

B. PROGRESS TOWARD ACHIEVEMENT OF PROJECT PURPOSE

The purpose of the project was to expand and improve the supply of technical assistance, credit, and representational services to the small scale enterprise (SSE) sector. Towards this end, USAID signed a Cooperative Agreement with INSOTEC on July 31, 1986, for INSOTEC to implement the technical assistance and representational services components. On August 31, 1987, a Cooperative Agreement was signed with CARE for the provision of an integrated package of technical assistance to support credit and training programs for microenterprises in Ecuador. The project was expected to generate 1,300 new jobs and s/. 570 million in value added over the life of the project.

Under the Cooperative Agreement with INSOTEC, technical assistance activities were expanded in five secondary cities: Santo Domingo, Quevedo, Manta, Portoviejo and Esmeraldas. INSOTEC targeted its assistance to productive enterprises to maximize productivity and employment impacts, particularly in those intensive in the use of labor and local materials, in the food processing, clothing, wood products, and metal works areas. The TA focussed on management, production and marketing, and was provided through practical courses, workshops/seminars and clinics, as well as assistance on plant sites. Private consultant resources were also developed to continue providing technical assistance on an independent basis after project completion.

Under the credit and training component implemented through a Cooperative Agreement with CARE two subagreements were signed: with Fundacion Carvajal and with ACCION INTERNACIONAL (AITEC). The training and credit program were developed in the five secondary cities mentioned above. CARE had the responsibility of the overall component, and provided assistance to bridge financial institutions such as FOPINAR (Fund for Small Enterprises and Artisans), and to the corporaciones de garantía crediticia, to enhance their capability to facilitate access to commercial financing by smaller enterprises. Fundacion Carvajal was responsible for the promotion, selection, training and development of the microenterprise program in the secondary cities, replicating similar programs in secondary cities of Colombia.

On the basis of the Fundacion Carvajal experience, training in principles of administration, coupled with counseling and credit, were the principal elements to assist the micro-entrepreneurs to satisfactorily run their businesses and generate additional employment. In the last semester of the SED project 968 microentrepreneurs were trained in business administration by local foundations using the FCarvajal methodology, out of which 39% were females. This confirmed the trend observed in the previous semesters.

ACCION/AITEC provided technical assistance to existing micro-credit programs, particularly those of the FEE and FED, to overcome their operational programs, to strengthen their internal management, and to assist those programs to expand lending operations. Thus the FED for example was able to grant a total of 2,550 loans between 1988 and 1989 using IDB resources. In 1990 alone, the FED and FEE provided 1,881 loans for the amount of US\$703,600, from the IDB, the Interamerican Foundation and the AID guarantee fund sources. These loans created 491 new jobs on an average cost of \$1,432.

To complement the technical assistance and credit training programs, two credit lines for the amount of s/. 203 million were initially established in the CFN, using ESF resources. This was later complemented with the equivalent of US\$600,000 from project funds, also channelled through the CFN. With the establishment of the project funded credit line, the Mission included the participation of FADEMI (Fundacion Austral de Microempresas), an NGO that provides training, technical services and legal advice to microentrepreneurs from Cuenca, Loja and Morona Santiago. ^c

Under the Coordination and Evaluation component, expert guidance was provided in project implementation and evaluation system, which permitted periodic assessments of project achievements at the output and goal level, such as the consultancy services provided the AID/W ARIES project.

By the end of the SED project a total of 2,149 new jobs were created through the INSOTEC, CARE-Fundacion Carvajal, and CARE-ACCION components. A total of 5% increase in value added was reached during 1898 and 1990 in microenterprises that received training and assessment through CARE-Fundacion Carvajal, thus surpassing project expectations.

C. CHANGES IN PROJECT DESIGN

The original design of the SED Project contemplated four components:

- Credit Delivery Mechanisms aimed at: (a) strengthening existing private microenterprise credit programs operated by local PVOs; (b) establishing similar programs in six secondary cities; and (c) supporting the development of mechanisms (the FOPINAR small enterprise rediscount line and the Credit Guarantee Corporations) to facilitate graduation of microenterprises to the formal credit system.

- Technical Assistance Services implemented through INSOTEC, and designed to train and develop a pool of approximately 200 private consultants on an ongoing, commercial basis. The skills of these consultants were to be improved, in large part, through their participation in direct technical assistance activities sponsored by INSOTEC.
- Representational Services for strengthening the capacity of 10 national federations and provincial and local representational organizations to provide services to members and represent their members' interests in policy arenas. This component also sought to finance approximately 10 policy studies on topics related to the SEE sector.
- Project Coordination and Evaluation designed to finance the Project Coordinator, an Advisory Board to provide expert guidance on implementation, and an overall Project evaluation system which would provide periodic assessments of Project achievements at the output, purpose, and goal levels.

The SED program was carried out in five secondary cities in the coast and not in six cities, as originally established, which included cities in the sierra. The Representational Services component, initially included under the cooperative agreement with INSOTEC (with a budget of \$400,000), was to be carried out through a subdonation to CIPTE (The Center for Educational Research, Planning and Technology). However, the subagreement was not approved by the Mission in the last quarter of 1986 as the Mission and CIPTE did not agree on several technical aspects. This component was never assigned to any specific organization, and the activity was deleted through Amendment No. 3 to the CA on April 28, 1989 and the funds reprogrammed.

The Project Paper for the SED Project contemplated the need for a total of \$780,000 in credit resources to be provided from counterpart funds. However, only \$200,000 in ESF-generated local currency was provided as counterpart. Upon discussions held with INSOTEC regarding the continued need for credit to complement the technical assistance that was being provided to project beneficiaries, and the review of the existing demand for the small enterprise sector, INSOTEC presented to the Mission a proposal for the incorporation of a grant-funded credit program. On September 30, 1988 the Mission increased the life of project funding of the Cooperative Agreement with INSOTEC from \$1,900,000 to \$2,475,000 and assigned \$600,000 for a credit delivery mechanism, which operated through a subgrant with the CFN.

III. POST-PROJECT CONSIDERATIONS

A. RECOMMENDATIONS FOR FINAL ADJUSTMENTS

No final adjustments are required

B. POST PROJECT AID MONITORING RESPONSIBILITIES

AID will not continue to monitor this project.

C. DATA COLLECTION AND EVALUATIONS

A final evaluation of this project was not carried out.

Mid-term Evaluation

During July and September 1989, the consultant Tonia Papke from the AID/W ARIES project conducted a mid-term evaluation of the SED project. The study involved eleven implementing institutions and four technical assistance organizations of the project. The purpose of the consultancy was: to analyze the self-sufficiency of the eleven implementing agencies/offices; apply the diagnostic tool in three implementing agencies/offices and train the staff of the other institutions in applications of the tool; identify the management and financial problems facing those organizations; carry out an administrative assessment of each organization, the results of which were to be used as baseline data for the evaluation of the institutional development component of the project; determine the training and technical assistance required in order for these organizations to be self-sufficient after termination of USAID funding; plan and carry out a seminar on evaluation techniques and methods for the staff of these organizations, etc.

The study concluded that while these organizations have adopted sound technical procedures they still faced management problems that threatened their continued operations after termination of USAID funding. The findings were grouped into three major categories:

a) On strategic planning, it was found that the organizations were unclear as to their missions, proposing strategies not consistent with their mission; there was a lack of clarity between the organization and the project; the implementing organizations faced a lack of demand for both training and technical assistance; b) On management side, it was found that the organizations lacked the management skills necessary to run these organizations after project termination; in some cases technical assistance was not aimed at the development of the organization but at the program; the organizations lacked an appropriate accounting system; personnel decisions reflected the lack of administrative procedures; and c) On the program side, it was found that the

credit component was being implemented with some deficiencies, like having a social rather than a business approach; loans were granted at subsidized interest rates, working capital loans were given for long periods; loan graduation although an issue was not being addressed. The technical assistance was either inefficient or organizations were not charging for all hours of assistance provided; there was poor supervision and support of field staff in some organizations, field staff spent considerable time marketing services. Field staff spent up to 25% of their time promoting the program in order to identify course participants, thus indicating a lack of demand for services or a lack of adequate communication through other less expensive channels.

SED Project Credit Strategy Study

During January-March 1990, a credit strategy study was prepared by CARE's consultants. The study concluded that the foundations being supported by the project would face growing competition for clients who would be selective due to the sheer number and variety of options available in the market. Microentrepreneurs at all levels were interested in integrated packages of training and credit, flexible and appropriate to their needs. Thus, institutional sustainability of SED Project foundations was increasingly dependent upon their ability to provide that package of services in an efficient and low-cost manner. SED Project foundations would also need to increase their inter-institutional cooperation to ensure their own institutional sustainability and the continued flow of services to their clients. They were required to restructure their thinking with regard to training and technical assistance programs to become more responsive to the unique sector needs. In the area of credit, the foundations needed to improve their record of credit delivery and efficient management of credit resources.

Sector Assessment

In December 1990, a Micro-Enterprise Sector Assessment was completed by GEMINI (an AID/W project). The purpose of the assessment was first to help USAID/Ecuador define a medium to long term strategy for supporting Micro Scale Enterprise development in the country which would maximize the employment and income impact of the Mission's limited resources. A second purpose of this assessment was to identify and document policy and program issues that needed to be addressed by institutions supporting Micro Scale Enterprise development. A third purpose was to provide specific guidelines and recommendations for the design of any new project.

Four independent background studies were carried out as part of the Ecuador micro and small enterprise sector assessment. These studies explored (a) the policy framework within which small-scale enterprises operated, (b) the institutional support system (involving international donors, government programs and services

provided by independent agencies) that channelled resources to the sector, (c) the characteristics of financial markets and resultant availability of financial resources for small-scale enterprises, and (d) the basic characteristics of the enterprises themselves.

Based on the findings and conclusions of the four background studies, it was concluded that in order to have a positive development impact, a comprehensive micro enterprise development assistance strategy for Ecuador must accomplish several strategic objectives, such as:

- Develop effective and sustainable access to financial resources;
- Address managerial and administrative deficiencies of the micro- and small-scale entrepreneurs;
- Address the principal policy constraints to the growth and development of the sector;
- Resolve major marketing constraints to small-scale businesses, and be aggressive in expanding market opportunities; and
- Be cost effective.

As a general criterion the evaluation concluded that to support micro- and small-scale enterprises in Ecuador a national program must be cost effective, and that it must reach a significant portion of this sector, instead of a tiny fraction now served by existing programs. The program must also generate benefits for the beneficiaries in business growth, expansion, and income generation in excess of the direct and indirect costs of providing the service. Ecuador depends to a great extent on the ability of the micro enterprise sector to continue to expand and absorb a growing labor force, in the absence of a strong formal sector.

The Mission held a series of meetings to disseminate the results of the Sector Assessment among the local institutions involved in the SED sector, donor organizations, and other interested parties.

D. SUMMARY OF LESSONS LEARNED

1. The design of the project was very complex, trying to achieve too many things at the same time, forced various changes during project implementation. The project achieved the proposed outputs. However, it is the feeling among counterparts that the project did not make an optimal use of the resources. The participation of many institutions and the abundance of services were responsible for the overlapping of functions and lack of coordination among the various activities. The work in

the secondary cities, for example, would have achieved better results by having only one institution providing all the services in one city.

2. The creation of new foundations in the secondary cities to carry out the project was not at all successful. The lack of true commitment from their leaders and the weaknesses of these institutions were evident when they abandoned the program soon after termination of USAID support. This weakness was detected during the mid-term evaluations, however, it persisted throughout the end of the project.

This was not the case, however, with already existing institutions like INSOTEC, who took advantage of the institutional support that was provided under the project, and thus, was able to learn the micro enterprise sector better and to develop a methodology that was replicated in other cities.

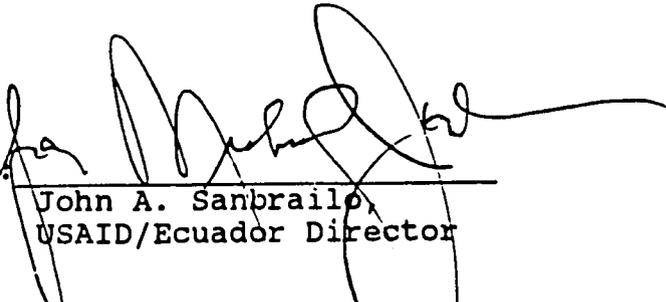
3. Support for the SSE sector should be implemented on an integral basis, that is, with the provision of credit, training and technical assistance, coupled with assistance on management principles. This approach helps the program to reach self-sustainability since the provision of technical assistance alone does not make a project self-sufficient, as the provision of other type of services are also needed to cover for all project expenses.
4. The credit lines channelled through the formal banking system did not live up to project expectations. Banks did not show great interest for supporting the micro-enterprise credit program, because of the social nature of the program. On the other hand, there is the feeling that the credit mechanism was carried out in a way for the SSE projects to be able to meet the financial obligations with the banks, instead of the credit serving the SSE sector needs. Furthermore, credit was not provided in a sufficient amount for the NGOs to cover their operating expenses through percentage points. On the Credit Guarantee program side it was costly for the FEE who is now working with other types of letter of credits at no cost. The channelling of credit through the foundations would have been a better option which at the same time would have helped the selfsustaining efforts of these institutions.

5. Continuation of project activities after project termination, one of the SED project objectives, is presently only partially being carried out. Soon after the USAID funding ended the new local NGOs abandoned the program and their offices were closed, particularly in Manta, Portoviejo, Santo Domingo and Quevedo. Only the INSOTEC office in Sto. Domingo still remains. In Guayaquil, Quito, Esmeraldas and Cuenca, where existing NGOs were strengthened, they continue operating with their own programs and are receiving funds from other sources. The expectations raised by the GOE new microenterprise program, CONAUPE (Corporacion Nacional de Apoyo a las Unidades Populares), apparently discouraged private institutions continuing working in the SSE sector.
6. The project strategy for supporting existing NGOs through various subgrants did not have the desired impact. An example is the AITEC subgrant, under which FEE was to strengthen its operational and management systems. Most of the progress made in this area came from FEE's own efforts. They would have preferred a direct agreement with USAID, and perhaps this option should be considered for future programs.
7. Credit graduation was not accomplished except in very few cases. The microentrepreneur is reluctant to request loans from the banks because of the paperwork, collaterals and their inability to sell their projects. Perhaps institutional graduation (cooperatives and associations) is a more feasible target in this sector.

New programs should be designed under a different concept, taking into account the political and economical environment which is changing rapidly at the present time. Learning from current community development experience, where the microentrepreneur is an integral part of the community, and his development takes into account his relation with the community, is an aspect to be considered. The content of the training programs should be in accordance with the reality of the region where the program is to be implemented.

FADEMI new programs in the Azuay Province is an example of SSE programs which meets the sector needs. They believe that a selfsustaining program can be carried out in this sector, but wish not to accommodate their projects to the interest of the donors. They are willing to capture resources from donors only if donors agree with their own programs.

8. A final evaluation of the project would have provided more insights on the results accomplished by the project. The sector assessment carried out by DAI was not intended to evaluate the project. If the Mission is to support the SSE sector in the future it will need to assess the outcome of the SED project.

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