

1. BEFORE FILLING OUT THIS FORM, RE-ATTACH INSTRUCTIONS.  
 2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE

**IDENTIFICATION DATA**

A. Reporting A.I.D. Unit: Mission or AID/W Office (ES#) <u>USAID/EI Salvador</u>	B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY <u>91</u> Q <u>Q</u>	C. Evaluation Type Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned I.O.P. Cost (000)	Amount Obligated to Date (000)
519-0371	International Executive Service Corps Technical Assistance to Business	FY 1989	12/91	\$400,000	\$400,000

**ACTIONS**

E. Action Decisions Approved By Mission or AID/W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required I. The Mission accepts the evaluators recommendation on future use of IESC for technical assistance and will condition any future agreement upon IESC's acceptance of the following three recommendations: 1) That the IESC adapt its technical assistance offerings to the extent feasible to the program requirements of such Salvadoran institutions as FUSADES and ASI; without losing the ability to assist firms outside of their programs. 2) That the IESC undertake a promotional program which could include seminars undertaken jointly with local organizations. 3) That the IESC modify its program to provide for better follow-up and evaluation.	Oscar M. Salinas	Feb./92
II. The Mission will consider future support of IESC as a mechanism to reach small and large enterprises and whether this target population is within the Mission's strategic objectives.	Oscar M. Salinas	Feb./92

(Attach extra sheet if necessary)

**APPROVALS**

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) December (Day) 4 (Year) 1991

G. Approvals of Evaluation Summary And Action Decisions:

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantor	Evaluation Officer	Mission or AID/W Office Director
Oscar M. Salinas	James Stephenson	Mario Sulit	Karen Freeman	John A. Sanbrailo
<i>[Signature]</i>	<i>[Signature]</i>	<i>[Signature]</i>	<i>[Signature]</i>	<i>[Signature]</i>
Date	<u>December 11, 1991</u>	<u>12 JAN 92</u>	<u>1/13/92</u>	

A B S T R A C T

H. Evaluation Abstract (Do not exceed the space provided)

The project provided firm and product specific technical assistance to private companies in El Salvador under terms of an agreement with the International Executive Service Corps. AID funds were to be used to subsidize from 25 to 75% of the costs of 40 technical assistance interventions during the period 4/1/89 to 12/31/91. Twenty non-subsidized TA interventions were also expected. This final and only evaluation was conducted by a two-man team who interviewed project personnel and 25 beneficiary institutions. The purpose was to assess the economic and developmental impact and recommend possible future program improvements.

o The project will come close to its quantitative targets: about 34 subsidized and 13 non-subsidized TA interventions.

o While the impact of the TA at the company level was generally positive, there were few results towards the program objectives of export development and employment generation. Most of the firms assisted were neither small nor medium-sized: many were not technically eligible for the subsidies received.

o This type of TA is not suitable for small or micro-enterprise development. Its more effective use for export and industrial development would be helped by program modifications and by far better coordination between the IESC and interested Salvadoran organizations.

o The internal rate of return for the TA at the level of the beneficiary firm was quite high. The project's economic benefits were clear, but its size was too small to impact the economy and its developmental impact was very limited.

o The evaluators recommended that unless modifications were made by the IESC, the developmental benefits from the program would not justify a follow-on project.

"Lessons" noted included that the benefits of this type TA are not well understood in Latin America and that its impact is hard to measure.

C O S T S

Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Wesley Boles	Development Economics Group	519-0177-C-1202-00	\$ 34,744	519-0177-3-
David Crowther	(Louis Berger International)	23 days		10017
2. Mission/Office Professional Staff		3. Borrower/Grantee Professional		
Person-Days (Estimated)		N/A		

# A.I.D. EVALUATION SUMMARY - PART II

## SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)  
Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office:

Date This Summary Prepared:

Title And Date Of Full Evaluation Report:

### IESC EVALUATION SUMMARY

Evaluation Purpose and Methodology. The purpose of the evaluation of the IESC technical assistance project (519-0371) was to assess project performance with respect to the project targets, assess its fit within the Mission's portfolio and recommend whether and how the service could be used in the future. The major methodology was a field survey of 25 beneficiary firms together with interviews of project personnel.

Project Purpose. The objective of the Project, a two year grant of \$400,000 to the International Executive Service Corps, was to promote Salvadoran export development and employment generation through subsidized technical assistance to small and medium-sized firms and to export-oriented firms of whatever size.

Findings. The IESC came close to meeting its quantitative target of 40 subsidized technical assistance interventions, completing 31 to date with three more in process to be completed by year end. For the non-subsidized target of 20 firms assisted, 13 were carried out. Funds disbursed at the time of the evaluation were \$335,905 of the total obligated funding of \$400,000.

The distribution of assistance between medium and small enterprises did not meet the project goals with most assistance directed to large firms as defined by the Agreement. This resulted partly from the very low parameter for "large" set within the Agreement and the reluctance of large firms to pay the full costs of technical assistance.

Basically the program operated effectively. There was a continuing problem in the identification of demand. The IESC staff could not depend on firms' applying for assistance and so had to market the services actively in order to reach the numerical target. Once an application was accepted, the process proceeded quite smoothly. There were few complaints of delays in the arrival of volunteer executives.

Clients were also generally satisfied with the services received. Some problems were noted in communication - most VE's spoke only English - and there were some difficulties in terms of the VE's ability to adapt to local circumstances or in the ability of the beneficiary firm to absorb the assistance. Comment on the VE's was generally very favorable.

C'

A profile of clients served by the IESC showed that most were manufacturing firms serving the Salvadoran domestic market and that in terms of sales and employment they fell in the lower range of "large" firms as defined in the Agreement. There was also little overlap between the IESC and FUSADES programs.

The IESC clearly met the overall requirement of securing non-Federal funding for over 25% of the project's expenditures. Subsidization, however, was granted in several cases to firms which technically were not qualified under the terms of the Agreement.

In nearly all cases surveyed, the impact of the IESC assistance was favorable. Quantifying this assistance was often difficult. Most of the estimates of monetary benefits were the result of cost savings in the production process and did not translate into employment generation or expanded exports. The project did not reach many small enterprises (only 6) and no microenterprises. Impact is very much a function of the ability of the beneficiary firm to absorb the assistance proffered. Larger, technically oriented firms are more apt recipients than smaller firms.

Within the Mission's Private Enterprise portfolio the IESC technical assistance program can benefit the industrial reconversion, export development, and, possibly, the financial institutions strengthening programs. It has not proven effective in privatization and it does not appear to be a suitable instrument for small and microenterprise development.

As to cost benefit analysis, at the microeconomic level the results appear quite good with high rates of return in the form of benefits to the firm in relation to the program's cost. It can be said that the Mission is receiving value for its money in economic terms. At the macroeconomic level, however, the project was too small to have any measurable effect and there is a question of the impact of the project in terms of the Mission's developmental goals as the IESC program was structured.

Conclusions . The evaluation team found that the IESC came close to meeting its quantitative objectives, but that it did not directly address export development or the need of small and medium-sized firms.

The problem of demand identification, or of matching available technical assistance to the needs of the local community, is serious. A mechanism should be developed to bridge the availability to the need, probably using educational and promotional techniques as well as better interface with Salvadoran developmental institutions.

d.

The evaluators also concluded that follow-up and evaluation methods should be improved, perhaps through changing the methodology of the technical assistance.

A final conclusion was that unless the IESC modifies its approach to fit better with U.S.A.I.D./El Salvador's development objectives, funding of a follow-on technical assistance project is probably not justified.

### Recommendations.

1. That the Mission's use of the IESC for future technical assistance be conditioned on the latter's acceptance of the following three recommendations.
2. That the IESC adapt its technical assistance offerings to the extent feasible to the program requirements of such Salvadoran institutions as FUSADES and ASI; without losing the ability to assist firms outside of their programs.
3. That the IESC undertake a promotional program which could include seminars undertaken jointly with local organizations.
4. That the IESC modify its program to provide for better follow-up and evaluation.

Assuming that the above recommendations are accepted, the following two may improve the program's effectiveness.

5. That USAID modify its criteria for size of firms to be assisted to reflect better the circumstances in El Salvador.
6. That the IESC encourage direct contact between the VE and the client firm before the VE's arrival.

### Lessons Learned

1. That the need for and benefits from technical assistance are not well understood among most Latin American firms.
  2. That the impact of firm or product specific technical assistance is not readily quantifiable.
  3. That short term technical assistance can be an effective instrument but is of limited application.
- 4 -

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ATTACHMENTS

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K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

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1. Final Evaluation Report.

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COMMENTS

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L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

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- The evaluation meets all the demands of the scope of work. It was well done.
- The evaluation team spent enough time on the field to fully understand the activity, its impacts and the problems encountered in managing IESC.
- The recommendations stated on the evaluation report were very clear and accurate; and the evaluation team was very successful on explaining how they arrived to those conclusions.

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**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**

**EL SALVADOR**

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**EVALUATION REPORT**  
**INTERNATIONAL EXECUTIVE SERVICE CORPS**  
**TECHNICAL ASSISTANCE PROJECT**  
**(519-0371)**

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*Prepared by:*  
**The Development Economics Group/  
Louis Berger International, Inc.**

**November 1991**

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
EL SALVADOR**

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**EVALUATION REPORT  
INTERNATIONAL EXECUTIVE SERVICE CORPS  
TECHNICAL ASSISTANCE PROJECT  
(519-0371)**

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***Prepared by:***  
**The Development Economics Group/  
Louis Berger International, Inc.**

***Evaluation Team:***

**Wesley Boles  
David Crowther**

**November 1991**

IESC EVALUATION  
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**I EXECUTIVE SUMMARY**

The purpose of the evaluation of the IESC technical assistance project (519-0371) was to assess project performance with respect to the project targets, assess its fit within the Mission's portfolio and recommend whether and how the service could be used in the future.

The evaluation team surveyed 25 beneficiaries as well as representatives of involved institutions.

The IESC came close to meeting its quantitative target of 40 subsidized technical assistance interventions, completing 31 to date with three more in process to be completed by year end. For the non-subsidized target of 20 firms assisted, 13 were carried out. Funds disbursed to date total \$335,905 of the total obligated funding of \$400,000. The distribution of assistance between medium and small enterprises did not meet the project goals with most assistance directed to large firms as defined by the Agreement. This results partly from the very low parameter for "large" set within the agreement and the reluctance of large firms to pay the full costs of technical assistance. ;

Basically the program operated effectively. There was a continuing problem in the identification of demand. The IESC staff could not depend on firms applying for assistance and so had to market the services actively in order to reach the numerical target. Once an application was accepted, the process proceeded quite smoothly. There were few complaints of delays in the arrival of volunteer executives.

Clients were also generally satisfied with the services received. Some problems were noted in communication - most VE's spoke only English - and there were some difficulties in terms of the VE's ability to adapt to local circumstances or in the ability of the beneficiary firm to absorb the assistance. Comment on the VE's was generally very favorable.

A profile of clients served by the IESC showed that most were manufacturing firms serving the Salvadoran domestic market and that in terms of sales and employment they fell in the lower range of "large" firms as defined in the Agreement. There was also little overlap between the IESC and FUSADES programs.

The IESC clearly met the overall requirement of securing non-Federal funding for over 25% of the project's expenditures. Subsidization, however, was granted in several cases to firms which technically were not qualified under the terms of the Agreement.

In nearly all cases surveyed, the impact of the IESC assistance was favorable. Quantifying this assistance was often difficult. Most

of the estimates of monetary benefits were the result of cost savings in the production process and did not translate into employment generation or expanded exports. The project did not reach many small enterprises (only 6) and no microenterprises. Impact is very much a function of the ability of the beneficiary firm to absorb the assistance proffered. Larger, technically oriented firms are more apt recipients than smaller firms.

Within the Mission's Private Enterprise portfolio the IESC technical assistance program can benefit the industrial reconversion, export development, and, possibly, the financial institutions strengthening programs. It has not proven effective in privatization and it does not appear to be a suitable instrument for small and microenterprise development.

As to cost benefit analysis, at the microeconomic level the results appear quite good with high rates of return in the form of benefits to the firm in relation to the program's cost. It can be said that the Mission is receiving value for its money in economic terms. At the macroeconomic level, however, the project is too small to have any measurable effect and there is a question of the impact of the project in terms of the Mission's developmental goals as the IESC program is now structured.

In conclusion, the evaluation team found that the IESC came close to meeting its quantitative objectives, but that it did not directly address export development or the need of small and medium-sized firms, as defined by the Agreement.

The problem of demand identification, or of matching available technical assistance to the needs of the local community, is serious. A mechanism should be developed to bridge the availability to the need, probably using educational and promotional techniques.

The evaluators also concluded that follow-up and evaluation methods should be improved, perhaps through changing the methodology of the technical assistance.

A final conclusion was that unless the IESC modifies its approach to fit better with USAID/El Salvador's development objectives, funding of a follow-on technical assistance project is probably not justified.

The evaluators make the following recommendations:

1. That the Mission's use of the IESC for future technical assistance be conditioned on the latter's acceptance of the following three recommendations.

2. That the IESC adapt its technical assistance offerings to the extent feasible to the program requirements of such Salvadoran institutions as FUSADES and ASI; without losing the ability to assist firms outside of their programs.
3. That the IESC undertake a promotional program which could include seminars undertaken jointly with local organizations.
4. That the IESC modify its program to provide for better follow-up and evaluation.

Assuming that the above recommendations are accepted, the following two may improve the program's effectiveness.

5. That USAID modify its criteria for size of firms to be assisted to reflect better the circumstances in El Salvador.
6. That the IESC encourage direct contact between the VE and the client firm before the VE's arrival.

Lessons learned include that the need for and benefits from technical assistance are not well understood among most Latin American firms; that the impact of firm or product specific technical assistance is not readily quantifiable; and that short term technical assistance can be an effective instrument but is of limited application.

## II PURPOSE OF EVALUATION

The purpose of this evaluation has been to assess the performance to date of the International Executive Service Corps technical assistance program in El Salvador and to recommend modifications to the Program to better meet the Mission's economic development objectives. The assessment was made of the Program's operating procedures, client satisfaction and the impact on Salvadoran economic development resulting from the services provided. IESC financial and program performance was measured against the targets established in the Program Agreement. Based on the findings, recommendations have been made with the objective of improving the provision of technical assistance on the part of the IESC and the alignment of the program within the Mission's program goals.

## III COMPOSITION OF EVALUATION TEAM

The Development Economics Group evaluation team consisted of two members.

Wesley Boles, team leader, has many years of international experience including service with the U.S. Department of State, with a major U.S. diversified manufacturer and as a consultant to A.I.D. Recent assignments include trade development, project design and project evaluations in such countries as Honduras, Panama, Guatemala, Costa Rica and the Dominican Republic. Mr. Boles holds a B.A. in International Relations from U.C.L.A., an M.A. in Foreign Affairs and an M.B.A. in International Business both from the George Washington University in Washington, D.C.

David Crowther has worked with USAID Missions in Costa Rica and the Philippines in the areas of project design and evaluation. He recently completed an assignment for the Asian Development Bank in Bangladesh. Previously, Mr. Crowther served as both a volunteer and staff member with the Peace Corps in Costa Rica. He holds a B.A. in International Studies from Reed College and an M.P.A. with a specialization in Development Economics from the Woodrow Wilson School at Princeton University.

## IV METHODOLOGY

The principal mechanism used by the evaluation team has been that of field interviews with IESC beneficiaries. Twenty-five beneficiary organizations involving thirty technical assistance interventions were the subjects of personal visits. Of these 19 were beneficiaries of direct USAID technical assistance subsidies, six were not. The 19 were selected as representative of the total of 64 for which this type of service had been provided since the onset of the IESC program in 1985. The six beneficiary companies

outside this program were selected to serve as a comparison and were only a small sample of the more than 50 companies in this category.

In addition to the beneficiary interviews, the team also reviewed the documentation available at the Mission and at the local office of the IESC and interviewed responsible representatives of the Private Enterprise Division of AID, the IESC, FUSADES/PRIDEX, the Asociacion Salvadorena de Industriales and the United Nations Development Program.

The evaluation team was greatly assisted by the local IESC staff in El Salvador which met all requests for assistance and information in an open and helpful manner.

## V BACKGROUND

The political and economic development of El Salvador has continued despite a condition of insurrection for the past 12 years. Democratic elections took place in 1985 and again in 1989 and civilian control over the government and policy formation has been greatly strengthened if not yet complete.

Two major events unique to El Salvador which adversely affected recent economic development were a major earthquake in October 1986, which caused substantial damage in central San Salvador, and a guerrilla offensive in November 1989 which brought the war, at least temporarily, into the streets and neighborhoods of the capital with attendant disruption and destruction. These events were in addition to the impact on El Salvador of regional problems arising from the collapse of the Central American Common Market and the onset of a world wide recession at the beginning of the decade of the 1980's.

Changes in economic and monetary policies undertaken by the current Cristiani Government have contributed to renewed economic growth, with the GDP believed to have risen by over three percent in 1990. Inflation continues to be a problem, having exceeded 19% in 1990, but running at a somewhat lower rate thus far in 1991. In real terms, El Salvador's case is not much different from that of most of the other Central American countries in that the GDP is just now reaching levels attained in 1981.

For Salvadoran producers and merchants, the new economic policies have changed the "rules of the game" significantly as in many instances import protection has been reduced radically leading to sharp competition in the Salvadoran market from imports. The new environment places a premium on adaptation and modernization of Salvadoran industry and agriculture.

With the onset of serious negotiations this year between the Government of El Salvador and the leadership of the Farabundo Marti National Liberation Movement there is strong hope that a workable peace agreement will be reached in the near term and that Salvadoran economic development can then proceed unshackled by the physical insecurity and economic destruction caused by the insurgency.

The Private Enterprise Division of USAID/El Salvador has as its major objectives the promotion of non-traditional exports from El Salvador and the strengthening of its industrial base. With respect to the latter objective, the Private Sector portfolio includes programs specifically directed at privatization of state-owned enterprises, the strengthening of financial institutions and the development of small- and micro-enterprises. Support is also contemplated for a Government of El Salvador program of "industrial reconversion" intended to encourage the adjustment of existing Salvadoran firms to conditions of open and competitive markets. Within this program context, technical assistance can play a useful role and the Mission's agreement with the IESC is one of the mechanisms selected to support its overall objectives.

## VI FINDINGS

### A. Results Achieved

The current IESC Project should come close to meeting its quantitative targets in terms of the number of technical assistance interventions by the end of this year. As of September 31, 1991, 31 projects have been completed (See Table One) and another 3 projects are underway or being planned for implementation by year end 1991. After a slow first half of 1989, when only 4 projects were undertaken, the project has performed well in generating the expected number of projects.

The distribution of assistance by size of firm has tended to be concentrated on firms that are larger than those defined as eligible under the Agreement (see Table One). In fact, only nine of the manufacturers assisted could be classified as "small" or "medium"<sup>1</sup>.

Part of the problem is that IESC has had difficulty determining the size of firms according to the classification system set out in the Agreement; which is based on total assets. Salvadoran firms are often reluctant to disclose exact figures for their total assets.

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<sup>1</sup>In this report, where the words "Large", "Medium" and "Small" appear in parentheses, they refer to the asset classification system used in the Agreement.

TABLE ONE  
PROJECT ACHIEVEMENTS  
(4/89 to 9/91)

	Subsidized	Non-Subsidized
Targeted Projects	40	20
Completed Projects	31	13
-----		
Size (per Agreement):		
Large Firms	22	12
Medium Firms	6	-
Small Firms	3	1
Microenterprises	-	-

The survey approached this problem by asking firms to self-classify themselves according to the Agreement's guidelines; which they were usually quite willing to do. The evaluators also established a classification system of their own so as to be able to distinguish among the "large" firms that have been assisted (see Appendix 4). This last system was based on the much more readily available figures for total sales and number of employees. It was also used to approximate where non-surveyed firms would fall under the Agreement's guidelines for purposes of constructing Table One.

A further explanation for the assistance to "large" firms may be that the maximum parameter established for firm size is quite low (two million colones or \$250,000 in assets) and a number of assisted firms which may have been classified as "large" might better have been considered "medium". IESC reports that very few firms that might have been eligible under the asset classification system were either interested or able to take full advantage of this type of assistance.

As shown below in Table Two, the current IESC project is close to meeting its overall expenditure targets. These funds should be almost completely utilized by PACD. Client contributions on subsidized projects easily surpass the minimum of 25% of total project costs as required by the Agreement.

TABLE TWO

IESC EXPENDITURES  
(4/89 to 9/91, in US \$)

Category	Funds Obligated	Expenditures
<b>Overhead:</b>		
Local Expenses	132,000	97,605
Country Director	48,000	30,000
Subsidized TA	220,000	208,300
<b>Total (USAID)</b>	<b>400,000</b>	<b>335,905</b>
<b>Client Contribution:</b>		
Subsidized Projects	-----	96,900
Non-Subsidized Projects	-----	116,000
US Overhead (incd. Country Director)	-----	177,750
<b>TOTAL</b>	<b>400,000</b>	<b>726,555</b>

Note: figures taken from IESC records

**B. Program Performance**

Basically the program has operated effectively. The IESC has in most instances recruited volunteer executives who have met the expressed needs of the client and whose efforts have had a positive impact on the client organization.

A continuing problem, however, has been the identification of demand for technical assistance. The IESC has been unable to benefit from effective links with Salvadoran organizations in position to promote and screen Salvadoran enterprise requirements for technical assistance. There has also been little in the way of organized promotional activities, e.g. newspaper publicity, about the availability and benefits of the program.

Further, and a significant factor, is that utilization of outside consultants to solve company problems is not an established practice in El Salvador so there is limited spontaneous demand for technical assistance from any source. This latter situation reflects the fact that virtually all Salvadoran manufacturing

enterprises, even the large ones, are family firms without the separation found in the developed world between the firm's professional management and its ownership. Family-dominated firms tend to resist the idea that outside professional assistance may be necessary and, in Latin America, have traditionally been reluctant to pay for outside consultants.

The response of the IESC local management has been to actively recruit clients. Without this effort the number of firms assisted would probably be less than half of the number actually served. The survey found that out of the 25 firms sampled in 8 cases the request for assistance was clearly initiated by the firm, while in 9 cases the assistance was clearly "sold" to the client by IESC. Only two of firms surveyed that were assisted under the current project clearly initiated contact with the IESC.

Once an application for technical assistance has been accepted by the IESC, the process of defining the need and recruiting a qualified volunteer executive runs quite smoothly. The IESC reports continuing difficulty in recruiting VE's for El Salvador, owing to the negative perception in the U.S. of the security situation. But in most instances this is not apparent to the client firm. Very few volunteer executives once recruited have been rejected by the client firm, so the number of times the IESC has had to make substitutions has been small. The response time runs about three months on average. In most instances where there have been delays these have been at the request of the client, which for one reason or another has not been ready for the VE at the originally scheduled time. In the survey we encountered few complaints about the time required in arranging visits of VE's.

### C. Meeting Clients' Expectations

Client expectations are largely a function of the client's sense of its technical assistance needs. It is important then to define as precisely as possible the problem to be addressed. IESC staff assists in this regard by working with prospective clients during the development of the application for assistance to clarify their requirements. In the majority of the cases surveyed the volunteer executives met the clients' expectations. Only two were deemed to have made no contribution to meeting the firms' goals.

When problems arise it is more often from cultural or language factors. Based on our survey, most volunteer executives who come to El Salvador do not speak Spanish and come from corporate or industry environments more sophisticated than those found here. In some instances, then, the VE has found it difficult to "gear down" to the situation at the local firm. As to the language barrier, this has been a continuing problem with most of the medium-sized firms. Larger companies usually have someone in management or on the staff who speaks English. Where this capacity is not found,

the firm is confronted with the added expense of hiring an interpreter, a less than perfect technique since the interpreters often have difficulty with specialized or technical topics.

An additional factor, possibly reflecting the difficulty of attracting people to El Salvador, is that a large majority of the VE's who visited were carrying out their first IESC assignments and thus, over and beyond the problem of adjustment to the local scene, had to adjust to the exigencies of short term field consultancies with only their own resources to rely on. As would be expected, VE's with previous experience tend to do better than those without.

In sum, however, most clients spoke very favorably of their experiences with IESC volunteers and in some instances the services rendered were outstanding.

#### D. IESC Client Profile

Information available for the 64 Salvadoran enterprises which received IESC directly-subsidized technical assistance from 1985 to the present show that they were overwhelmingly (83%) manufacturing firms. In terms of employment and sales the typical firm fell into the lower range of "large" or into the "medium" category.

Distribution of clients by type of industry was dispersed as indicated below:

Textiles/Apparel	- 10
Food Processing	- 9
Services (Retail, Associations, Hotels, Restaurants)	- 9
Miscellaneous Manufactures	- 8
Cosmetics & Pharmaceuticals	- 7
Plastics & Packaging	- 7
Machinery	- 3
Furniture & Wood Products	- 3
Footwear & Leather	- 3
Construction Materials	- 3
Agriculture	- 2

In terms of employment, 68% of the firms (44 of 64) reported employment greater than 20, but less than 250. Fifty-eight percent of the clients reported employment of less than 80.

With respect to sales, only 8 of the 64 reported annual sales in excess of four million dollars. Thirty-nine percent (25) reported annual sales between one and four million dollars. Twenty had annual sales of less than one million dollars with five of these reporting sales of less than \$100,000 (see Appendix 4).

The typical client served over the past several years by the IESC would then appear to be at the lower end of the "large" category as defined in the Agreement, which used only assets as its measurement, and to be involved in manufacture principally for the Salvadoran domestic market. While two or three of the firms surveyed reported discussions with, or technical assistance services from FUSADES, there appeared to be little overlap between IESC and FUSADES clients. This reflects, we believe, the concentration to date of FUSADES on export development, a criterion not imposed by the IESC for its program.

#### E. Cost Recovery

The primary form of cost recovery for IESC is the portion of the technical assistance costs covered by the client. The Agreement establishes that the proportion of the costs covered by each client should be dependent on its size. Thus, "medium" size firms should finance between 60%-75% of project costs; "small" firms from 20%-50%; and Micro from 10%-35%. Projects for which the primary purpose was to increase export capacity could be financed irrespective of size with a subsidy of 25%-75%. Other large firms were to receive no subsidy at all. ;

Unfortunately, in practice these guidelines proved difficult to follow for two reasons: (i) as was mentioned earlier, it proved difficult to classify firms into these size groupings; and (ii) many firms were unwilling or unable to pay the percentage of project costs established in the Agreement.

As a result of these problems, IESC was found to have disregarded the subsidy guidelines in many instances. For instance, all five of the "large" firms surveyed that were assisted under the current project paid 50% or less of the costs of the assistance. Only one of these firms has significant exports (and that one is an airline). Furthermore, only one of these firms is among the smaller "large" firms that might more appropriately be considered to be "medium" in size under an alternate classification system.

The unwillingness of firms to pay the full amount is demonstrated in that only two of the 19 firms which received subsidized assistance stated that they would probably have been willing to have paid the total cost even if the subsidy had not been available at the time. Only three of the 19 (and one of the two who would have paid) reported that as a result of their experience they would consider paying the whole cost for future technical assistance from the IESC.

The most common reasons given for this unwillingness to pay the full costs of the technical assistance were: (i) the firm could not afford to pay the amount; (ii) the risk of receiving a volunteer executive who could not meet the firm's needs; and (iii)

the availability of more cost-effective alternatives (either more inexpensive and/or a younger, more effective consultant). Some of these alternatives are discussed later.

It became clear during the survey that one of the reasons for a possible undervaluing of the IESC assistance was that almost none of the firms had attempted to calculate the economic benefits that directly resulted from having a volunteer executive. In fact, in the few cases where it was possible to estimate these benefits during the interview, the firm representative(s) was often surprised to discover the size of the gain. In any case, as was mentioned earlier, many of the owners of these firms were reportedly reluctant to invest very much in outside technical assistance.

#### **F. Impact Assessment**

In virtually all cases surveyed the impact of the technical assistance on the client firm was positive. In a number of cases, quantifying the impact in monetary terms proved impossible. Part of the reason is one of attribution: the VE's advice leads to improved production processes but the market declines and the firms' sales and profits decline as well. The decline might well have been worse without the TA, but how do you quantify the difference? Improvement in efficiency and/or reductions in materials cost do not necessarily translate into increased employment but may make existing employment more secure through strengthening the firm's competitiveness.

In some cases the impact has been rather dramatic: a pharmacy firm requested assistance in laying out its production lines in a new building for which plans had already been drawn. The VE totally changed the layout resulting in a smaller, much more practical, albeit less artistic, building which the firm was able to build on one of the two lots purchased for the purpose. The firm was able subsequently to sell the unused lot and so not only achieved improvements in the factory layout but saved on its capital investment. In another case, following the diagnosis of the VE, the firm elected not to enter into a new venture, one in which the possibility of success and thus a return on the investment was quite low. Two start-up operations were strongly benefitted by technical assistance in the areas of chemical formulations and materials procurement.

Firms surveyed were predominantly involved in manufacture for the Salvadoran market. Most of the technical assistance was directed at improving existing operations with relatively little involvement in expansion or start up of production.

A key element affecting the impact of technical assistance is the capacity of the client firm to absorb the assistance and its willingness to accept and carry out the recommendations made. This process is a two way street requiring not only that the Volunteer Executive adapt to the conditions of the firm and the local market, but that the firm make available the interest and support required as well as the willingness and ability of the firm to respond to the assistance. Some VE's were less able than others to make the adaptation and some firms were inept in their response to the assistance.

For example, an apparel exporting firm requested assistance in cutting, but when the VE arrived the cutting department had not yet been set up. The VE did what he could to suggest improvements in the sewing processes but his principal expertise, cutting operations, did not come into play.

A corollary to the above is that short term technical assistance tends to be more effective with large firms and/or where the problem is highly technical in nature. The larger firms generally have the human and financial capacity to respond to advice and to carry out recommendations. Their technical assistance needs tend to be more sharply defined, e.g. problems involving a specific piece of equipment or a specific process. Larger firms also tend to be more able to purchase new equipment when needed.

In one case a firm was able to bring in house the production of printing inks resulting in material costs savings of over \$100,000 annually. Another large firm was able to shortcut its research and development of a new production line, saving perhaps \$75,000 in R&D costs. In the case of a foundry, however, technical assistance on foundry processes was largely wasted since the firm didn't have the money to buy new equipment as recommended nor was there very strong management interest in carrying out process changes. It was able to improve its materials handling procedures and reduced its inventory costs but its economic situation continues weak owing to domestic market conditions.

Further comment on the quantification of the IESC program impact appears below in Section H. ~~The monetary benefits noted were primarily in the areas of cost savings and increased sales. During the survey we noted very little quantifiable impact in terms of employment generation and few firms appeared to be involved in exports.~~

#### **G. Program Fit Within USAID Portfolio**

Technical assistance of the type offered by the IESC can be a useful instrument in support of several of the programs in the Private Enterprise portfolio. It must be noted, however, that the services available through the IESC cover only a portion of what

falls within the rubric of "technical assistance". Expertise from the IESC is supplied by retired American business executives who for the most part have worked for professionally managed companies of a size and sophistication not found in El Salvador. The type of assistance most commonly offered is firm- or product-specific. Its impact depends very heavily on the ability of the recipient to absorb and use the assistance offered.

IESC services are not readily applicable to programs directed at small and microenterprises. This reflects that the ability of such firms to respond to advice and recommendations most often limited by lack of adequate financial and human resources. This problem is compounded by the general inability of VE's to speak Spanish and their limited experience in small scale, low technology enterprises. This is not to say that the smaller firms, including microenterprises, are not very much in need of technical assistance, but that the IESC is not an effective instrument in this field.

Support for women in development is incidental to the IESC technical assistance program. Two of the 25 firms surveyed were owned and managed by women. One of the larger firms had a woman production engineer actively involved in the management of its operations. Given that most Salvadoran enterprises are family owned, the role of wives and daughters in management is not inconsequential. However, technical assistance directed at specific firms or specific products tends to be gender neutral.

With respect to privatization, a major problem is the absorptive capacity, or lack thereof, of the institution to be privatized. If the task at hand is to appraise the market value of a given facility, IESC's roster may not offer expertise specialized in the type of equipment involved or knowledgeable in current market trends and prices. If the task is to rationalize production, improve management, etc. the effectiveness will depend on the quality and attitude of the institution's management. Managers who are emotionally opposed to privatization, underqualified for their positions and/or fearful of losing their jobs are not good subjects for specialized technical assistance.

However, in the area of export development and "industrial reconversion" there would appear to be a strong and continuing need for firm and product specific technical assistance. In this area services provided by the IESC need not be limited to manufacturing. While FUSADES has its own programs for investment promotion and export market development there remains a need for marketing-oriented technical assistance at the company level. FUSADES staff can not extend itself to "hand-hold" the marketing programs of all the firms encompassed in its general export development program. In addition, the survey encountered among a number of the smaller firms a reluctance to deal with FUSADES.

The Asociacion Salvadorena de Industriales (ASI) plans to develop a program directed at "industrial reconversion" which will also bring with it a need for company specific technical assistance. Again the needs will range from production to marketing - perhaps domestic rather than export - to management, accounting, information systems and planning.

The IESC may also prove of service for programs designed to strengthen the financial system. The legal framework for banking in Latin America differs from that of the U.S., but there are areas in which assistance should be possible, e.g. credit analysis, credit policy, portfolio management, personnel systems, and data processing.

#### **H. Cost Benefit Analysis**

Because of the difficulty in quantifying the benefits for most of the firms assisted before 1989, the cost benefit calculation is limited to a financial analysis of the surveyed subsidized interventions that fall under the current project. Non-subsidized interventions from the same period are not included because only one firm in this category was surveyed.

All seven of the firms surveyed that came under the current 1989-1991 project were able to provide estimates for benefits. In each case, the estimate of quantifiable benefits was arrived at in conjunction with the evaluator.

Unfortunately, these estimates must be taken as approximations and not exact figures. The scope of the evaluation did not allow for a more time-consuming examination of the assistance given to each one of these firms. As a result, there are four primary areas where insufficient data limited the development of more reliable estimates:

1. In several cases it was not possible to determine with any exactitude what would have happened had the assistance not been provided. Many of the respondents were not able to specify which, if any, alternate approach to making the needed improvements would have been undertaken. For the most part, it is assumed here that the improvements resulting in benefits would not have taken place without IESC assistance.
2. The surveyed firms were usually not able to provide data that would allow the incorporation of the internal benefits and costs of the assistance into the calculations. Internal benefits would include work that was done by the VE that would otherwise have had to be carried out by the firm's permanent personnel. Internal costs would include the time taken by the firm's personnel to work with the VE.

3. For several of the firms, only some of the benefits that accrued were actually quantified and the figures that are used in this analysis probably understate the overall benefits to those firms.

4. There was a great deal of uncertainty in the attribution of benefits to different sources; which was compounded by an unavoidable lack of consistency between firms in making these attributions given the wide variation in the types of benefits that occurred.

As a result of the variety of benefits that occurred, it was not possible to use a standard indicator (such as employment generated or additional sales revenue) for all of the firms. In three cases, the quantifiable benefits came as the result of increased sales that were directly attributable to the activities of the VE. The first of these was a sporting goods retail company for whom the VE designed a marketing strategy and some specific advertisements. The firm's management estimates 5% to 8% higher sales due to these new advertisements. Taking the more conservative end of this range and given profits that have averaged at about 10% of sales, this translates into approximately \$6,500 per year.

The second case is a small recently formed manufacturer of foam rubber that was able to expand its product line significantly after adopting a new formula provided by the VE. As a result, sales are estimated to have increased at twice the rate they would have increased without the assistance. The firm's accountant then estimated that this translates into about \$6,000 a year in additional profits that are attributable to the project.

The third firm that experienced increased sales was a clothing "maquiladora" for which the VE helped set up contacts with a US distributor. An initial contract was arranged by the VE for \$20,809 in samples; of which \$15,600 represented net income for the firm. Unfortunately no further contracts were possible with that distributor because the local (Salvadoran) supplier of cloth failed to provide the assisted firm with material of sufficient quality to meet the requirements of the US distributor.

Another three firms benefitted in the form of cost savings that resulted from specific recommendations made by the volunteer executive that the firm would not have implemented otherwise. An electronics assembly plant (for TVs, Radios, Refrigerators, etc...) was assisted by a VE who helped improve cost and quality control. While the firm was not able to quantify all of the savings that have resulted from implementing the VE's recommendations, they were able to specify a 30% savings in the use of tin. This translates into annual savings of about \$9,950.

A VE redesigned the quality control and storage procedures of a meat processing company in a manner that reduced the return of bad products from 8% to 3% of sales and also reduced the cost of chemicals used in processing the meat. Taken together, these improvements have resulted in annual cost savings of \$55,200.

Another VE helped a second meat processing company adopt a more efficient use of their seriously underutilized equipment. The firm's manager estimated that this will produce a savings of \$40,000 to \$60,000 per year based on current performance. More exact figures were unavailable because this TA was very recent.

The seventh firm, an airline, had no monetary benefit at all because the recommendations made by the volunteer executive were not implemented due to changing market conditions and the lack of access to credit.

In addition to the seven firms mentioned above, the cost-benefit calculation includes an eighth entry which represents the four privatization projects. This is because these particular projects were of a very different nature than the other 27 that were financed in the 1989-91 period. They each had direct costs of \$18,000 and produced no quantifiable benefits at all. As the ratio of the surveyed to the total number of non-privatization projects is close to 4 to 1, the total amount expended by USAID and by the client on these four projects was divided by four to represent the costs of this composite entry.

In the cost benefit calculation, benefits for all but one of the firms were assumed to begin six months after the technical assistance was completed. This is actually rather conservative as most of the firms implemented these specific recommendations much quicker. The benefits were then projected to last for three years, after which time changing conditions can be expected to have lessened their impact. The one exception is the maquiladora, where benefits were taken at the time of the contract. Costs and benefits are discounted at a standard rate of 10%.

The costs of each of the eight project entries consisted of the direct project costs of each one and indirect overhead costs. The later includes local IESC expenses and the IESC Country Director's salary and benefits. The indirect overhead costs were added to the direct costs of each of the eight project entries by dividing total indirect overhead expenses by the number of projects (31) and then multiplying by 8. Thus the overhead costs used here are the average overhead costs and not the actual ones for each activity.

The benefits and costs associated with each of these companies are summarized in Table Three.

TABLE THREE

COSTS AND BENEFITS BY FIRM  
(in US \$ 000)

Firm	Overhead	Costs			Benefits Annual*
		AID-TA	Client	Total	
Mundo Deportes	7.69	4.00	4.00	15.69	6.50
ESPUMAR	7.69	4.50	2.50	14.69	6.00
HAQUISAL	7.69	6.00	6.00	19.69	15.60
PRODESA	7.69	3.00	3.00	13.69	9.95
El Faro	7.69	4.00	4.00	15.69	55.20
La Unica	7.69	3.50	3.50	14.69	40.00
TAES	7.69	3.50	3.50	14.69	0.00
(Privatization)	7.69	16.50	1.50	25.69	0.00
<b>TOTALS</b>	<b>61.52</b>	<b>45.00</b>	<b>28.00</b>	<b>134.52</b>	<b>133.25</b>

\* These are only one years worth of benefits. In the cost-benefit calculation it is assumed that these benefits will accrue for three years for all firms except MAQUISAL.

The result of these calculations is that these eight projects taken together had a financial internal rate of return of 70.97%. Appendix 5 contains the calculations involved.

This FIRR was then tested in a sensitivity analysis involving three variables: a 10% increase in costs; a 10% reduction in benefits; and a delay of one year in the benefits. The results range from 62.47% to 36.36% (See Appendix 5).

These calculations would indicate that the benefits of the project are considerably higher than the costs. A glance at Table Three would support this conclusion as only one year's worth of benefits almost matches total costs for these eight activities. Assuming that these sampled firms are roughly representative of the total, then the data would confirm that in economic terms, the mission is receiving value for its money.

On the other hand, while these FIRR's are very high, the significance of the results should not be overestimated. As has been mentioned, the calculation of the benefits was less than precise for several of the firms. The small sample size also detracts from the robustness of the results.

Furthermore, the net benefits involved have most often had only a small impact on the overall health of the assisted firms. Of the seven firms discussed above, the assistance probably had a major impact on the long term performance of only the foam rubber

producer. In that case, the beneficial impact was not limited to a doubling of the firm's rate of increase in sales, but also includes the increase in technical knowledge that the VE left behind which is allowing the firm to begin exporting to other Central American countries. In most of the other cases, the assistance proved to be very helpful, but not critical.

## VII CONCLUSIONS

### A. Fulfillment of Program Objectives.

As brought out under FINDINGS, the IESC came close to meeting its numerical targets for directly subsidized technical assistance, but did less well with non-subsidized assistance. The terms of the Agreement, however, indicate that the Mission had intended the technical assistance to support export development and the strengthening of medium and small-sized firms as defined in the Agreement. IESC's efforts did not meet these expectations for reasons largely explained in the foregoing sections.

Of the 25 firms surveyed, nine exported outside Central America. Of these, exports were a substantial portion of the business only for two apparel "maquiladoras" and one packaging producer. Assistance to these three firms which contributed to improved operations promoted exports even if indirectly. In other cases where exports were a small portion of the business, the technical assistance was not directly related to the firm's export lines. For example, technical assistance was supplied to a furniture company to improve its use of fabric in its line of upholstered pieces: the company has modest exports of non-upholstered hardwood furniture.

Among the firms surveyed as a whole, we were unable to identify any significant impact on employment generation. This is primarily because technical assistance is only one of many variables affecting the performance of a given enterprise. Other factors such as cost and supply of raw materials, market conditions, credit availability, foreign exchange rates and tariff levels all impact on the firm's level of activity.

Contributing to this was that most of these firms assisted by the IESC were existing firms supplying the domestic Salvadoran market. If provided in large scale relative to the size of the firm, the impact of technical assistance which contributes to a start up, or new to export, operation is more easily measurable. Among the firms surveyed were two manufacturing start ups for which IESC technical assistance was important, but perhaps not critical. One firm just now starting production expects to employ six people in 1992, the other added an additional three employees as it was able to strengthen its operations as a result of the technical assistance.

The apparent inability of the IESC program to direct its activities along the channels set forth in the Agreement reflects that the program is supply-driven, not demand-driven. Only a small number of Salvadoran enterprises approach the IESC for assistance. To meet its quantitative goals, IESC staff must take the initiative in seeking out firms interested in its services. Selection then is not a function of screening prospects in terms of program criteria, but of the ability to persuade clients to apply for assistance.

#### **B. Program Impact.**

As indicated in the section (VI.H) on cost benefit analysis, the impact of the IESC technical assistance on the beneficiary firms is generally favorable. At the microeconomic level (the level of the firm) internal rates of return as measured in benefits to the firm flowing from the investment in technical assistance are quite high. It is very clear that within the modest scale of this program, the economic benefits far outweigh the costs. In economic terms, the Mission is receiving value for its money.

In terms, however, of developmental impact, the results are much less apparent owing both to the small scale of the Project and to its only partial fit within the Mission's program objectives.

Within the Mission portfolio, the Agreement with the IESC is a very small element, and its impact on the Salvadoran five billion dollar economy is not statistically significant.

As to Mission program objectives, the preceding section on fulfillment of Mission objectives clearly indicates that by and large the IESC program failed to contribute as intended. Part of this is in the nature of technical assistance provided by the IESC. It does not lend itself for reasons explained earlier in this evaluation to effective work with truly small enterprises.

But as discussed below in Sections D. and E., much of the problem lies with the failure of the IESC either to adapt its program to Salvadoran needs or to tie in more effectively with Salvadoran institutions concerned with fostering economic development.

#### **C. Demand Identification**

From discussions with various institutions and the field survey it becomes readily apparent that the need for technical improvements in Salvadoran industry and agriculture is both very substantial and widespread. There would appear to be, then, almost unlimited demand for technical assistance of whatever nature.

As noted above, however, the IESC has had to struggle to find clients for its services. The IESC is not alone with this problem. The German Government has a similar program utilizing retired executives. Efforts were made to promote the program in El Salvador but were abandoned for "lack of demand". The United Nations Development Program has had its Short Term Technical Assistance (STAS) program operating in El Salvador which uses a data bank in New York of volunteer executives (not all retired), but which reported only eight technical assistance interventions in the current program. Incidentally, in its new program it intends to begin charging recipients for a portion of the transportation and subsistence costs, bringing it in line with that of the IESC.

Part of the problem undoubtedly derives from the limitations inherent in programs which feature short term, highly specialized services conducted by individuals, generally older and not experienced in development issues, who volunteer their services.

Conceptually, however, there would appear to be a "missing link" between the supply of technical assistance available from such sources as the IESC and the companies or individuals in need of the help. What would appear to be required are:

1. Better mechanisms of interface between the donor institution and the local institutions involved in industrial or export development; and,
2. Much greater levels of promotion of the availability of the service and education of the prospective user population of the value of the service.

Some possible mechanisms could include seminars sponsored by trade associations, ASI or even FUSADES to explain the availability of technical assistance, its advantages and limitations to Salvadoran business people. Use of media such as newspapers or institutional publications directed at Salvadoran audiences might also be considered. Tailoring of IESC services to meet specific developmental institutional programs could also be considered.

It should be kept in mind, however, that better interface between the IESC and development organizations like FUSADES should not supplant the ability of the IESC to serve clients outside any connection with either FUSADES. As described in Section IV-D, the IESC currently reaches firms largely outside the scope of FUSADES. Reaching these clients has proven difficult for the IESC, but there would appear to be value in having at least one channel of AID-supported technical assistance available to firms which either do not wish to deal with FUSADES or which do not qualify for the latter's programs.

The evaluation team concludes that regardless of which techniques are chosen - more broad-scale promotion and/or better adaptation to the needs of Salvadoran development institutions, greater effort is required to effectively identify demand for technical assistance for the better utilization of available resources.

**D. Need for Follow-Up.**

In addition to better identification of demand, the potential impact of IESC technical assistance could be enhanced by better follow-up.

One of the characteristics noted in the current IESC program is that each technical assistance intervention tends to be a one-shot affair. A volunteer spends from two to eight weeks with a firm and then goes away, usually forever. In a few instances there was further contact between the VE and the assisted firm. Most of the VE's appear willing to have this relationship continue, but for a variety of reasons there appears little effort made on the part of the assisted firm to maintain the business relationship.

IESC follow-up and evaluation of the impact of the technical assistance currently consists of a visit or telephone call to the firm by a staff member some six months after the VE has left. A form is completed containing brief comments in which all projects have been "successful", all Volunteer Executive's "very good" and all their wives have been "very supportive". There is also a form completed by the beneficiary firm relating the results achieved as compared to the assistance requested. The forms from the client firms are usually brief and generally positive but without any quantification of benefits.

There is no current attempt by the IESC to evaluate in quantitative terms the impact of its technical assistance program. In the mid-80's, an effort was made to do so through the use of a detailed form for each client, but this does not appear to have been done since 1986. It would appear useful for the IESC to consider developing a procedure whereby beneficiaries could be assisted as part of the technical assistance effort to establish a framework for quantifying the future results. This could prove not only helpful to the IESC, but might help persuade the beneficiaries of the real value of technical assistance and encourage the demand for more.

Apart from there being no evaluation of results, there is also little or no follow-up to the technical assistance provided the clients. In some cases, the TA may be so specific - the operation of a single machine - that follow-up is not necessary. But for many firms the current one-shot system is inadequate. For many, the needs and required changes are sufficiently great that the VE's advice and recommendations can not be absorbed and implemented in

two to eight weeks. A better approach would be staged visits over several months of two to three weeks each. In other cases the dynamics of the firm - and its personnel - change over time and the need for technical assistance also continues over time. Some mechanism to monitor developments and provide further TA as needed would seem appropriate.

#### **E. Future Courses**

The current project under evaluation (519-0371) will end as of December 31, 1991. The issue for the Mission then is not modification of the current project, but whether the International Executive Service Corps can be an effective instrument for the provision of technical assistance in support of the Mission's ongoing and future programs for export development and industrial development in El Salvador.

That the IESC program can be adapted better to the Mission's requirements has been discussed not only under the topic of "Demand Identification", but also in broadening its range of specialties as discussed in Findings (VI-G).

Having looked carefully at the operation of the current project, the conclusion of the evaluation team is that without changes in the IESC approach to providing technical assistance in El Salvador, the developmental impact of IESC technical assistance (as measured by small and medium-sized enterprise development or export growth) is insufficient to warrant future Mission funding of the IESC program.

The evaluation teams' recommendations are primarily intended to outline the changes in the IESC program that would allow it to have a larger developmental impact.

#### **VIII RECOMMENDATIONS**

1. That USAID/El Salvador's use of International Executive Service Corps in the future to provide technical assistance be conditioned on the latter's acceptance of the following three recommendations.

2. That the IESC adapt its technical assistance offerings to the extent feasible to the program requirements of such Salvadoran institutions as FUSADES and ASI. This will require more intense liaison with these two institutions and an adaptive ability on the part of the IESC staff both here and in Stamford.

3. That the IESC undertake a promotional program which could include seminars sponsored jointly with ASI or with industry committees of ASI, trade associations and chambers of commerce on the topics of technical assistance, availability and benefits.

4. That the IESC undertake modifications in its program directed to better follow-up and continuing evaluation of its projects. This might include, where appropriate, technical assistance provided in series, e.g. two weeks followed by two additional weeks two or three months later.

Assuming that the above recommendations are accepted, the following recommendations may also improve the effectiveness of the Program.

5. That USAID modify its size and subsidization criteria to reflect more accurately the relative size of Salvadoran firms. A formula combining assets, sales, and/or number of employees might be used, but the sole use of assets as a parameter for classification leads to distortions, particularly when the level denoting "large" is set too low.

6. That the IESC as a standard procedure encourage direct contact between the client and the Volunteer Executive prior to the latter's arrival in country. Such contact would contribute to clearer understanding on both sides of conditions and expectations relating to the proposed technical assistance.

## IX LESSONS LEARNED

A. That the need for and benefits from technical assistance as represented by the technical consultant are not understood or well appreciated in the traditional Latin American business environment. This is an environment in which the family controlled firm is dominant. Even at the larger firms, our survey encountered general attitudes on the part of ownership not to spend money on intangibles, like technical assistance, even though the professional managers in the firm were clearly convinced of its value. Also, family firms appear less able than professionally managed firms to recognize company failings or the need to improve operations, especially if it involves top management and the delegation of authority.

B. That the impact of firm-specific or product-specific short term technical assistance is not readily measurable owing to the variety of factors affecting the operations of the firm. Profits, sales, employment, etc. go up and down or sideways dependent on many variables and isolating the impact which can fairly be attributed only to the technical assistance rendered is not often feasible. This implies that assigning quantitative targets of employment generation and export sales, for example, to programs like the IESC technical assistance project will prove disappointing or of questionable validity in the implementation.

C. That short term technical assistance carried out by volunteer executives can be an effective instrument but one of limited application. In "industrial reconversion", for example,

the real problem may be the professionalization of management over the medium to long term, a problem not readily addressable by an English-speaking executive in the course of four weeks. Given that the executives are predominantly retired Americans, technical assistance either in high tech fields - such as computerization - or low tech but appropriate for industrial conditions in Latin America, may prove difficult to secure, especially if the location to be served is considered "difficult". A case in point, the IESC has been looking so far unsuccessfully for twelve months for an expert in photomechanics to meet a request from a Salvadoran firm.

As brought out above, for reasons of language, culture and the absorptive capacity of the firm, short term technical assistance of the type provided by the IESC is rarely effective at the level of the small or microenterprise.

**X    APPENDICES**

1. List of Institutions Visited
2. List of People Contacted
3. Matrix of Survey Results
4. Firm Size Classification Systems
5. Cost Benefit Calculations

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**APPENDICES**

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APPENDIX 1

LIST OF SURVEYED FIRMS

Name	Date	Company Activity	Area of Assistance
=====			
PROJECT 519-0302			
Subsidized Projects			
1. Pro-Leche	01/86	Dairy	Production
2. CELPAC	06/86	Packaging	Feasibility
	05/88		Production
	04/88		Production
	02/89		Production
3. INDISA	01/87	Decorations	Production
4. INTECU	04/87	Clothes	Management
	02/89		Production
5. Drog. Morazan	05/87	Pharmaceuticals	Planning
6. Indus. Metalica	01/88	Window Compon.	Production
7. Teneria Salvadorena	04/88	Leather	Production
8. Cajas y Bolsas	09/88	Paper Products	Production
9. PROCREDITO	10/88	Credit	Seminar
10. Chaves S.A.	01/89	Cosmetics	Feasibility
11. Talleres Sarti	01/89	Metal Workshop	Managm./Product.
12. DISALCO	04/89	Furniture	Production
Non-Subsidized Projects			
13. IPSA	01/85	Plastic Bags	Management
14. QUINASA	12/85	Chemicals	Feasibility
15. Molina Hermanos	08/86	Furniture	Production
16. Baterias El Salvador	02/88	Bateries	Evaluation
17. AMCHAM	10/88	(Organization)	Seminar
=====			
PROJECT 519-0371			
Subsidized Projects			
18. Transp. Aereos	08/89	Air Transport	Feasibility
19. PRODESA	03/90	Elect. Assembly	Production
20. MAQUISAL	04/90	Clothes	Production
21. Mundo del Deporte	05/90	Sports Retail	Management
22. Granja El Faro	10/90	Poultry	Production
23. ESPUMAR	06/91	Polyurethane Foam	Production
24. La Unica	07/91	Meat Products	Production
Non-Subsidized Projects			
25. Productos de Cafe	05/89	Coffee	Marketing
	05/89		Production
=====			

*B*

**APPENDIX 2**

**LIST OF PEOPLE CONTACTED**

**USAID**

Oscar Salinas  
Roxana Blanco  
James E. Stephenson  
John Sullivan  
Karen Freeman  
Tom McKee

**IESC**

Mario Sulit  
Manuel Humberto Rivera Aleman

**ASI**

Humberto Alfonso Melgar

**OTHER INSTITUTIONS**

Orlando Altamirano                      FUSADES/PRIDEX

Raul Huevo                                      UNDP

**FIRMS**

Angel Magana                                  Talleres Sarti, Industria Metalicas  
Nelli Sarti

Frida Cohen                                      Productos Electronicos, S.A. PRODESA

Jose Luis Montalvo                              Cajas y Bolsas

Ricardo Valdez                                  CELPAC  
Romy Romero

Werner Jokisch                                  Baterias de El Salvador

Jorge Antonio Aparicio                          Laboratorios Morazan

Ernest Kunz                                      DISACO

Mr. Orellana	INTECU
Jose Joaquin Alegria	Asociacion de Productores de Leche de El Salvador
J. Eduardo Palomo	Moore Corporativo (ProLeche)
Jorge Molina	Molina Hermanos
Jose Luis Flores	Autosprint (Procredito)
Stephen E. Culbertson	American Chamber of Commerce of El Salvador
Armando Chavez-Palomo Alvaro Ramentol Imberton	Productos de Cafe
Marco Antonio Chavez	Farmacia Chavez, S.A.
Roberto Allen Roberto Nuila	Teneria Salvadorena
Ricardo Moran	IPSA
Luis Zaldivar	INDISA
Ricardo Sounday	MAQUISAL
Vicente Tejada	La Unica, S.A.
Ricardo Gutierrez	Transportes Aereos, S.A.
Eduardo Escobar	Granja El Faro
Raul Soto	QUINASA
Edgar Gonzalez	ESPUMAR
Luis M. Ayala	Mundo del Deporte

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APPENDIX 3

MATRIX OF SURVEY RESULTS

Name	Size	Company Activity	Area of Assist.	Start Date	Exports	Quantil. Benefits	Ratings E2 E3	Fit of VE to Firm Needs	Language	Follow-up	Response Time	Cost Client-AID	Payment	Comments	
PROJECT 518-0302															
Subsidized Projects															
1.	Pro-Loche	n/a - 4.0	Dairy	Production	1/88	None	N/A	U G	so-so, ease of operations	Interp. Problem	None	OK	4800-7200	N/A	VE had Fit and Language Problems
2.	CELPAC	L - 1.5	Packaging	a) Feasibility	6/88	65%	n/a	V G	Good	English OK	VE returned	OK	4800-7200	Dont Know Risky	First two TA's very successful, but next two less so. Personality problems with last VE. Firm wants previous contact with VE so that he knows level of technology. This was problem with last two VE's.
				b) Production	5/88		100,000	V				IESC Eval	4800-7200		
				c) Production	4/88		0	U	So-So			IESC Eval	4500-4500		
				d) Production	2/88		0	N	Couldn't Adjust			None	6000-8000		
3.	INDISA	L - 3.0	Christmas Decorations	Production	1/87	N.A.C.A. SA	N/A	U- G-	No experts in their area.	Interp. OK	IESC Phoned	Long No VE	3000-8000	No, too expensive	Prefer younger expert, IESC too expensive
4.	INTECU	M - 2.0	Clothes Mezula	a) Operations	4/87	US 100%	N/A	U G-	So-So	Problem	None	1 Month	3000-8000	N/A	VE not accustomed to ES conditions Not planned - Cutting Dept. not ready
				b) Production Cutting	2/88		N/A	U	Firm not ready	Problem	None	6 Month	6000-8000		
5.	Drog. Morazan	L - 1.5	Pharmaceuticals	Planning New Plant	5/87	CA, Dom Rep.	\$180,000 +	V G	Good	All spoke English	VE wrote	Fast	4000-3000	Yes	Retired VE can be a little out of touch
6.	Indus. Metalicos	L - 2.0	Window Components	Production Quality Control	1/88	CANA	0	N S+	Firm too backward	Interp not technical	None	OK	3000-8000	Not at time	Failed: Time short, firm backward, language problem, union problems
7.	Tenaris Salvad.	L - 2.0	Leather	Production	4/88	None	N/A	V G	OK	Manager Translate	need more	OK	5000-7000	N/A	TA cushioned decline of firm

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Name	Size	Company Activity	Area of Assst.	Start Date	Exports	Quantil. Benefits	Ratings E2 E3	Fit of VE to Firm Needs	Language	Follow-up	Response Time	Cost Client-AID	Payment	Comments
8. Cajas y Bolsas	L - 1.0	Paper Products	Impr. Production Egg Cartons	8/88	CA, PR 30%	N/A	V G	Good	Interp. OK	IESC Phoned	Fast	3000-3000	Not then Now yes	Asked for 2nd VE, but IESC couldn't find right specialist
9. PROCREDITO	S - 4.0	Credit Referece.	Seminar Management	10/88	n/a	N/A	U G	Firm too backward	Spanish	N/A	N/A	2500-2500	N/A	Seminar OK, but recommendations not implemented - no money
10. Chavez S.A.	L - 2.5	Cosmetics Pharmacy	Feasibility Shampoo	1/89	None	N/A	V G+	OK	Technic Interp.	N/A	Firm Delayed	3000-3000	No	Problems: Delay in obtaining packaging and containers.
11. Talleres Sardi	L - 2.0	Metal Workshop	Managem./Product.	1/89	CA	N/A	V G-	OK	Manager Problem	None	OK	4000-4000	Not at time	Time too short, want TA from elsewhere
12. DISALCO	L - 3.0	Furniture Foam	Production Foam	4/89	None	N/A	U G	Good	Manager OK	IESC Phoned	Firm Delayed	4000-4000	No	Need subsidization of TA, firm cannot afford needed TA
Non-Subsidized Projects														
13. IPBA	L - 1.5	Plastic Bags	Management Sales Dept.	1/85	None	N/A	V G	Good		None	OK	2500	n/a	VE need more sensitivity to local conditions
14. QUINASA	Closed	Sodium Hydrochlorite	Feasibility US Contacts	12/85	None	N/A	C B	Good	Interp. OK	None	Problem	4000	n/a	VE caused firm to abandon project ES not ready for necessary tech
15. Molina Hermanos	L - 2.0	Furniture	Production	8/88	Guat/US @40%	10,000/yr	U G	Good	Interp. OK	None	Quick	6000 (Cheap)	n/a	Cost savings on raw materials
16. Baterias El Salv.	L - 2.0	Baterias	Evaluation Operations	2/88	CA-10%	N/A	V G	OK	Some Problem	IESC Eval.	Quick	5000	n/a	Language/Scale Prob (Elexport) Want previous contact with VE
17. AMCHAM	n/a	Organization	Export Seminar	10/88	n/a	N/A	U G	Good	Spanish	n/a	OK	3000	n/a	One day seminar on FTZ's

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Name	Size	Company Activity	Area of Assst.	Start Date	Exports	Quar./l. Benefits	Rating E2	ES	Fit of VE to Firm Needs	Language	Follow-up	Response Time	Cost Client-AID	Payment	Comments	
PROJECT 519-0371																
Subsidized Projects																
18.	Transp. Aereos	L - 2.0	Air Transport	Feasibility Meet FAA requir.	8/88	CA/US	O	V	E	Good	All spoke English	None	Delay--VE\$300-3500 Changed	Yes then, Now no	IESC needs capacity to help identify firm needs	
19.	PRODESA	L - 2.5	Elect. Assembly	Production	3/90		9,950/yr	V	G	VE no help with export	Some Problem	IESC Eval.	3 Month OK	3000-3000	No	ES firms -- no pay R&D or foreign TA Did project for AID/FUSADES contact
20.	MAQUISAL	M - 3.5	Clothes Maquila	Production Export Contacts	4/80	US	15,800	U	S	Good, but on Marketing	Speak English	VE return on own	Quick	6000-8000 Expensive	No, too expensive	Major deal with US firm fell through, not VE fault
21.	Mundo del Deporte	L - 2.5	Sport Shoes Retail	Operations	5/80	n/a	6,500/yr	V	G	Good	Ok, but slow	None	3 Month OK	4000-4000 Expensive	No, too expensive	This TA OK, but IESC sent wrong expertise for Tio Pollo TA.
22.	Granja El Faro	L - 3.0	Poultry/Pig products	Production Quality Control	10/80	CA, but only 2%	85,200/yr	U	G	80% adequate not hands on	Major Problem	VE sent info	Firm Delayed	4000-4000	Not then, Maybe now	VE's out of date, better alternatives--CA experts, US courses
23.	ESPUMAR	S - 3.5	Polyurethane Foam	Production Formulas	6/81	Nico	6,000/yr	V	E-	Perfect	Ok with technical	VE wrote IESC phone	OK	2500-4500 (OK)	No, too expensive	Want previous communication with VE
24.	La Unica	L - 2.0	Meat Products	Production	7/81	None	40,000/yr	V	G	OK	Daughter Interp.OK	VE wrote	OK	2500-4500 (OK)	If serious Problem	Helped keep profits from falling through cost reduction
Non-Subsidized Projects																
25.	Productos de Cafe	L - 1.0	Coffee	a) Marketing	6/88	WW	50,000	V	G	OK	English OK	VE wrote Useful	6 Weeks	6000	n/a	Good overview of Market
				b) Deaf	6/88	US	62,500	V	G	OK				6000	n/a	

## NOTES:

n/a = not applicable N/A = not available or no answer

SIZE: Firms were ranked by total assets into L, M and S. Firms were also ranked by size in 7 categories from 1.0 to 4.0 based on volume of sales and number of employees (see Appendix 4).

EXPORT: Where percentages are given, they represent the proportion of total sales that are currently exported.

E2: Role of VE in meeting Firm's Objectives  
N = None; U = Useful; V = Very Useful; C = Critical

E3: General Opinion of IESC  
P = Poor; S = So-So; G = Good; E = Excellent

LANGUAGE: Interp = interpreter used  
Spanish = VE spoke Spanish

FOLLOW-UP: Some firms that could remember no follow-up did have completed evaluation forms in IESC files.

PAYMENT: Would the firm have paid the full costs of the TA had it been necessary to do so? Would they be willing to do so in the future?

## APPENDIX 4

### FIRM SIZE CLASSIFICATION SYSTEMS

#### Project Agreement Approach

- Large : Over C 2.0 million in total assets.
- Medium : From C 1.0 million to C 2.0 million in assets.
- Small : From C 100,000 to C 1.0 million in total assets.
- Micro : Up to C 100,000 in total assets.

#### Evaluators Classification

Because of the lack of precise data on the total assets of many Salvadoran firms and the large number of assisted firms of very different sizes which fell in the "large" category, the evaluators developed an alternate classification system based on annual sales and number of employees at the time of the intervention. The borders between each category within this system were determined based on natural groupings between the 64 assisted firms in each of the two variables.

The following tables list the categories and the number of firms receiving subsidized assistance from IESC in each category.

#### Annual Sales

Category	Annual Sales	Number of Firms
1	More than US \$4 million	8
2	Between \$1 million and \$4 million	25
3	Between \$100,000 and \$1 million	15
4	Less than \$100,000	5

Note: 11 firms were new and/or had no previous sales.

#### Number of Employees

Category	Number of Employees	Number of Firms
1	More than 250	9
2	Between 80 and 250	18
3	Between 20 and 80	26
4	Less than 20	11

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**Combined Average**

Category	Number of Firms
1.0	2
1.5	12
2.0	12
2.5	10
3.0	15
3.5	5
4.0	8

Comparison

The two systems can be reconciled with one another based on asset information collected in the survey. Unfortunately there is not an exact correspondence between the various variables. Short of using more complex statistical methods to define this relationship, a general comparison between the two can be stated as follows;

Asset System	Sales/Employees System
Large	High 3.0 through 1.0
Medium	High 3.5 and Low 3.0
Small	4.0 and Low 3.5

An rough estimate of the approximate number of firms in each of the categories listed in the Agreement is as follows:

Large	:	approx 46
Medium	:	approx 9
Small	:	approx 9

It should be noted that of the 8 firms in the smallest (4.0) category, 3 were new companies that have since grown into higher categories or have disappeared, 2 are organizations, and only 3 are pre-existing for-profit companies (two manufacturers and one service company). Two of the recipients in the "medium" category are also non-profit organizations.

The above analysis serves to establish that most of the firms receiving USAID subsidies via the IESC are "large" by the asset categorization system (46 of 57, or 81%). But the "large" category includes a range from a firm with 30 employees and \$400,000 in annual sales to a firm with 400 employees and \$11.1 million in sales. As a result, any future IESC project should consider developing a more precise classification system.

