 1984. Established a Reimbursable Fund of \$300,000 to finance project feasibility studies. This increased the authorized use of grant funds to \$523,000.

Second Amendment: May 19, 1986. Authorized the use of grant funds up to \$643,000.

Third Amendment: June 30, 1986. Increased the amount of the

grant by \$43,000 to finance more policy analysis studies and authorized the use of grant funds up to \$843,000.

Fourth Amendment: February 27, 1987. Authorized FEDEXPOR to conduct evaluations of all the Private Financial Institutions participating in the Project with the purpose of channeling the \$300,000 seed capital approved to finance private-sector project feasibility studies.

Fifth Amendment: August 25, 1987. Extended the PACD to April 30, 1988; reduced the amount in the Reimbursable Fund to \$144,000, and changed the grant no. to the original number.

Sixth Amendment: January 25, 1988. Deleted Annex C-1 and substituted it for a new one with a revised budget. (Internal line category changes only)

"Grant Agreement with FEDEXPOR No. 518-0640-G-00-6081-00" dated May 8, 1986. To upgrade technical skills of six individuals through training in United States territories. Approved \$50,000 and set the PACD December 31, 1989. "Grant Agreement with FEDEXPOR No. 518-0005-G-00-5097-00" dated August 29, 1985. To support Foreign Investment Promotion Studies. Approved \$26,275 and set the PACD December 31, 1985. Was amended four times as follows:

First Amendment: November 18, 1985. Increased the Grant to \$33,275 and extended PACD to February 28, 1986.

Second Amendment: January 6, 1986. Extended PACD to March 31, 1986.

Third Amendment: March 11, 1986. Increased the Grant to \$53,275; extended the PACD to March 31, 1987.

Fourth Amendment: August 11, 1986. Increased the Grant to \$61,675 to assist AIMA to develop new markets.

4. Subsidiary Agreements

Seven subsidiary agreements were signed between the Central Bank and the participating Private Financial Institutions. The Agreements were signed during the period September-November, 1985.

5. Project Implementation Letters

USAID implemented the Loan Agreement with the help of 27 Project Implementation Letters (PIL's.) A list with dates and purpose of each letter is shown in Annex 8.

6. Contract of Fiscal and Financial Agency

The Ministry of Finance signed a Contract of Fiscal and Financial Agency on January 17, 1985 authorizing the Central Bank of Ecuador to implement the Investment Credit Facility of the Project. Recently, an Addendum was added to it extending the Ministry's authorization to operate the line of credit.

7. Legal Opinion of the Attorney General

By Official Letter No. 073602, dated September 10, 1984 the Attorney General of Ecuador (Procurador General de Estado) certified the Project Agreement between the Government of Ecuador and USAID.

These were the most important instruments that constituted the Legal Environment of the Project. Abundance of legal instruments to implement a project is not uncommon, but, in the case of this particular project, the number of amendments to the agreements and the number of PIL's used, as can be seen in this description, exceeded any acceptable norms for this type of endeavor. In order to continue with the implementation of the Project, old instruments should be eliminated and new ground rules should be established.

C. Target Beneficiaries

In practice, the project benefited the following:

1. Private Sector Organizations

The Project strengthened the capacity of ANDE and FEDEXPOR to channel services and information to the agribusiness sector and to promote improved policy-making and planning in the public sector. Both were in charge of implementing important components of the project. As a result, each organization is perceived to be today institutionally and operationally stronger than it was before the project started. Their current levels of technical knowledge, expertise and influence in matters relating to non-traditional agricultural exports is readily apparent and contrasts very favorably with the little technical knowledge, expertise and influence each institution was known to have at the time the Project began.

Through the actions of the project ANDE has acquired skills in strategic planning, project design, project promotion and project management, and has turned into an important source of information about non-traditional agricultural and agroindustrial projects and products for users such as MAG, MICIP, Central Bank, agroindustrial firms, entrepreneurs, agricultural chambers, agricultural associations, and individual farmers.

FEDEXPOR, on the other hand, has become an able and active

promoter of non-traditional agricultural and agroindustrial exports and the most important supplier of external marketing information in the country. Additionally, FEDEXPOR has become an effective and influential voice in government circles in matters relating to policy-making which affect exporters of non-traditional agricultural and agroindustrial products.

2. Agricultural and Agroindustrial Firms

No statistics are readily available to demonstrate quantitatively how many agricultural and agroindustrial firms have benefited by the project thus far, but there is sufficient evidence to indicate that as a result of the project, a large number of firms oriented to the production and export of non-traditional products has benefited from technical advice, external market information, improved inputs, and general and specific information on topics related to non-traditional agricultural and agroindustrial exports. Areas of the project in which statistics are available indicate that approximately 28 firms have directly benefited from pre-investment and investment credit, and more than 56 have benefited from technical assistance provided by FEDEXPOR.

3. Public Sector Institutions

There is evidence that the Project benefited some institutions of the public sector such as: the Ministry of Agriculture; the Ministry of Industry; the Ministry of Foreign Relations; and the Central Bank of Ecuador.

The Ministry of Agriculture, for example, indicates that it benefited by the information it was able to acquire through its representative to the Advisory Board. Important discussions about non-traditional agricultural and agroindustrial exports took place at meetings concerning activities of the project, such as: the studies ANDE was sponsoring; the external markets FEDEXPOR was exploring; and the projects private agricultural and agroindustrial firms were implementing. The Ministry admits that the knowledge acquired in that fashion was later used to shape the policies of the sector accordingly and to program its technical assistance activities in the area of production of non-traditional agricultural products.

The Ministry of Industry and the Ministry of Foreign Relations benefited from the training FEDEXPOR gave to commercial attaches in matters relating to non-traditional agricultural and agroindustrial exports. Several commercial attaches serving abroad are now using these skills to transmit to their respective Ministries of Industry, Foreign Relations and Agriculture important marketing information on foreign markets. In turn, the information is passed on to interested parties who request it.

The Central Bank of Ecuador also indicated that it had benefited from the implementation of the Project, acquiring knowledge about the potential of the non-traditional agricultural and agroindustrial sector to generate foreign exchange for the country. This was an area where they had had very little knowledge before the project.

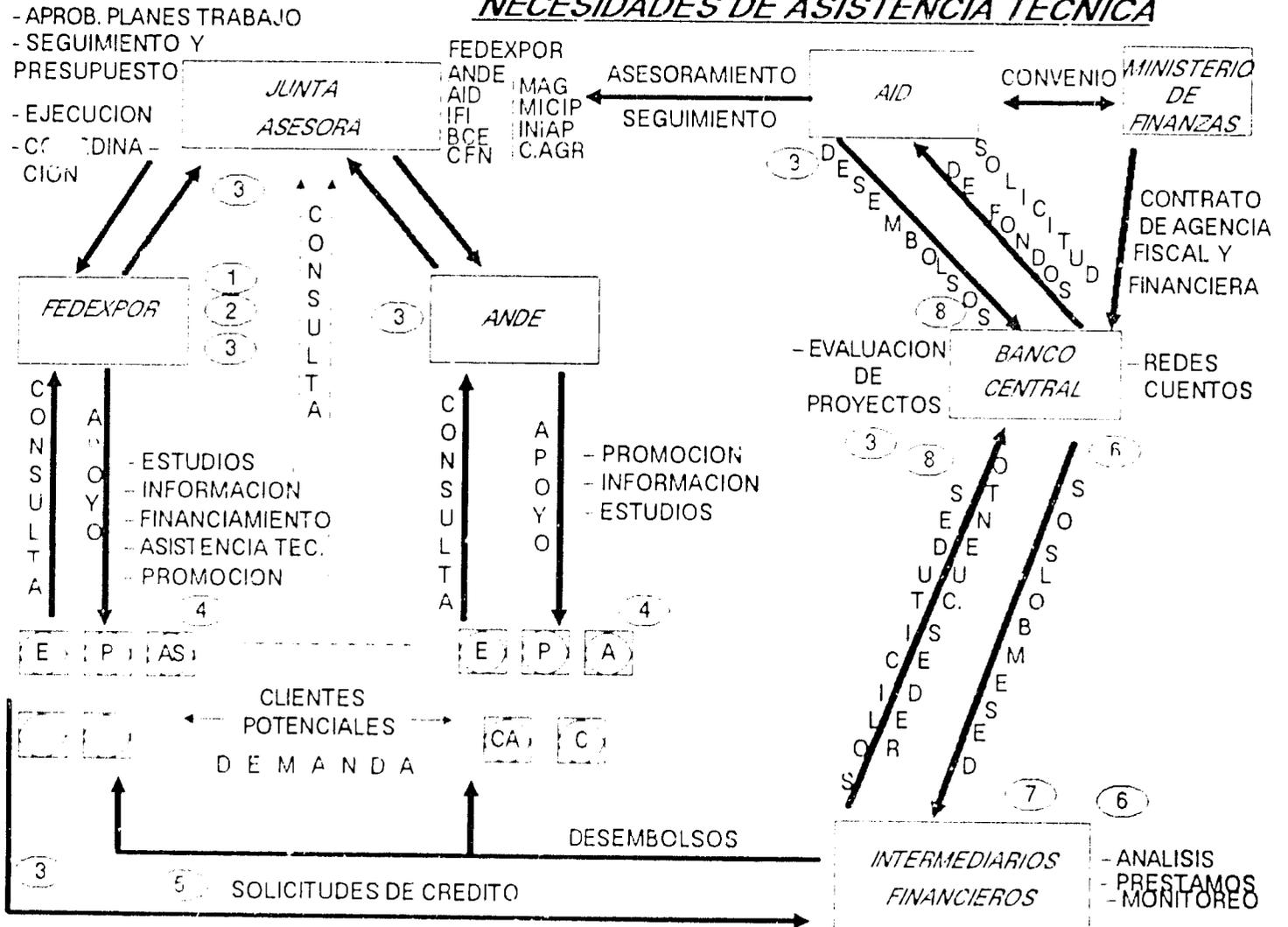
4. Agroindustrial Workers and Farm Laborers

Statistics gathered to support the evaluation indicate that approximately 500 people have benefited from full-time and full-time-equivalent jobs. There is no information available, however, to be able to tell how many of those benefited were agroindustrial workers and how many were farm laborers. There are indications that most of those favored were farm laborers.

In view of this discussion, it can be said that the project did reach its intended target beneficiaries.

In order to avoid the possibility of conflicting future interpretations about project beneficiaries, it is important that the intended beneficiaries be defined better and more accurately. Also, it is important to start keeping good records about the numbers and the socioeconomic characteristics of the workers and farmers who will be benefiting from the project in the future.

MARCO INSTITUCIONAL DEL PROYECTO Y NECESIDADES DE ASISTENCIA TECNICA



NECESIDADES DE ASISTENCIA TECNICA

- 1 ANALISIS DE INFORMACION DE MERCADO
- 2 DIFUSION DE INFORMACION DE MERCADO
- 3 FORTALECIMIENTO INSTITUCIONAL Y GERENCIAL
- 4 PRODUCCION Y MERCADEO
- 5 PREPARACION DE PROYECTOS
- 6 EVALUACION DE PROYECTOS
- 7 PREPARACION DE REGLAMENTO DE CREDITO Y ESTABLECIMIENTO DE MECANISMOS Y PROCEDIMIENTOS
- 8 SIMPLIFICACION DE MECANISMOS DE DESEMBOLSOS

No.	DURACION
1	6 m/mo
1	4 m/mo
1	24 m/mo
1	24 m/mo
-	
-	
1	2 m/mo
-	

NOTAS:

1. Esta A.T. Comenzaria en Junio, 1988, con excepcion de la (7) que deberia comenzar inmediatamente.
2. La A.T. (5) y (6) seria hecha por el especialista a largo plazo (3).
3. La A.T. (8) seria hecha por el especialista (7).

By: R.E. Diez

D. Participating Institutions

The institutions that have participated in the implementation of the project are the following:

1. Private Sector

a. FEDEXPOR

FEDEXPOR is a private institution founded in April of 1976 by a group of exporters from the mountain and coastal regions. It is organized as a federation to serve members through the performance of the following functions:

Cooperate with entrepreneurs to achieve diversification of exports and seek new export opportunities

Promote improvements in the level of technical proficiency for production of export products

Obtain from the Government the adoption of genuine incentive policies for export activities

Promote the enactment of legislation that will regulate and facilitate export activities

To comply with those tasks FEDEXPOR has an organizational structure comprised of a Membership Assembly, a Board of Directors, an Executive Director, a Deputy Executive Director, a Department of Automated Information, and an Administrative Department.

FEDEXPOR coordinates its activities through two offices, its headquarters in Quito in charge of the mountain region affairs and the Guayaquil regional office which handles coastal matters. In Quito there are two executives, one consultant, assistant to the executive director, one accountant (part-time), three secretaries and two janitors. In Guayaquil there are a regional director (part-time) and one secretary. Compared with the personnel roster of FEDEXPOR in 1984, prior to the initiation of the project, a slight increase can be noted, namely addition of the consultant, the programmer, the public relations officer and the assistant to the executive director. During the same period from 1984 to 1988 the number of members increased from 70 to 147.

Within the framework of its operations FEDEXPOR agreed with USAID in 1984 to implement two of the project components: establishment at FEDEXPOR of a computerized marketing information system for agricultural products and non-traditional industrial exports; and creation at FEDEXPOR of the necessary capacity for policy analysis that could be used to favorably influence the decision making process of Government authorities toward exports.

The result of the participation of FEDEXPOR in the implementation of these two components was analyzed to prepare this report. For the moment, it is only necessary to mention that their participation has been very important since FEDEXPOR was instrumental in making the project known and subsequently received the endorsement of exporting entrepreneurs at the national level.

FEDEXPOR'S work within the project consisted of the development of information about foreign markets for agricultural products and non-traditional agricultural industrial products. This work was carried out with the help of the consulting firm DEVRES, based in Miami. Simultaneously, FEDEXPOR undertook other tasks. It acquired seeds and seedlings, hired specialized technicians, provided loans for feasibility studies, held seminars, analyzed policies, and organized commercial missions and training abroad. The majority of these activities were carried out effectively by FEDEXPOR. Nevertheless, some doubt and criticism have arisen from without regarding possible bias manifested by FEDEXPOR authorities in the selection of project beneficiaries. The majority of those receiving support were members of the institution and mostly exporting entrepreneurs. In the future, it will be convenient for FEDEXPOR to expand its service audience to reach less affluent producers that want to become exporters but need help in order to do so.

b. ANDE

ANDE is an organization of private entrepreneurs (individuals or companies) founded in 1958. Its main functions are:

Study the socio-economic reality in Ecuador and define the responsibility of entrepreneurs within that context

Participate in the guidance and orientation of the economic development in the country

Reassess the role of the entrepreneur and private initiative so they can become contributing factors toward the development objectives of the country

Train the leaders of the private sector to improve efficiency and human relations, and build awareness about the need to implement changes in the economic structures in order to be able to serve better the interests of the community.

To abide by these mandates the organizational structure of ANDE features a membership assembly, a board of directors, an executive director, a technical and project's unit, and an administrative unit.

ANDE carries out its functions from its headquarters in Quito. Working there are the president, the executive director, one technical director, one assistant to the technical director, one auditor, two secretaries, one accountant, one administrative assistant and two janitors. Compared with the organization's structure in 1984, prior to the initiation of the project, ANDE has since added a technical and project unit and has increased its personal roster.

ANDE has its own offices well equipped with physical facilities to conduct meetings, assemblies, and courses, with the necessary sound, recording, projection and communications equipment, typing services, and a technical library. Since the beginning of its participation in the project, the number of members has increased from 90 to 130, most of them from the agricultural and agro-industrial sector.

In the course of executing its functions ANDE became involved first in the design stage of the project. Then, in 1984 in implementation through agreement with USAID. Its participation involved the implementation of the Planning Component and organization and operation of an Advisory Board.

The result of the participation of ANDE in the Project is analyzed elsewhere in this report. ANDE's participation was very important in coordinating the public and private institutions and entities disseminating information about the project among the entrepreneurial community, chambers of agriculture, agricultural centers, producer's associations, and independent agricultural producers.

The tasks carried out by ANDE within the project primarily involved coordination of the development of studies, coordination of the institutions participating in the project, and coordination of the producers. During this process ANDE coordinated the development of studies for 40 non-traditional agricultural products that were originally selected by USAID. Later on, it coordinated the classification of those products into eight groups, and in coordination with USAID and FEDEXPOR selected ten of the products and supervised the development of their pre-feasibility studies. Subsequently, ANDE was assigned to disseminate the studies' findings through press releases, meetings, and informal conferences in Guayaquil, Otavalo, and Riobamba. As a result of this dissemination effort emerged the establishment of working Producers Association of asparagus, quinoa, blueberries and strawberries, chinese beans, "babaco" and "tomate de arbol. ANDE provided just the necessary dissemination of the producers of studies in view of the great expectations generated and the obstacles encountered in providing credit the producers despite the existing freeze of the project credit line. Simultaneously, ANDE operated in a capacity of General Secretariat of the Board in the

coordination of all the tasks of the Work Group.

ANDE's role in undertaking these tasks within the project has been favorably praised by the entrepreneurs, producers, and representatives of the public and private organizations that have participated in the meeting of the Advisory Board and the Work Group. In view of the appreciations expressed, the efficiency with which ANDE acquired the information requested by the consultants, and the timeliness in organizing the assessment meeting with entrepreneurs, producers, agricultural chambers and representatives of the public sector, this consultant agrees with the positive comments expressed by Ecuadorean organizations and individuals regarding ANDE's capabilities.

c. Intermediate Financial Institutions

In the implementation of the credit component of the project, the Central Bank selected eight private financial institutions through which credit would be channelled to finance investments. They were: COFIEC, FINANDES, FINEC, FINIBER, FINANQUIL, FINANZA, and FINANSUR.

These are private financial institutions that makeup the financial and currency systems of Ecuador and are thereby subject to the dictates of the Currency Board and the Central Bank of Ecuador. They derive the majority of their resources (70% to 80%) from credit lines extended by the IDB, BIRF, CAF and AID. The rest of their resources are obtained through financial certificates, general and specific guaranteed bonds, and their own capital.

In September 1985, the Central Bank forwarded the subsidiary agreements to the financial institutions so that, once signed, they could begin to utilize a credit line of \$4,000,000. Only two of the financial institutions made use of the credit line: FINIBER and FINANQUIL.

FINIBER used the credit line in 15 occasions for different sub-projects for a total of \$3,102,823. FINANQUIL used the credit line in 7 occasions for a total of \$1,514,676. To date, the credit line has financed a total of \$4,617,499 with resources from the USAID loan and s/.20,000,000 of matching funds from the Government.

The role played by the financial institutions which have participated in the Project has been important, though not convincing. On the one hand, they are able, at first instance, to allocate the total amount provided by the USAID loan; but on the other, they experienced innumerable administrative and methodological weaknesses in the management of subcontracted loans.

Due to conditions relevant to the currency and foreign exchange policies of the country which affected the subcontracted loans, along with the emergence of disagreements between USAID and the country, the financial institutions have been forced to temporarily cease all participation in the management of the credit line of the project. An additional loan of \$4,000,000 from the USAID is still available.

2. Public Sector

a. Central Bank of Ecuador

The Ministry of Finance of Ecuador charged the Central Bank, through an Agreement of Fiscal and Financial Agency dated January 17, 1985, with the implementation of the credit component of the project.

The Central Bank of Ecuador is a public entity which rules the financial and banking system in the country and is subject to the dictates of the Currency Board. It has ample experience in the management of credit lines from the IDB, BIRF, CAF and other international organizations.

To carry out the ordinance from the Ministry of Finance, the Central Bank of Ecuador, in accordance with the agreement drawn between the USAID and the country, established the implementation unit within its analytical section in the Foreign Credit Department of the Deputy General Manager for Credit, and forwarded to the USAID April 11, 1985, for its approval, the operations, procedures, which comprised a commercial law, a billing plan, and the accountant's register for the credit line. In addition, it also forwarded the subsidiary agreement project between the Central Bank and the financial institutions that would participate in the project.

Once the subsidiary agreements were reviewed by the USAID, the Central Bank forwarded them on September 18, 1985 to the eight financial institutions selected so they could, in turn, sign them and use them as a guidelines for the channelling of the funds to the sub-projects.

By January of 1987 the Central Bank had issued an approximate total of \$3,300,00 and by March of 1988 a total of \$4,617,499 of the resources allocated by the USAID, and S/.20,000,000 of the Government resources.

At first glance the impression prevails that everything went smoothly in the implementation of the credit line, especially when taking into account the amounts of the resources that were allocated. Unfortunately, the reality was different. There were significant delays in processing the rediscount as well as in the delivery of resources to the beneficiaries. The reasons for the

delays were due to many factors not entirely related to the Central Bank, but also due to the USAID and the financial institutions.

b. Ministry of Finance

The Ministry of Finance of Ecuador participated in the Project as representation of the Government in the signing of the Agreement with the USAID. The Ministry of Finance, besides dealing with the consultation process which is normal during the development of a project, also authorized the Central Bank to establish a credit line for the project in two separate occasions, in the first instance for a \$4,000,000 loan from the USAID and in the second instance for two additional loans of \$4,000,000. Likewise, it authorized the Central Bank, through a contract as fiscal and financial agent, to manage the credit line. The Ministry of Finance also deposited s/ .200,000,000 in the Central Bank to meet the matching funds committed by the Government under the Credit Component of the Project.

c. Ministry of Agriculture (MAG)

The MAG participated in the Project as a member of the Advisory Board. Its participation nonetheless spanned a very short period of time. There has been little formal communication between the MICIP and the project regarding aspects related to the export of agricultural and non-traditional agro-industrial products, matters which unfortunately are of great interest for both.

e. Ministry of Foreign Affairs

The Ministry of Foreign Affairs participated in the project by sending commercial attaches from some embassies to events especially designed for them under the sponsorship of FEDEXPOR. During those training sessions the commercial attaches visited several of the sub-projects for non-traditional exports and obtained valuable information to collect data about the foreign markets.

3. United States Agency for International Development (USAID)

The USAID has participated in the implementation of the project as promoter, financing agency, and counterpart of the national organizations. Participation was carried out through the Private Sector Office.

The Private Sector Office of the USAID played a leading role in the development of the implementation of the project. Along with the Agro-Industrial Advisor, the Office actively participated in the implementation of all the components of the

project. The personal involvement of its director and that of the Agro-industrial Advisor is thoroughly acknowledged by all the project participants. They are given credit for all the accomplishments of the project up to the moment when they departed from the country in mid-1987.

The USAID actively participated in the preparation of the work plans and budgets for the implementation organizations in the initial process of starting the operation of the credit line, in discussions leading to the selection of the non-traditional products that would be featured, in hiring the consultants that would carry out the studies about the products, in the follow-up procedures as the implementation progressed, in the allocations of the resources from donations as well as the loans, in the organization of seminars and workshops, and among others, in the discussions that took place on a monthly basis with the Advisory Board and the weekly ones with the work group. All of these tasks required great effort from those in charge of the operations of the Private Sector Office and the Administrative Offices of the USAID.

The role of the USAID in the implementation of the project began to diminish after June of 1987, when internal changes within the organization were carried out and the implementation of the project did not receive sufficient attention. There is clear evidence in the project of the void which this situation produced within the offices of the national counterparts.

The participation of the USAID in the implementation of the project can be considered good in terms of initiating the operation of the project and providing assistance to the national technicians in the different aspects of the project; adequate in terms of the operation of the credit line; and deficient in terms of monitoring and administration of project activities after the split between the Project Manager and the Agro-industrial Advisor. In terms of the credit line, numerous implementation letters were forwarded to the Central Bank. The confused manner in which the agreements and amendments were written introduced more distortions and doubts than those which the process of intervention through letters intended to overcome.

5. Management of the Implementation of the Project

1. Organization

Implementation of the project was carried out without a centralized organizational structure. Each organization and participating institution carried out its functions as an independent unit, within its own organizational structures, in coordination with the implementation of regular tasks, modified or adapted in accordance with the requirements of the project. The coordination of the activities among

participants took place in the midst of the Advisory Board.

The implementing organizations and institutions were FEDEXPOR, ANDE, the intermediate financial institutions, and the Central Bank of Ecuador. Those, as well as other organizations and institutions from the public and private sectors, were all represented on the Advisory Board. ANDE assumed the role of General Secretary for the Advisory Board and the representative from the USAID assumed the role of Coordinator and Advisor to the Board.

The implementation of the project with this type of organization was executed in an appropriate manner thanks to the performance of the executive and technical personnel from the participating organizations and institutions, and the extraordinary coordination and support work provided by the Advisory Board. The board met on a monthly basis on 41 occasions, and the Work Group met weekly on 150 occasions. Nonetheless, for future implementation, it is recommended that the organizational scheme be strengthened by assigning greater authority to the Advisory Board, thus ensuring the existence of a formal entity to provide guidance to the project and keep track of the, course of all participating organizations and institutions.

b. Direction

Implementation of the project was conducted without having a formal central management from which directives plus guidance could have evolved for the participating organizations and institutions. Informally, the role of general management was undertaken in practice by the USAID and the Advisory Board, whose representatives revised all the work plans, coordinated the implementation, and kept track of the activities of each one of the participants. The lack of formal centralized management caused many problems of duplication of work and voids of authority which were not superceded despite the excellent performance of the Advisory Board and the representative of the USAID.

For the future, it is recommended to formally establish a center that will provide management for the entire project. This center must be established within the Advisory Board, with the representation, among others, of the implementing organizations and institutions of the project.

c. Mechanisms

The mechanisms used in the planning, implementation, follow-up of the activities of the project and to finance the investments in the sub-projects were the following, which are herein analyzed:

1.) For Planning

Annual working plans were used as well as annual budgets which were distributed on a quarterly basis. These were developed by each of the participating organizations with the collaboration of the Agro-industrial Advisor from the USAID, and subsequently forwarded to the USAID for approval. The work plans and the budgets, once approved by the USAID, were implemented by the participating organizations and institutions. There were no problems of any significant importance in the operation of this planning mechanism.

2.) For Implementation

The implementation of the work plan of each of the participating organizations of the project was carried out through a mechanism which enabled all the implementing organizations to request 90 days advances from the USAID and subsequently submit an accountant's report denoting the expenditures. Through this mechanism the implementing organizations could require goods and services nationally or abroad. At the same time, the implementing organizations could also present their requests for direct reimbursements for expenses of significant amounts or payment of salaries. This mechanism operated with some failures which caused delays in the implementation. Among the most relevant failures were the tendency to forward to USAID expense reports without adequate or complete documentation; the loss of telexes from the USAID to Mexico requesting funds; and the expenses incurred by the implementing organization without having received prior approval from USAID. These problems, although not critical, delayed the implementation of the project in some instances. They can, and should, be corrected in the future.

3.) To Follow-up Implementation Activities

To follow-up the implementation of the work plans, participating organizations and institutions availed themselves of their own internal mechanisms, to inform USAID, quarterly and annual reports were issued in accordance with the requirements set by the organization. It became evident that the reports were lengthy and contained too much information related to the implementation of the activities. In the future it must be required that the organizations and institutions submit reports more specific about their activities with the results achieved with the anticipated results for the period of the report. No other important problems were detected in relation with this mechanism.

4.) To Finance Investments for the Sub-projects

The mechanism to finance sub-projects with the credit line of the project established within the Central Bank consisted of the following stages: 1) the client presents a feasibility study to the intermediate financial institution; 2) the intermediate financial institution evaluates the sub-project and grants its approval or rejects it. If approved the client submits a report about the sub-project which is presented to the Advisory Board; 3) the Advisory Board reviews the report and grants its approval; 4) the intermediate financial institution formalizes the loan process and requests a withdrawal from the Central Bank; 5) the Central Bank evaluates the sub-project and requests the resources from the USAID; 7) the USAID reviews the request and in turn requests that the funds be sent from Mexico. When the funds arrive, the USAID deposits them in an account at the Central Bank; 8) when the Central bank receives the resources from USAID, it reverts them to the intermediate financial institutions; 9) once the transfer takes place, the intermediate financial institutions allocate the funds to the client in accordance with its own criteria.

As can be appreciated from the above description, this turned out to be a lengthy and cumbersome procedure which has proved unfavorable for all parties involved. There have been considerable delays in all stages and the funds have not reached the clients in a timely manner. A total revision of this mechanism is highly recommended: it should be replaced with a more adequate one.

ANNEX D

ANNEX D
PROJECT RESULTS TO MARCH 31, 1988
VERSUS PLAN

(LOAN 518-T-058)

INDICATOR	FORECAST	ACTUAL	REMARKS
1. LOAN DISBURSEMENTS	AUTHORIZED		
- INVESTMENT CREDIT FACILITY	US\$8.0 MILLION (ORIG. US\$4.0 MILLION FOR 27 (LOANS)	US\$4.6 MILLION FOR 22 LOANS	ALL RESULTS FOR INDICATORS 1-11 RELATE ONLY TO DIRECT IMPACT ACHIEVED THROUGH PROJECT (LOAN NO. 518-T-058 (SEE TEXT)).
- REIMBURSABLE FUND (GRANT)	US\$300,000 (ORIGINALLY FOR 30 STUDIES)	US\$140,000 FOR 11 STUDIES. BUDGET SINCE REDUCED TO US\$134,000 **	
- COUNTERPART	US\$4.0 MILLION (ORIGINALLY)	US\$50,000	
2. INCREMENTAL EXPORTS	US\$63.0 MILLION	US\$6.05 MILLION	CUMULATIVE FOR PERIOD SEPT. 1984\APR. 1988.
3. NET OPERATING FX IMPACT	*	US\$5.20 MILLION	AFTER DEDUCTING FX COST OF IMPORTED INPUTS.
4. VALUE ADDED INCREMENT	GDP GROWTH OF 2.5% P.A. BY 1990/ANNUAL AG. SECTOR GROWTH 5% BY 1990	US\$3.20 MILLION	FORECAST NOT FULLY APPLICABLE BECAUSE OF OTHER FACTORS AND TIME LAG. FIGURE IS NET OF LOCAL PURCHASES THAT DID NOT DEPEND ON SUB-PROJECTS' DEMAND.
5. INCREMENT IN JOBS	*	478	INCLUDES FULL TIME EQUIVALENTS OF PART TIME JOBS AS WELL AS OF INDIRECT LABOR.
6. INCREMENTAL FIXED ASSETS INVESTMENT	US\$7.1 MILLION	US\$6.20 MILLION	CUMULATIVE FOR PERIOD SEPT. 1984\APR. 1988.
7. SUB-BORROWER INCREMENTAL INCOME	*	US\$461,000	PROJECT ATTRIBUTABLE NET INCOME CUMULATIVE FOR ALL SUB-BORROWERS.
8. LAND USE INCREMENT	*	803 HAS. (2000 ACRES)	INCLUDES 574 HAS. FROM ONE SUB-PROJECT INVOLVING TREE PLANTINGS.
9. INCREMENTAL WAGES	*	US\$591,160	INCLUDES WAGES AND BENEFITS.
10. INCREMENTAL FARMER SUPPLIER INCOME	*	US\$1,200,000	PRIMARILY RELATED TO FEED GRAIN DEMAND FROM ONE SHRIMP FEED SUB-PROJECT.
11. NEW TECHNOLOGIES	*		IN FLORICULTURE, SUB-BORROWERS ARE SUCCESSFULLY USING COLOMBIAN ISRAELI AND DUTCH TECHNOLOGIES. IN HORTICULTURE (ASPARRAGUS) A SUB-BORROWER IS USING U.S. TECHNOLOGY. FOR FRUIT TREE OPERATIONS (TAMARRILLO), A SUB-BORROWER IS USING TECHNOLOGY FROM NEW ZEALAND AND HAS ALREADY DEVELOPED A STURDY HIGH YIELDING HYBRID. A SHRIMP LARVA PRODUCER IS USING JAPANESE TECHNOLOGY, AND A

ANNEX E

A NATIONAL STRATEGY FOR THE DEVELOPMENT OF
THE NON-TRADITIONAL AGRICULTURAL EXPORT SUB-SECTOR IN ECUADOR
(MODEL)

A. Introduction

Ecuador has a great untapped potential, in terms of land, climate and human resources, to expand its agriculture and to develop a viable non-traditional agricultural export sub-sector, vital to the well-being and to the future of the country. Chile, Ecuador's neighbor to the south, achieved an impressive development of its agricultural export sub-sector through intensive planning and consistent effort. Its exports of non-traditional products are respected in every market of the world. In relative terms, Ecuador's opportunity for similar development is excellent. Ecuador has a good land base and a diversity of microclimates. Advanced production technology is already being utilized; there is a core of experienced and trained farm operators; and currently, there is a sustained desire to produce and export.

Currently, there is an undeclared contest or "race" between would be exporter-countries of non-traditional crops or products. The race is to determine which country in the Caribbean, Central or South America will be the next "Chile" and gain full access and the fullest respect of the North American and European markets. Every country in the region is in the race. Some have an advantage in terms of financial support. The fact that none of these countries has won the race, or even succeeded, in real terms, to develop its non-traditional agricultural export sub-sector offers an object lesson in agricultural development. Each country is undertaking development in the traditional "one-step-at-a-time" basis and attempting to "export-what-they have" rather than develop a sound production base and a strong and aggressive marketing or postharvest base.

Ecuador has an opportunity. Compared to its competitors, it has many of the ingredients to succeed.

To succeed and develop the non-traditional agricultural export sub-sector to its fullest, a total "systems approach" of development must be undertaken. It must be recognized that the sub-sector is a system of interrelated and complementary individuals, institutions, structures, functions, services and activities. For the sub-sector to achieve full development, the entire sub-sector system must be upgraded and developed. This will require the simultaneous upgrading of skills and

capabilities, the upgrading and establishment of required organizational structures, the upgrading and establishment of the required infrastructure, the upgrading and introduction of the required marketing or postharvest technology, and the upgrading, introduction, and adoption of the required production technology. This is the "Systems Approach" to development that should be utilized to establish a sound production base and a strong marketing base - - the essential components of a successful non-traditional agricultural export sub-sector.

B. The System Defined

The non-traditional agricultural export sub-sector is a system encompassing all of the functions of production and marketing, together with the interaction of the people, firms, institutions, and agencies that perform these functions. Stated in another way, the system is, collectively, all of the producers of the agricultural commodities and products, the intermediaries (exporters, wholesalers, etc.) performing the various functions, the functions or services performed, the suppliers of production and marketing inputs, and the various institutions and agencies providing regulations, information, and credit that influence or affect the production and export of the crops or products. (See Figure 1.).

The components of the system are all interrelated and interdependent, a factor that must be understood if the sub-sector is to develop to its fullest potential. Because of their interrelationship and interdependence all components, entities, and functions of the system must be addressed simultaneously to achieve lasting and meaningful development. It is ineffectual to attempt to upgrade the system by picking and choosing only one or two components and concentrating development efforts on these.

The systems approach to development of the non-traditional agricultural export sub-sector is of a long term nature (five to ten years) but the results are permanent, including the establishment of a sound production base and a strong and aggressive marketing or postharvest base.

C. Development Of The System - - The Non-Traditional Agricultural Export Sub-Sector

To achieve the full potential of the non-traditional agricultural export sub-sector in a minimum amount of time requires extensive planning of a practical nature and a great amount of hard work by all participants in the sub-sector or system. Basic to the full development of the sub-sector is the application of the Systems Approach and the preparation and adoption of a total strategy of development. The strategy for the development of the sub-sector is, in general, a guide and incentive for all individuals, firms, groups, organizations,

agencies and governmental bodies to upgrade their capabilities and capacities.

The Strategy is a stimulant to development to all participants in the system and is a guide or indicator to policy decision-makers and to external forces as to the importance of the sub-sector and its direction of development. In effect, it is a map, timetable, and guide for the participants as they each individually undertake their parts.

The strategy developed should address the long-term requirements of establishing a sound production base and a strong and aggressive marketing or postharvest base. It also should provide a basis for the shorter term requirements of existing producers, processors, agri-business firms, and exporters that are now engaged, or have the capability to engage in, the production and export of non-traditional crops and products.

D. The National Strategy (Model)

1. Purpose

The purpose is to provide a planned and integrated program of development to assure the rapid and complete development of the non-traditional agricultural export sub-sector in Ecuador as a major contributor of foreign exchange to the economy.

2. Goal

The goal is to develop a sound and expanding production base and a strong and aggressive marketing base (postharvest) in the non-traditional agricultural export sub-sector by upgrading the skills, capabilities, and capacities of each participant in the sub-sector, including: manufacturers and suppliers of inputs; producers of the commodities and products; exporters and shippers of the commodities and products; and all of the individuals, agencies, organizations, ministries and other institutions having a direct or indirect impact or involvement in the sub-sector.

3. Objectives

The objectives of the development of the non-traditional agricultural export sub-sector are the following:

- a. enhance agriculture as an earner of foreign exchange;
- b. assure the restructuring and upgrading of the infrastructure of the marketing system in Ecuador

- that relates to, and is a part of, the sub-sector;
- c. assure the entry of non-traditional agricultural export crops and products into world markets, especially those now having effective tariff and non-tariff barriers, such as phyto-sanitary restrictions;
 - d. assure the development of a production base, oriented to export markets and to the introduction and rapid expansion of crops and products for international markets;
 - e. assure the development of a broad marketing (postharvest) base to permit the proper exportation of highly perishable products;
 - f. assure the availability, timeliness, and accuracy of market news, information, and intelligence to assist producers and exporters in their export marketing activities;
 - g. assure the availability of required production technology and technical assistance in its adoption and utilization;
 - h. assure the availability of required marketing (postharvest) technology and technical assistance for adopting and utilizing same, and specialized technical assistance in the development, design and utilization of postharvest systems;
 - i. assure the availability and provision of organizational, operational and managerial assistance to all participants in the sub-sector;
 - j. assure the provision of short, medium and long-term credit to meet both production needs and marketing requirements;
 - k. assure the availability, timeliness of acquisition, quality, and affordability of all necessary production inputs including machinery and equipment, fertilizers and chemicals, fuel, appropriate irrigation systems, and other critical items;
 - l. assure the availability, timeliness of acquisition, quality, affordability, volume, type, variety and cultivar of necessary seeds, plants, trees and other types of planting materials;
 - m. assure the availability, timeliness of acquisition,

quality and affordability of necessary marketing inputs including cartons, packing material, chemicals, pre-cooling equipment, grading and packing equipment, handling equipment, cold storage equipment and facilities and processing equipment.

4. Activities And Projects To Be Undertaken To Achieve The Objectives

There are many activities and projects that must be undertaken by various organizations, individuals, companies and agencies at all levels in the non-traditional agricultural export system to achieve the stated objectives and full development of the potential of the sub-sector. The undertaking of these activities and projects must be encouraged through promotion and direct involvement and coordination through a properly equipped and staffed organization or agency. The activities and projects that must be undertaken include the following:

a. the initiation and the expansion of agricultural research programs oriented to non-traditional agricultural export crops and products;

b. the initiation of an aggressive program to eliminate the phyto-sanitary restrictions in world markets for Ecuadorian products through "export zone" identification, disease and insect eradication, "export zone" quarantine, commodity treatment (fumigation), commodity certification, and other programs.

c. the development and establishment of an organization of producers, wholesalers, exporters/shippers, manufacturers and suppliers of inputs, processors, transportation companies, personnel of ministries and agencies, and all parties involved or related in any way, or interested in, the production and marketing of agricultural export crops and products.

d. the expansion and upgrading of the technical assistance capability of the ministries and agencies of government that are responsible for various activities and components of the sub-sector and of internal developmental organizations dedicated to the development of non-traditional exports;

e. the development and implementation of an expanded program of market news, information and intelligence pertaining to internal and external (export) markets;

f. the development and implementation of an expanded extension program for producers of export crops and products;

g. the development and implementation of a program to

provide marketing extension services to producers, exporters and other participants in the sub-sector (specialized market development and postharvest technology.)

h. the development, implementation and expansion of medium-term credit for upgrading and expanding production, volume, and capability;

i. the development, implementation, and expansion of short-term credit for marketing (export);

j. the development and implementation of simplified systems of permits and documentation for required imports of equipment and supplies for the sub-sector;

k. the development and implementation of a program to eliminate import duties on all equipment and inputs required for the production and marketing of non-traditional agricultural exports;

l. the development and implementation of a program to reduce and/or eliminate taxes on fuel used in the production and marketing of non-traditional agricultural export crops or products;

m. development and implementation of a program, within the Ministry of Agriculture or other agency, of certification of plants and seeds produced in the country for use in non-traditional agricultural production to assure high quality, freedom from disease, viability, and varietal purity of all planting material;

n. the development and implementation of a program, within the Ministry of Agriculture or other agency, of varietal trials, development of new varieties and meristem (tissue culture), and expansion of new varieties for introduction into the Country;

o. the development and implementation of a program to expand the activities of the experimental station to facilitate the rapid adoption of modern technology of production of non-traditional crops and products and the provision of recommendations, procedures and instruction on the adoption and use of the technology by producers;

p. the development and implementation of a program to establish demonstration plots, utilizing the latest technology, that are available to producers in identified producing areas of export zones to facilitate rapid adoption of the new technology;

q. the development and implementation of a plant protection control program to research and determine the

insecticides, fungicides, herbicides and other chemicals utilized in the production and marketing of export crops that are prohibited in target export markets, and to control and prohibit the use of these chemicals on crops for export (advisory and regulatory activities);

r. the development and implementation of strict control procedures in the use of chemicals for production and marketing activities to avoid unacceptable residues of chemicals banned for use on fruits and vegetables entering target markets;

s. the development of a program for the utilization of irradiation, when fully approved in the United States, Canada and other countries, including preliminary planning for facilities, utilization, control, location, certification, and other factors;

t. the development and implementation of new procedures to expedite the export of crops and products and streamline the system of export permits and required documents, eliminating unnecessary delays and reducing paper work and documentation to a minimum;

u. the development of a phased plan or program of development and expansion of major export crops (especially longer term fruit crops), integrating and relating the expansion program with the program to identify and develop export zones;

v. the development and implementation of a promotion program to encourage producers (farmers) and processors to enter into the production of non-traditional agricultural export crops;

w. the development of a phased program of promotion and assistance to increase the number, size, capacity and volume of output and quality of:

(1) local nurseries producing planting materials for orchards, groves, vineyards and plantations that are of the correct varieties, available when required and in the quantity required,

(2) local nurseries and greenhouses producing plants for vegetable production that are of the correct varieties, available when required and in the quantity required;

x. the development and implementation of a program of importation of planting materials of new and improved varieties and cultivars of tree fruits and other types of fruit and vegetables for budding and for vegetative propagation;

y. the development and implementation of a program of

importation of genetically pure and viable seeds of the highest quality and of the varieties best suited for target markets and local growing conditions in the volume required, available when required and at a reasonable price;

z. the development and implementation of a program of importation of required insecticides, fungicides, herbicides and other chemicals used in the production and marketing activities, but only those permitted in target markets.

ANNEX F

PROJECT RE-DESIGN/PROPOSAL

Two project re-design proposals are presented as requested by the USAID Mission in Ecuador as an indicator as to the possible composition and cost of a re-designed project. The first proposal is for an optimum project. The second proposal is a minimally acceptable project.

A. Alternative #1 Optimum Project

1. Project Goal

The goal of the project is to facilitate economic growth through the development of non-traditional agricultural exports.

2. Project Purpose

The project purpose is to develop a sound, dynamic, and profitable non-traditional agricultural export sub-sector capable of achieving Ecuador's potential in the international market.

3. Project Duration

Optimum: Five Years
Minimum: Three Years

4. Project Composition - Two Sub-Projects

a. Sub-Project #1: A developmental project based upon a strategy to be developed and adopted, utilizing the systems approach and providing technical assistance, commodities and training through FEDEXPOR as the implementing agency.

b. Sub-Project #2: A financial assistance activity providing credit to producers that have production/marketing projects or activities that complement the adopted development strategy of the sub-sector.

5. Implementing Agency

Sub-Project #1 - FEDEXPOR
Sub-Project #2 - Central Bank of Ecuador

6. Coordinating Agency - ANDE

7. Planning and Monitoring Body - Junta de Asesores

The Junta de Asesores should be expanded to include representation from all participants in the sub-sector, including

transportation, packaging, and farmers. The Junta de Asesores should function similar to a board of directors in the planning, development, adoption, and implementation of the national strategy for the development of the non-traditional agricultural export sub-sector.

8. Project Components

a. Technical Assistance

- (1) Marketing Economist/Marketing Specialist
Long Term - 36 to 60 months
- (2) Horticulturist
Long Term - 24 to 36 months
- (3) Management/Institutional/Finance Specialist
Long Term - 12 to 24 months
- (4) Market Intelligence Specialist-
Situation/Outlook/Market Analyst
Short Term - 3 to 6 month assignments
Total - 12 to 24 p/months
- (5) Postharvest Technology Specialist
Short Term - 2 to 3 month assignments
Total - 12 to 24 p/months
- (6) Food Technology Specialist
Short Term - 2 to 3 month assignments
Total - 6 to 12 p/months

b. Commodities

- (1) Vehicles, 4 wheel drive, all-terrain

For Technical Assistance personnel-	2
For use of FEDEXPOR	- 2
TOTAL	-4
- (2) Computer Systems -1
(For use of marketing specialist
and horticultural specialist)

c. Training

d. Finance

Sub-Project #1: Developmental

Financial assistance to FEDEXPOR to develop its

structure and capacity and capability to undertake the role of developing the sub-sector and implementing the AID Project.

Financial assistance to ANDE to undertake its role as coordinating agency. Financial assistance to the Junta de Asesores to undertake its role as a planning and monitoring agency.

Sub-Project #2: Loan Facility

USAID US\$3.4 million
Counterpart US\$1.4 million

B. Alternative #2 Minimum Project

1. The Project Developmental with Finance Component
2. Duration Three years (minimum)
3. Implementing Agencies FEDEXPOR - Development and T.A.
BANCO CENTRAL/CFN - Financial
4. Coordinating Agency ANDE
5. Project Composition
 - a. Sub-Project #1 Developmental/Technical Assistance
 - o Components
 - Technical Assistance
 - Marketing/Production Specialist 33 p/m
 - Short Term Assignments 40 p/m
 - Horticulturist
 - Market Analyst/Intelligence
 - Food Technology/Processing
 - Institutional Management
 - Vehicles 4/w Drive
 - Financial Support
 - FEDEXPOR
 - ANDE and Advisory Board
 - Training

o Cost

- T.A.	\$800,000
- Vehicles	20,000
- Financial Support	300,000
- Training	<u>150,000</u>

TOTAL US\$1,270,000

b. Sub-Project #2 Financial

- Loan Facility	
- USAID	US\$3.4 mil.
- Counterpart	US\$1.4 mil.

Loan funds should be designated for users that meet strategy objectives of the project and cannot obtain funds through normal channels.

ANNEX G

ECUADOR NON-TRADITIONAL AGRICULTURAL EXPORTS PROJECT REVIEW

REPORT BY DEVRES

The implementation of USAID project, ECUADOR: NONTRADITIONAL AGRICULTURAL EXPORTS, was initiated June 12, 1985, between the Agency for International Development (AID) and Devres, Inc., in collaboration with FEDEXPOR (the Ecuadorian Federation of Exporters).

The objectives of this project are to increase the level of nontraditional agricultural based exports and to increase investment in productive, export-oriented agribusinesses. Devres, working with FEDEXPOR, has been providing Ecuadorean nontraditional agribusiness exporters with: access to US market and technology information; help in the provision of support services to export-oriented agribusinesses to include distribution and marketing; promotion of planning favoring export development; and assistance in the identification of export opportunities. Carrying out these objectives successfully is leading to increased export of new products; development of new markets; expansion of contacts between individual exporters and importers; and strengthening of the institution of FEDEXPOR, through expanded membership, revenues, information, data base capabilities and knowledge of US market potential.

The broad objectives of the project have been realized. During the life of this project, non-traditional exports from Ecuador have roughly tripled, to a current annual volume of over 20 million dollars. Investment activity in productive, export-oriented agribusinesses has markedly increased. As an institution, FEDEXPOR has doubled in membership and taken on a lead role in the development and promotion of non-traditional exports.

Principal objectives of the project have been to provide Ecuadorean agribusiness exporters with:

- o Access to U.S. market and technology information. Devres has succeeded in this objective by providing access to information such as the following:
 - Weekly transmission via FAX of Terminal Market Reports for fresh fruits and vegetables from New York City and Cut Flower and Fern reports generated out of Florida;
 - Dissemination of up-to-date market information via Fedexpor newsletter;
 - Production of a bi-weekly 'Washington Trade Update' informing FEDEXPOR membership of current developments and potential changes in trade and import conditions;

- Development of 27 individual commodity profiles which include detailed information on technical inputs, production, post harvest handling, transportation, US regulations and standards, and marketing;
 - A diversity of magazines, newsletters, trade journals from which Devres' staff has gleaned the most relevant and meaningful information for FEDEXPOR's membership;
 - Conduct of a variety of seminars and workshops, (in post harvest handling, canning and processing, and export development and promotion) to provide Ecuadorean exporters with the knowledge to succeed in export markets;
 - Information and prices regarding US technology and agricultural inputs via contacts with US trade associations and as result of specific requests by FEDEXPOR members;
 - Electronic databases containing information on US production, prices, exports, imports, investment leads, US business' financial and credit information, marketing leads, and a wealth of other useful information; and
 - Specific commodity information resulting from one of several hundred specific request made on behalf of an individual FEDEXPOR member;
- o Help in realizing various forms of enterprise-based market access and technological transfer (e.g., contracts, licensing, investment). Devres has provided assistance directly to individual FEDEXPOR members and strengthened the ability for the institution of FEDEXPOR to meet these needs in the following ways:
- Assistance in negotiating multi-million dollar contract for major melon producer and exporter;
 - Establishment of xx(thousands) contacts with individual buyers and investors in the US and other major markets;
 - Help in negotiating contracts with variety of buyers for fresh and processed commodities;
 - Aid in identifying legal measures for collecting outstanding claims;
 - Support in the identification and purchasing of equipment and agricultural inputs such as seed, packaging and chemicals;

- Developing and expanding FEDEXPOR's physical library with resources such as sample contracts, licensing agreements, and FEDEXPOR's electronic library with investor and buyer contacts; and
 - Developing FEDEXPOR's understanding of the requirements of US market and its intricacies from near zero to the basic level needed to interact with US buyers and investors.
- o Assistance in the identification of opportunity areas (e.g. products, markets) and their promotion. Devres has pursued this objective on many fronts including the following:
- Organization of FEDEXPOR and its membership's participation in six major trade fairs and exhibition in two in order to identify potential market opportunities and demonstrate to FEDEXPOR's members the possibilities;
 - Conduct of 10 trade missions to major US markets which facilitated hundreds of trade contacts between individual exporters and buyers and investors;
 - Development of opportunities in apples, tomate de arbol, avocados, bananas, babaco, berries, honeydew melons, grapes, grapefruit, granadilla, limes, narajilla, oranges, papaya, pears, pineapples, strawberries, uvilla, artichokes, asparagus, baby corn, other baby vegetables, haricot vert, bell peppers, broccoli, brussel sprouts, chayote, cherimoya, cocoa paste, endive, mache lettuce, mushrooms, okra, onions, heart of palm, pigeon peas, potatoes, radicchio, sugar snap peas, snow peas, yams, string beans, zucchini, tomatoe paste, achiote, avocado oil, ginger, coriander, saffrn, sugar cane molasses, tea, cardamom, garlic, shrimp, tuna, mollusks, cheese, quinoa, sausage, wood products, electrical appliances, dairy, and angora rabbit fur.
 - Provision of TA's in ginger, aquaculture, snow peas, and other products to further identify and quantify opportunities and to promote said opportunities;
 - Conduct of three trade missions to agricultural production areas in Chile to acquaint FEDEXPOR members with the entire production process from investments to marketing and final liquidation under conditions similar to those of Ecuador;

A good example of the development process triggered by this project can be found in the work done by Devres/Fedexpor in snow peas. Initial analysis of export opportunities indicated that snow peas could

be a feasible export commodity. A commodity profile was prepared, and after its distribution Fedexpor requested technical assistance, which was provided in the form of three visits by experts from California and Guatemala. Initial plantings were made and exports of limited quantities were shipped to the US. These shipments encountered constraints in the form of APHIS regulations which limited the marketability of the product. Other markets, namely Europe and Canada, were then developed, and now Ecuador is a regular supplier. This limited success has led to the export development of products with similar cultural practices, such as sugar snap peas and haricots verts.

In the coastal region, exports of melons and okra have created an awareness of opportunity in non-traditional commodities. Ecuador is now a major supplier of honeydew melons during the "winter window". Shipments total over 200,000 crates per year. Devres has been instrumental in facilitating export contracts, marketing information, and packaging requirements. Most importantly, Devres has assisted in the establishment of good relations and communication between the Ecuador Ministry of Agriculture, the melon growers and the United States Department of Agriculture. These relationships are critical in order for Ecuador to market its melons under the current APHIS guidelines. In a situation similar to that of snow peas, Devres identified and promoted an opportunity for marketing fresh okra. Seed was obtained and planted, and exports initiated. Marketing was done through Devres' contacts in the New York Terminal Market. Product quality was good and prices level indicated excellent profitability. Problems arose, however, in that the air carriers did not provide consistent service, sometimes cancelling space for the exporter without notice. As a result, this project is on "hold" until such time as more reliable air service is developed.

Even in difficult circumstances, the project has achieved its objectives.

For example:

- o Problems were encountered in exporting snow peas. Growers, with Devres support, were able to arrange fumigation, obtain correct packaging materials, realize quantities needed to ship in order to make a profit and diversify their marketing to other countries.
- o Difficulties with honeydew melon exports have taught the Ecuadorians about PACA legislation and the protection provided by US legal system. Also, through the project they learned to deal with US regulatory agencies such as APHIS and FDA;
- o Flower exporters, despite their lack of internal cooperation, are making significant inroads into the US market. There is an increasing interest on the part of US investors in this sector, which will be developed once the elections in Ecuador take place.

Although this project has met and exceeded its goals, there are problem areas and constraints worthy of comment:

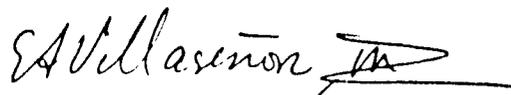
- o The project design had a promotional orientation yet was expected to produce developmental results. The inputs from the project are manifesting themselves in view of the fact that nontraditional exports have markedly increased. These results could be greatly enhanced by following up the promotional work with parallel tangible development projects to provide financing and ongoing technical assistance.
- o The design based no expatriate staff in Ecuador to interpret information or serve as catalyst for activity. A qualified individual at nominal cost could have greatly benefitted the project in all aspects. Communications have been more difficult due to distance and cultural barriers, all of which could have been efficiently bridged having a "project presence" in FEDEXPOR's office on a permanent basis;
- o During the course of the project many cultural constraints have appeared which inhibit understanding and participation in the US marketplace, which the project design largely ignored. Ecuadorians are hesitant to obligate themselves or to take financial risk. FEDEXPOR and its members have been in large part unwilling to take on any additional expense not subsidized by the project. For example, a group of flower exporters reported losses in excess of \$ 100,000 per year due to poor information and handling. Project staff offered a solution which would have cost the group \$ 25,000 per year based on a \$.25 per box assessment. This was turned down due to "excessive cost". Potential exporters, particularly in the Sierra, have demanded assurances of profitability for any export venture, something difficult to certify with perishable commodities;
- o The relationship between the contractor (Devres) and client (FEDEXPOR) was not clearly defined, particularly in respect to the operation of the Miami office. This change was imposed by AID and FEDEXPOR. Devres asked for clarification from AID, but the Private Sector Office did not directly respond to the issue. As a result there have been some difficult moments regarding the role of Devres as a "marketing agent" for FEDEXPOR, an activity which was never intended in the project design. Also, expenses due Devres which were to be paid by FEDEXPOR, such as rent, telephone, and telex have been difficult if not impossible to collect;
- o The project has suffered somewhat from a lack of continuity in the direct participation of the Private Sector Office. Much progress was made during those periods when their staff was actively involved in supporting project activities. In the last year, however, due to problems within the mission, this support has been lacking. More recently the Private

Sector Office has taken up the reins and is actively supporting project activities.

- o FEDEXPOR and its members viewed the Mission as ready source of funding for any project the Private Sector Office wished to pursue. Actualizing this financing proved to be difficult and the project as a whole suffered a lack of credibility;
- o Of particular concern to Devres is the lack of dissemination of the information, both written and electronic, which has been sent to FEDEXPOR. There seems to be a bottleneck in the Quito office in getting this information out to the membership and the interested public. Devres staff will be completing a study tracking the flow of this information. Once again, permanent project staff presence within FEDEXPOR could have greatly alleviated this problem and provided immediate interpretation of the wealth of information resulting from project activities.

Despite such problems and constraints, Devres has achieved project objectives. Exports of non-traditional commodities have increased substantially during the three year term of the project. FEDEXPOR has grown dramatically in membership and developed substantial institutional capability vis-a-vis sharing knowledge of the US and other foreign markets with its membership. The Miami office continues to provide a source of information for FEDEXPOR membership and acts as a representative trade office of the Association in the United States, receiving calls from importers and other buyers, potential investors and equipment and agricultural product suppliers.

A logical follow up to this non-traditional export project would be the re-design and implementation of a project extension to further develop the potential already identified and promoted. Many commodity groups, such as flowers, berries, specialty vegetables and fresh fish could directly benefit from continued on-site technical, financial and marketing assistance.



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