

AGENCY FOR INTERNATIONAL DEVELOPMENT  
Santo Domingo, Dominican Republic

Date: December 4, 1990  
From: <sup>AB</sup> Anne Beasley, PED  
Thru: Robert Barnes, Chief, PED *[Signature]*  
To: Memorandum to the File  
Subject: Project Assistance Completion Report Small Industry  
Development Project (517-0150)

This report documents the final status of the subject as of the Project Assistance Completion Date (PACD) of March 31, 1990.

I. BRIEF PROJECT HISTORY

A. Project Authorization

Date	Amount Authorized
September 30, 1982	Grant: \$850,000
	Loan: \$5,000,000

B. Project Obligations

Date	Amount Obligated	Total Obligations to Date
9/30/82	Grant: \$767,000	\$767,000
	Loan: \$3,500,000	\$3,500,000
3/29/83 amendment	Loan: \$1,500,000	\$5,000,000
12/30/83 amendment	Grant: \$ 83,000	\$ 850,000

C. Project Assistance Completion Date

Original Date: September 30, 1987  
Extension By Mission Director: September 30, 1989  
Extension by Assistant Administrator: March 31, 1990

D. Project Purpose and Goal

The purpose of this project was to establish an institutional mechanism, capable of providing a continuous source of credit,

technical assistance and training to small entrepreneurs in the Dominican Republic. Its goal was to increase per capita income and employment in the Dominican Republic by improving the performance of the private sector.

#### E. Implementation

The Project was implemented using DA funds through a loan of \$5,000,000 and a grant of \$850,000. Both the loan and grant agreements were signed by the Central Bank representing the Government of the Dominican Republic. The \$5 million loan portion was used along with \$2 million in counterpart funds to establish a revolving credit fund which was administered by the Fondo de Inversiones para el Desarrollo Economico (FIDE) to provide loans to small borrowers through private financial intermediaries (PFIs). The grant was used to provide small borrowers with technical assistance which was implemented through Technical Assistance Centers (TACs) which were in turn assisted by a Central Assistance Facility (CAF) located in FIDE. Originally, loans to small enterprises ranged in size from RD\$2,000 to RD\$50,000 and were used for working capital and purchasing fixed assets. This limit was later raised in 1988 to RD\$150,000 to compensate for inflation.

Loan applications could either be made directly to the PFIs or be channeled through the TACs. The TACs were designed to be a "bridge between the financial institution and the entrepreneur." Personnel of the TACs would help entrepreneurs with initial loan applications and design an integrated program of TA, financing and training. Seven TACs were established throughout the country although in 1985, two of these were consolidated so that at project completion, six were functioning. TACs received an up-front commission of 3% of the total amount of the loan and 2% additional on the unpaid balances to cover the costs of providing subsequent technical assistance. Initial interest rates on loans as established in the Project Paper were 12%. However, these rates rose during an inflationary environment as FIDE increased its rates to 24% in 1989. Initially, PFIs received a 4% margin for loans which they placed in Santo Domingo and Santiago and 6% for those placed outside those cities. FIDE received 8% on loans made in Santo Domingo and Santiago and 6% on all loans placed in other cities. Terms of the Agreement called for the GODR to pay back interest of 2% per year during the first ten year grace period and 3% thereafter.

The intention of the project design was that the TACs would be self-sustaining by the fourth year. During the first three years of the project operating costs would be subsidized by project grant funds. However, it was expected that this support would end by year 4. This did not happen for several reasons: 1) The Central Assistance Facility (CAF) in FIDE did not provide adequate technical assistance to TAC personnel. 2) The 3% closing cost plus 2% finance charge for TA were not sufficient to cover salaries and operating costs of the TACs. 3) FIDE bureaucratic bottlenecks in the loan approval process meant that borrowers frequently had to

wait six to nine months from the time they submitted their applications until they received their loans. In periods of relatively high inflation (1984, 85, 87, 88, and 89) these delays meant that by the time loans were disbursed, they frequently no longer covered programmed purchases. Therefore borrowers looked for funds from other sources. 4) The PFIs were not willing to accept the high transaction costs nor risks of small business lending for their assigned margins (4% to 6%).

In an attempt to improve the technical skills of TAC personnel, USAID and FIDE concurred in 1987 to reprogram approximately \$326,000 in remaining grant funds to bring in more off-shore technical assistance and to extend the project for two years until September 30, 1989 so that the planned program of assistance could be carried-out. This assistance was provided through a buy-in to the Assistance to Resource Institutions for Enterprise Support (ARIES) Project.

A final extension of the project from September 30, 1989 to March 31, 1990 permitted project funds to be used for a audit which was conducted in January and February of 1990. Although there are still a few points from that audit which must be closed, the RIG has determined that no points remain open which would block the final disbursement.

## II. DELIVERY OF PROJECT INPUTS

### A. Technical Assistance Center Operating Expenses

Budgeted	Actual
\$380,000	\$313,786

These funds were budgeted to cover TAC operating deficits for the first three years of the Project. A portion of these funds (\$31,163) also went to cover office equipment. Since the TACs still had projected deficits for year 4 of the project, the mission approved operational grant subsidies for four years instead of three. A total of US\$297,769 was disbursed to FIDE to reimburse grants extended to seven TACs over four years. In addition \$10,309 was used to finance small business fairs, \$4,289 financed a seminar for TAC personnel and \$1,419 was used for a census to determine the number of small businesses in specific regions. One reason that disbursements under this line item were reduced from the budgeted amounts is that the Dominican peso was devalued from RD\$1 to US\$1 in 1982 to RD\$3.8 to US\$1 in 1987. Funds not used under this line item were reprogrammed into technical assistance.

### B. Commodities

Budgeted	Actual
\$50,000	0

Commodities totalling approximately \$44,577 were purchased under the project, but not financed under this line item. Approximately \$31,163 in office equipment was expensed to the TAC OE budget line-item and \$13,414 was spent on computer equipment which was purchased with funds from the ARIES buy-in and expensed under the Technical Assistance element.

**C. Technical Assistance**

Budgeted	Actual
\$320,000	\$480,929

This budget element was increased in 1987 when the Central Bank and AID concurred in the reprogramming of project funds to provide intensive technical assistance to personnel of the TACs with a buy-in to the ARIES Project (administered by AID/S&T and Robert Nathan).

During the first two years of the Project a total of \$130,612 was spent on off-shore technical assistance activities with Development Associates. The assistance activities consisted of 1) developing operational plans for the four TACs which were functioning originally; 2) assessing the assistance provided by CAPE/FIDE to TAC personnel and determining unfulfilled training needs; 3) training 9 participants from the staffs of CAPE/FIDE and the TACs in Carvajal methodology in Cali, Colombia.

A total of \$218,133 was disbursed for activities carried out under the ARIES project buy-in. This included \$13,414 spent on computers and software. Activities conducted under this buy-in included two training needs assessments, four seminar-workshops, four weeks of on-site technical assistance to the TACs, and the design and implementation of an MIS and computerized accounting system for several of these organizations. An additional \$49,571 was disbursed to provide for the services of a Personal Services Contractor who coordinated project activities in the Mission. Finally \$1997 was spent training two members of CAF in Washington.

**D. Evaluations**

Budgeted	Actual
\$50,000	\$17,862

Financed under this line-item was one evaluation costing \$2,997 carried out by CAPE-FIDE in 1986 to assess the impact of credit extended under the project on the Dominican economy and an audit carried out in 1990 which cost \$14,865. One additional evaluation to assess the impact of the project on micro-entrepreneurs who received loans was financed by USAID at a cost of \$26,752 using Project Development and Support funds.

**E. Loans**

Budgeted	Actual
\$5,000,000	\$5,000,000

Disbursements were made regularly until October of 1988 when they were stopped on all projects channeled through FIDE until the Central Bank agreed to raise interest rates and improve its project management. The last disbursement was requested by FIDE in December of 1990 to reimburse them for loans disbursed through March 31, 1990.

**F. Contingency**

Budgeted	Actual
\$50,000	0

**III. COUNTERPART CONTRIBUTIONS**

The Loan Agreement specified that GODR counterpart contribution would be not less than the equivalent of US\$2,000,000 which at the official exchange rate of US\$1 to RD\$1 was the equivalent of RD\$2,000,000 on the date that the Agreement was signed.

**IV. PROJECT ACCOMPLISHMENTS**

The following table shows the status of the various outputs at the end of the project.

Planned	Actual
1000 loans to small industries (US\$5 million + RD\$2 million)	841 loans to small industries (US\$5 million + RD\$2.1 million)
1000 businesses receiving TA and improving performance	616 businesses have received TA.

**V. PROGRESS TOWARDS ACHIEVEMENT OF PROJECT PURPOSE**

Credit did reach small entrepreneurs and economic impact on their businesses was positive. An evaluation paid for by USAID and conducted by the International Science and Technology Institute in 1987 indicated that the income of businesses which received loans had risen by 105% (adjusted for inflation) from the time of the first loan until the time of the survey. Fixed assets had risen by 82% and the average salary per employee had gone up by 9% in real

terms.

Nevertheless an "institutional mechanism, capable of providing a continuous source of credit, technical assistance and training to small entrepreneurs" was not developed through this project. The banks (PFIs) were not interested in extending loans directly to small entrepreneurs because the transaction costs of handling such loans were too high. The loans were not attractive to the PFIs because the 4 to 6% margins which they were assigned under this project were too low. Furthermore, FIDE/CAPE re-evaluated all loan applications which had already been approved by the PFIs, and these were later submitted to a Central Bank Credit Committee and finally to its Governor for his approval. This process took several months whereas the project design had envisioned a 24 hour turn-around time once applications had been submitted by the Central Bank.

The slow approval process impinged on the development of the TACs into self-sustainable organizations which would provide continuous technical assistance. By the end of the project, virtually none of the TACs had reached this level, although two, PROPE and PROAPE, had developed efficient management systems, and probably would have been sustainable had the loan approval process become more expedient.

## VI. PROJECT DESIGN ADJUSTMENTS

Some recommendations for other projects of this type are the following: 1) Focus on credit rather than technical assistance to the entrepreneur. This project was designed during the "early era" of credit assistance to small and micro-enterprises. The methodology most commonly used then was based on the Carvajal Small Enterprise Development Model which specified that technical assistance should be a pre-requisite to credit. Under this model, all entrepreneurs were required to receive TA (frequently in the context of formal courses) whether or not they needed or desired it.

TAC personnel were sent to Cali, Colombia for training in this assistance method. Subsequent studies such as the "AID Microenterprise Stocktaking" which was conducted in 1988 concluded that support programs which provided minimum technical assistance and focused on credit achieved more than those which attempted to provide both. Providing technical assistance is very expensive and the 5% margin allowed to the TACs was not sufficient to pay for this service.

2) Channel credit through private sector organizations. The cumbersome bureaucracy of FIDE impeded the efficient processing of loans. Furthermore, political considerations often interfered with the management of a sound credit program. Decisions on interest rates charged on loans channeled through FIDE are made by the

Monetary Board of the Central Bank. In 1988 when inflation more than doubled over the previous year and rose to 58%, this Board waited nine months to raise rates. A number of NGOs in the Dominican Republic operate effective credit programs for the informal small and micro business sector. The Mission decided that its follow-on project, (Micro and Small Business Development) should channel credit for the sector through these private institutions. Accordingly, funds will be channeled to them through the Fund for the Financing of Microenterprise, (FONDOMICRO), a private sector organization.

## VII. REQUIREMENT FOR CONTINUED MONITORING

FIDE's management of the project will continue to be monitored by A.I.D. until all of the audit points are closed. Activities of those TACs which develop loan programs and become clients of FONDOMICRO will continue to be monitored under the new project.

## VIII. REQUIREMENT FOR FURTHER DATA ANALYSIS OR EVALUATION

The ISTI evaluation of 1987 compiled and analyzed accounting data on firms which had received loans under the project. It also analyzed data dealing with the economic and social impact of loans made under this project on the lives of entrepreneurs. These data showed that entrepreneurs had spent increased income generated after receiving loans on basic human needs such as new or improved housing (21%), private education (26%), transportation (26%), and private health care (17%). This type of data will continue to be gathered and analyzed under the new Micro and Small Business Development Project.

## IX. SUMMARY OF LESSONS LEARNED

1. The project resulted in significant benefits for entrepreneurs who had received credit. As the ISTI evaluation indicated, the real income of loan recipients increased by over 100% and many of the loan beneficiaries used increased incomes to satisfy their basic human needs.
2. Banks were not interested in dealing with small borrowers because transaction costs and perceived risks were too high. Many loan applications were rejected by financial intermediaries (PFIs) because they did not have satisfactory guarantees. For these reasons, graduating individual entrepreneurs to the formal banking system may not be a viable goal. A more attainable goal is to graduate credit organizations specifically designed to deal with these clients to formal sources of credit.
3. Institutional sustainability for the TACs whose primary function was to provide technical assistance was not attained because of the high cost of providing this service. Entrepreneurs

frequently did not need technical assistance and went directly to the PFIs for their loans, (about 37% of loan recipients were in this category).

4. The most successful credit programs to informal sector small and micro-entrepreneurs in the Dominican Republic are those which are offered by private sector NGOs. These organizations frequently surpassed their objectives in terms of the number of loans programmed and amount loaned. Turn-around time on most of these loans, including those for fixed assets is two weeks at the maximum.

PED:ABeasley:ab:12-04-90:sidp

Clearances:

PDS:RMathia RM Date 3/24/91  
PRG:TCornell TC Date 3/4/91  
CONT:KLeBlanc KL Date 4/12/91  
DD:FJConway FJ Date 4/30/91  
DIR:RFRifenburg RF Date 5/2/91