

A.I.D. MICROENTERPRISE STOCK-TAKING:

ECUADOR

A.I.D. EVALUATION OCCASIONAL PAPER NO. 26

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FOREWORD

During 1988 and 1989, A.I.D. undertook a major stock-taking of its experience in microenterprise development. The stock-taking examined differing approaches and techniques that have been used in efforts to assist microenterprises, including alternative institutional delivery mechanisms. The study was designed to identify the patterns of A.I.D. project interventions that generate success, with the goal of establishing which were the most successful programs, institutions, and delivery techniques. It required an examination of microenterprises and of the way their problems differ, and an analysis of the different types of A.I.D. project approaches, to see which work best under which conditions.

The stock-taking included a conceptual overview paper of published evaluations that identified many factors that are important to project success. It also developed a conceptual framework for analyzing the types of problems microentrepreneurs face.

The stock-taking included field assessments of A.I.D. microenterprise assistance projects in 10 countries. These assessments provided an excellent opportunity to examine in a systematic, consistent manner a large number of project approaches operating under a variety of economic conditions.

The final part of the stock-taking was a synthesis, which pulled together the findings of the conceptual overview paper and the field assessments to develop lessons learned and recommendations for microenterprise assistance programs.

Ecuador was one of the 10 countries examined in the field assessment, and the assessment focused on the Small and Enterprise Development Project. This assessment provides interesting insights on one approach to promoting microenterprise development. We think that those who are working on microenterprise programs in Washington and in the field will be able to draw on the findings of this report to help in the planning, implementation, and evaluation of other microenterprise programs.

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SUMMARY

Ecuador enjoyed high income growth rates as an oil exporter during the expansion years of 1970-1982. However, with the decline of oil prices in the early 1980s the economy began to decline. Ambitious public sector activity could not be continued without expanding the money supply thereby weakening the currency, creating inflation, reducing investment, and eventually curtailing production and creating unemployment.

Especially in this environment, the microenterprise sector plays a major role in generating urban employment. It accounts for about two-thirds of the 270,000 persons employed in the private sector. Microenterprises, defined as non-farm firms with one to nine employees, numbered 153,000 or 97.6 percent of all firms in the country.

Microenterprises face both credit and technical constraints. Banks have concentrated their limited liquidity on larger customers. Facing tight credit and set interest rate ceilings, credit institutions focus their operations on larger firms that require lower administrative costs per loan. Small enterprises are forced to rely on informal financial markets, suppliers' credit, or family and friends.

In an effort to alleviate these constraints, the Small Enterprise Development Project (SEDP) was approved on July 31, 1986, as a three-year program consisting of four components: (1) the Credit Delivery Mechanism (about one-half the funds); (2) Technical Assistance Services; (3) Representational Services; and (4) Project Coordination and Evaluation.

SEDP was designed to expand and improve the supply of credit, technical assistance, and representational services to the small enterprise sector. Credit was to be provided to the smaller enterprises, technical assistance to the larger, and public relations devices were to develop the sector's ability to represent itself.

The project is administered through three mechanisms. The Cooperative for American Relief Everywhere (CARE) is administering the credit component, with ACCION and the Fundacion Carvajal as subcontractors; Institute of Socioeconomic and Technological Research (INSOTEC) implements the technical assistance component, and was to implement the representational component; and the project coordination and evaluation component was to be implemented by a project coordinator on a Personal Services Contract. However, the representational component and coordination and evaluation component have not been implemented due to changing economic and political environments in Ecuador.

Credit Delivery Component: ACCION. Fundacion Carvaial. and CARE

ACCION. The Fundacion Ecuatoriana de Desarrollo (FED) and Fundacion Eugenio Espejo (FEE) credit funds are assisted by ACCION, the CARE sub-contractor. The FED targets both individual microentrepreneurs (with fewer than five employees and total assets under \$1,600) and solidarity groups of very small-scale street vendors. The client microentrepreneur's monthly income must not exceed \$89. FEE serves microenterprises in one neighborhood of Guayaquil, again both small entrepreneurs and solidarity groups. By May 1986, FED had made 2,785 loans and "attained a high degree of self-sufficiency." It was expected that both programs would reach self-sufficiency within two years.

In 1987, FEE made 23 individual loans and 79 loans through solidarity groups. The total volume of lending was roughly \$54,000--with an average loan of \$198 for individuals and \$223 for solidarity groups. The cost per dollar lent was \$0.62 for individual loans and \$1.22 for solidarity group loans. Arrearage were under 6 percent for both loan channels. The portfolio varied through the year but at its maximum was less than \$30,000. Interest income covered a small percentage of cost.

FEE placed some emphasis on its training work and held 78 courses for 816 participants for its individual clients and 110 courses for 713 participants for its solidarity group clients.

The Fundacion Carvaial model consists of an integrated package of training, technical assistance, and credit. This package includes four basic courses, with three additional optional courses, and follow-up consulting sessions. Each course lasts six to eight weeks, covering a variety of business and management topics. The program reaches out to microenterprise clients by involving local chambers of commerce, associations, and other organizations that organize entrepreneurs. Intensive promotion efforts are put forth by local participating institutions to reach clients. All available media channels are used as well as local guild and chamber organizations.

Under this component, credit is provided only after training and technical assistance. In this component, credit is available to those who (1) have participated in the training and consulting programs, (2) have been in business for a minimum of one year, and (3) have the capacity to use the credit productively. Once the microentrepreneur has completed the training courses, technical advisors from the local foundation collaborate in preparing an investment proposal to be presented to the local branch of participating commercial banks. Advisors of the local foundation, and in the initial stages from the Fundacion Carvajal, participate in the credit committee with the Bank. Although responsibility for loan disbursement and

collection is left to the bank, the advisors of the local foundation are responsible for "post-credit supervision." Under this credit scheme the bank shares no risk and most of the administrative cost is borne by the foundations.

CARE. The third activity which will be implemented directly by CARE is to provide technical assistance to the Fondo de la Pequeña Industria y Artesanía (FOPINAR) program and to the provincial Credit Guarantee Corporations and Retroguarantee Fund. The major purpose of this component is to strengthen existing credit and credit guarantee mechanisms whose objectives are to facilitate graduation of microenterprises from microenterprise credit programs to the commercial portfolio of private financial institutions. This activity has not yet begun.

(4) The project has conflicting objectives of operating widespread low-cost technical assistance and self-sustaining credit funds.

(5) The prospects for client graduation to the formal sector are limited.

(6) The project components that had been implemented moved quickly to establish themselves and serve their intended clients.

Lessons Learned. Implications for Future Program and Policy Directions

(1) Complicated, integrated projects are very hard to implement, particularly in rapidly changing environments.

(2) It is easier, less risky, and cheaper to implement a project through existing organizations than creating new ones.

(3) Project design is dependent on political and economic conditions that can change faster than project implementation, and influence the project.

(4) Financial self-sustainability is hard to achieve unless credit and technical assistance functions are separately funded and evaluated.

(5) Graduation of clients is often very difficult to achieve.

GLOSSARY

A.I.D.	Agency for International Development
CARE	Cooperative for American Relief Everywhere
CDIE	Center for Development Information and Evaluation
CEDEP	Center for Small and Medium Enterprise Development
CENAPIA	Centro de Promocion Pequena Industria y la Artesania
CGC	Credit Guarantee Corporation
CIDAM	Comite Interinstitucional de Apoyo a la Microempresa
CIEDC	Center for Educational and Behavioral Research
CFN	Corporacion Financiera Nacional
CGC	Credit Guarantee Corporations
DFI	Development Financial Institution
FED	Fundacion Ecuatoriana de Desarrollo
FEE	Fundacion Eugenio Espejo
FENACOMI	National Federation of Retail Merchants
FOPINAR	Fondo de la Pequena Industria y Artesania
IAF	Inter-American Foundation
IDB	Interamerican Development Bank
INCAPI	Instituto de Capacitacion para la Pequena Empresaras Industrial
INSOTEC	Institute for Socioeconomic and Technical Research
PfP	Partnership for Productivity
PID	Project Implementation Document
PVO	Private Voluntary Organization
RGF	Retroguarantee Fund
SEDP	Small Enterprise Development Project
SME	Small and Micro Enterprise
SSE	Small Scale Enterprise
TA	Technical Assistance
UNIPROM	Unidad de Promocion

1. COUNTRY SETTING

1.1 Macroeconomic Environment

Ecuador is a geographically diverse country of 283,600 square kilometers and a population of 9.6 million. The geographic diversity of the country has contributed to uneven population distribution and varying regional economic development.

Ecuador, as an oil exporter, enjoyed one of the highest income growth rates in Latin America during the economic expansion years of 1970-1982, in which average annual real growth of income reached 8 percent. During the worldwide economic downturn of 1982-1986, the average income growth rate declined to 2.1 percent, which was less than the 1986 population growth rate of 2.9 percent. The causes for the decline in economic growth can be found in both internal and external factors.

Oil wealth permitted Ecuador to subsidize a wide variety of uneconomic activities. During the expansion years, Ecuador maintained a monetary and financial system of fixed exchange rates, fixed interest rates, and administered price controls of goods and services, in an effort to control inflation. In spite of these efforts domestic inflation consistently exceeded world inflation. As a consequence, the Ecuadorian currency appreciated strongly in real terms and real interest rates became negative, encouraging imports, discouraging the diversification of exports, reducing incentives for domestic financial savings, and forcing borrowers to look for funds abroad. Relying largely on oil revenues and abundant external funds borrowed at high interest rates, the government undertook ambitious public sector programs.

In the early 1980s, when inflation and the worldwide economic downturn reduced external financial resources and softened oil prices, Ecuador was faced with a shortage of investment resources to finance over-extended public sector programs. Domestic financial institutions, which had become dependent on oil revenues channelled through the Central Bank, were incapable of mobilizing resources as interest rate ceilings discouraged domestic savings mobilization. Because public expenditures were difficult to cut, the government had to resort to the Central Bank expanding the money supply, which resulted in increasing inflation and still further undercut domestic mobilization of savings for investment. The economy was severely affected as public programs were reduced, private investment decreased, industrial production was curtailed, and unemployment rose.

Since the early 1980s the economy has continued to deteriorate. In an attempt to arrest the decline, the government introduced import controls and attempted to liberalize the financial system. To discourage capital flight, the government freed interest rates on all but a few types of credit, but fixed a

maximum margin of 19 points between the passbook savings rate and the lending rate. Interest rates on deposits remain below inflation because the banks regard inflation as temporary. Interest rates on deposits will probably be adjusted upward if inflation continues at its current rate.

The impact of these government interventions is mixed. Financial liberalization should increase domestic mobilization of savings, but import controls will probably drive up production costs for the businesses that rely on imported raw materials.

Financial institutions in Ecuador include both public and private entities. There are three public sector banks: the National Development Bank (agriculture), Ecuadorian Housing Bank, and the Development Bank of Ecuador. In addition, there is the public development finance corporation, Corporacion Financiera Nacional (CFN), which provides long-term finance for industry, exports, and handicrafts and for small industry through the Fondo de la Pequena Industria y Artesania (FOPINAR). A variety of guarantee arrangements, especially the Retroguarantee Fund (RGF) and provincial Credit Guarantee Corporations (CGC) exist to promote small enterprise lending by the banks. The private financial institutions include 31 commercial banks, 12 development banks (development financial institutions, or DFIs), 11 savings and loan associations, 26 finance companies, 123 cooperative savings institutions, and four credit card companies.

At the apex of the financial structure is the Central Bank. During the 1980s, as the available financial resources became scarce and as the public sector financing needs increased, Central Bank credit to the private sector was cut by 43 percent in real terms. The resulting credit squeeze led the banks to concentrate on their prime customers and take less interest in new or smaller borrowers.

1.2 Small Scale and Microenterprise Sector

The 1980 Economic Census reported that microenterprises in Ecuador, defined as non-farm firms with one to nine employees, numbered 153,000 or 97.6 percent of all firms in the country. They employed 57 percent of the non-agricultural labor force and accounted for 10 percent of non-agricultural value added and 5 percent of non-agricultural capital formation. These figures, especially the last two, are generally acknowledged to be underestimates. The Project Paper for the Small Enterprise Development Project identified 25,000 people working in the manufacturing part of this sector in six smaller cities alone. Manufacturing accounted for 26 percent of the employment, trading or commerce for 46 percent, and services for the remaining 28 percent.

The manufacturing firms are of particular concern in terms of A.I.D.'s strategy for small enterprises. Manufacturing firms in Ecuador are typically small. A 1980 survey indicated that the average number of employees was fewer than five; firms of fewer than five employees accounted for 86 percent of all manufacturing firms. These firms operate in the food, textile, leather, wood and paper, printing, clay and cement products for construction, light metal, and light machinery industries.

In Ecuador, the microenterprise sector plays a major role in generating urban employment. It accounts for about two-thirds of the 270,000 persons employed in the private sector (1980 Economic Census). The larger enterprises are more capital intensive than microenterprises, with capital per worker 30 times higher in establishments of 10 or more employees than in those with 10 or less 10 workers. In manufacturing, small enterprises of fewer than 20 workers are about one-fifth as capital intensive as large enterprises. The lower capital intensity of microenterprises means that they generate employment at a lower cost per job than larger enterprises. Microenterprises are also located in secondary cities, thus contributing to more balanced regional development. Quito and Guayaquil have 45 percent of small-scale but 70 percent of large-scale industry employment.

Microenterprises face both credit and technical constraints. Banks have concentrated their limited liquidity on larger customers. Facing tight credit and set interest rate ceilings, credit institutions focus their operations on larger firms that require lower administrative costs per loan. Small enterprises are forced to rely on informal financial markets, suppliers' credit, or family and friends. The active response of these firms to two A.I.D.-assisted credit programs since 1984 is testimony to the pent-up demand of microenterprises for credit.

Microenterprises face a multitude of management constraints, including poor management, production, and marketing problems. In a recent survey of 200 manufacturing firms, 81 percent reported that they wanted some kind of technical assistance, though it was not clear how ready they were to pay for such assistance. According to the same survey, technical deficiencies appear to be a major constraint of growth and increased productivity, particularly for firms of six to 20 workers. The demand for technical assistance is apparently great, especially in the areas of management and marketing, and especially by women-owned microenterprises. The supply of technical services is limited and concentrated in the major cities. The main public institution providing technical assistance for microenterprises, the Centro Nacional de Promocion Pequena Industria y la Artesania (CENAPIA), focuses primarily on artisans, those with the smallest enterprises, and its coverage is

not very extensive. The Institute for Socioeconomic and Technical Research (INSOTEC), a grantee under the project reviewed in this report, has been able to sell its technical assistance services to a large number of entrepreneurs.

Within the microenterprise sector there are three main segments: vendors and small merchants, artisans, and small industrialists. Each has some representational organizations: the National Federation of Retail Merchants (FENACOMI), the Associations, Chambers and Confederations of Artisans, and a network of small industrialist organizations. Together these organizations represent more than half a million small entrepreneurs.

The combined strength of the different sub-sectors of microenterprises through their representational organizations enables them to influence the policy-making process. This is evident in the Executive Decree No. 1028 of August 13, 1985, the Law for Development of Small Industry, which emerged from their efforts. The Law sets forth classification criteria for microenterprises and requirements for obtaining credit from special government programs. However, the organizations need strengthening to be more effective.

An important sector of microenterprises that does not have institutional representation is that of women entrepreneurs. Women in Ecuador are generally disadvantaged, when compared with men, in education, access to jobs, income, and public services. They tend to be concentrated in jobs requiring lower skills. Women play a major role in this sector, accounting for about 55 percent of all workers and commercial units. According to 1982 data, only 0.4 percent of the economically active women are in management positions, although 16.1 percent are professionals.

While a few women's institutions such as the National Women's Office, created in 1980, exist to help develop and promote income-generating activities, the number of their beneficiaries is low. The National Women's Office, under the Ministry of Social Welfare, is understaffed and has few resources.

2. DESCRIPTION OF A.I.D. PROJECT ACTIVITIES IN SUPPORT OF THE PRIVATE SECTOR

2.1 The Small Enterprise Development Project

The Small Enterprise Development Project was approved on July 31, 1986, as a three-year project consisting of four components: (I) Credit Delivery Mechanism (about one half the funds); (2) Technical Assistance Services; (3) Representational Services; and (4) Project Coordination and Evaluation. The budget for this project was as follows (in thousands of U.S. dollars):

Small Enterprise Development Project Project Budget

Component	A.I.D Grant	Other	Counterpart
1. Credit Delivery	1,885		
	1,620		
2. Technical Assistance	840		
	300		
3. Representational Services	470		
	100		
4. Project Coordination	675		25
	25		
5. Contingencies	<u>630</u>		—
TOTAL	4,500		25
	2,045		

The four components of the Small Enterprise Development Project (SEDP), were to have been implemented through three sub-contracts. The Credit Component was originally awarded to Partnership for Productivity, and later, the Cooperative for American Relief Everywhere (CARE). CARE in turn sub-contracted ACCION and the Fundacion Carvajal. The Technical Assistance Component and the Representational Component were awarded to the Institute for Socioeconomic and Technical Research (INSOTEC). The Coordination and Evaluation Component was to be awarded as a Personal Services Contract.

2.1.1 The Credit Delivery Component

The Credit Delivery Component has three complementary objectives including: (I) strengthening existing microenterprise credit programs in Quito and Guayaquil; (2) establishing similar microenterprise credit programs in five secondary costal cities; and (3) providing technical assistance to various existing credit or loan guarantee programs which support the graduation of

beneficiaries from microenterprise credit programs to the formal banking system. CARE is the organization responsible for the overall management of the credit component of the SEDP.

The original contractor for this component was the Partnership for Productivity (PFP), an American private voluntary organization specializing in enterprise promotion. With the demise of the Partnership for Productivity, CARE stepped in and signed an agreement with A.I.D. on August 31, 1987, to management the credit component.

CARE managed the credit component by subcontracting responsibility for the first two objectives to other private voluntary organizations, and implementing the third themselves. ACCION, was contracted to implement the first objective of providing technical assistance to the two credit programs in Guayaquil and Quito. These programs are the Fundacion Eugenio Espejo (FEE), and the Fundacion Ecuatoriana de Desarrollo (FED). The Fundacion Carvajal, a Colombian private voluntary organization, was contracted to implement the second objective of organizing and assisting local foundations in the provision of credit and technical assistance to microenterprises in five coastal cities. CARE itself, will implement the third objective to provide technical assistance to several guarantee and refinance programs to facilitate graduation of microenterprises to the formal sector including: FOPINAR, RGF, and CGCs, to enable them to make more loans to smaller enterprises.

2.1.2 Technical Assistance Services Component

The objective of the Technical Assistance Services Component is develop management skills by providing seminars, workshops, and individual technical consulting to small and microenterprises in secondary cities. INSOTEC was awarded the contract. INSOTEC operates in five secondary costal cities and works primarily with the Center for Small and Medium Enterprise Development (CEDEP), and the Center for Educational and Behavioral Research (CIEDC).

2.1.3 Representational Services Component

The objective of the Representational Component is to strengthen national and local representational organizations, especially in the targeted coastal cities, by the development of associations of small businessmen to support, direct, and manage the provision of technical assistance to specific sectors and actively work with other such associations. INSOTEC was also awarded the contract for the implementation of this component.

2.1.4 Project Coordination and Evaluation Component

The objective of the Coordination Component is to provide overall management coordination and evaluation of the project. This component was to be implemented by a coordinator hired under a Personnel Services Contract.

The Representational Services Component and the Project Coordination and Evaluation Component have not been fully implemented to date. A.I.D. decided not to implement the Representational Services Component because of practical factors and the coordination and evaluation component was not implemented because of the lack of a personal services contractor.

2.2 The Instituto de Capacitacion para la Pequena Empresaras Industrial

The Instituto de Capacitacion Para la Pequena Empresaras Industrial (INCAPI) is another A.I.D. project which is intended to increase the quality of skilled labor working in microenterprises in the Guayaquil area and improve the managerial capabilities of small entrepreneurs is the prime implementing institution. INCAPI will broker training service needs for the small industries in the whole Guayas Province around Guayaquil. INCAPI will develop an in-house capability to assist other institutions in training. Within a three-year time frame, the Project has an A.I.D. grant of \$596,125 and a counterpart fund of \$226,688. The Project was authorized in September of 1986. In-services training programs organized by INCAPI began in February 1988. Little has obviously been done so far.

2.2.1 Other Private Sector and Donor Activities in Support of Microenterprise

Reflecting the increased awareness in Ecuador of the important role played by the informal sector, two coordinating bodies were established in 1985: the Comite Interinstitucional de Apoyo a la Micro-empresa (CIDAM), and Unidad de Promocion (UNIPROM) in the Ministry of Labor.

CIDAM's objectives are to exchange and promote experiences, methods, and studies for development of microenterprises and to recommend efficient mechanisms to strengthen the informal sector. CIDAM was formed with the participation of 11 organizations, financial, and educational institutions active in the enterprise promotion area. UNIPROM, in the Ministry of Labor, is a coordinating institution that supports training and technical assistance to microenterprises. While not providing direct support, UNIPROM will make resources available and intends to draw upon both the private and public sectors. None of the activities of these two groups has had any significant effect on the Project reviewed so far.

3. FINDINGS AND ANALYSIS

3.1 Description of Implementing Organization and Activities

The Small Enterprise Development Project in Ecuador operates primarily in the smaller, secondary cities in the coastal regions of the country. It was designed to expand and improve the supply of credit, technical assistance and representational services to the small enterprise sector. Credit was to be provided to the smaller enterprises, technical assistance to the larger, and public relations devices were to develop the sector's ability to represent itself.

3.2 Credit Delivery Component: ACCION. Fundacion Carvaial. and CARE

The objectives of the credit component, administered through CARE and its subcontractors, ACCION and the Fundacion Carvajal, are to expand and improve the supply of credit to microentrepreneurs in Ecuador, by strengthening existing programs in Quito and Guayaquil, establishing similar programs in the five coastal cities, and providing technical assistance to existing programs supporting the graduation of beneficiaries from microenterprise credit programs to the formal financial sector.

ACCION is providing technical assistance to two existing microenterprise programs: in Guayaquil, FEE; and in Quito, FED. These programs provide shortterm working capital with minimal amounts of training, and escalate loan sizes and terms based on repayment of previous loans. The FED and FEE target microentrepreneurs with less than five employees, and street vendors through solidarity groups. The FED was reported to have achieved a high degree of self-sustainability.

The FED targets both individual microentrepreneurs (with fewer than five employees and total assets under \$1,600) and solidarity groups of very small-scale street vendors. The client microentrepreneur's monthly income must not exceed \$89. FEE serves microenterprises in one neighborhood of Guayaquil, again both small entrepreneurs and solidarity groups. By May 1986, FED had made 2,785 loans and "attained a high degree of self-sufficiency." It was expected that both programs would reach self-sufficiency within two years.

It was anticipated that the loan funds for these projects would be secured from commercial banks under a guarantee arranged by ACCION. No direct A.I.D. funding was provided for credit for this subcomponent.

Neither institution has reached the objective of full financial self-sufficiency, and in the case of the FED, serious administrative problems threatened to undermine the viability of

the institution itself. At one point, arrears reached 50 percent of the total portfolio though they were down to 5 percent by the end of 1986. As of the end of 1987, administrative problems were severe enough that precise FED data were not available for 1987, and operations may have been suspended. In the three months since receiving a recent Inter-American Bank Loan, 228 microentrepreneurs have received loans for a total volume of \$30,000. These loans range in size from \$20 to \$300, with an average size of approximately \$100. The funds are lent out at 8 percent per month, which is about half the informal market rate, but higher than the Carvajal program or any formal sector institution. Of the loan beneficiaries, a little over half have been women. In addition, the program provides business and entrepreneurial training. During this period, a total of 27 courses have been given to 320 entrepreneurs. Their objective is to reach more than 2,000 microentrepreneurs in the Quito region.

In 1987, FEE made 23 individual loans and 79 loans through solidarity groups. The total volume of lending was roughly \$54,000--with an average loan of \$198 for individuals and \$223 for solidarity groups. The cost per dollar lent was \$0.62 for individual loans and \$1.22 for solidarity group loans. Arrearages were under 6 percent for both loan channels. The portfolio varied through the year but at its maximum was less than \$30,000. Interest income covered a small percentage of cost.

FEE placed some emphasis on its training work and held 78 courses for 816 participants for its individual clients and 110 courses for 713 participants for its solidarity group clients.

The proposed guarantee scheme with commercial banks proved difficult to negotiate, partially because of credit restraints imposed by the Central Bank. An agreement for the guarantee scheme was negotiated in late 1988, while alternative funds were being sought from the Inter-American Development Bank. These funding problems combined with the delinquent loan repayments due to the fund dictated a low level of portfolio growth.

ACCION has recently completed an institutional evaluation of FEE. This evaluation concentrated on personnel and administrative issues. Details on loan delinquency, cost structure, interest margins, and profitability were not covered. To date, technical assistance has been provided for the implementation of a new accounting system and a computerized credit system, and for preparation of a proposal to obtain funding from the Inter-American Foundation (IAF). The proposal to the IAF has resulted in a donation of \$200,000; 50 percent of these funds are to cover operating expenses, and the rest is to capitalize the credit fund.

Technical assistance to FED has included the initiation of an institutional evaluation and analysis of their credit portfolio and the implementation of a computerized credit program. The Inter-American Development Bank (IDB) has recently approved a loan of \$500,000 to FED for on-lending to their clientele in Quito the details of implementation for which are cited above. Apparently the IDB has made these funds available at a one percent annual interest and at a fixed exchange rate, so the Foundation is not assuming any exchange rate risk.

According to FED's present manager, three major lessons regarding the administration of the loan fund have been learned: first, loans terms should not be pre-determined and standardized, but tailored to the activity being financed; second, at least a minimal level of technical assistance focused on managing credit can help reduce default and delinquency; and finally, loan amounts must be tailored to the needs of the borrower.

Fundacion Carvajal. It had originally been expected that a similar program of credit to microenterprises in the selected coastal cities would be established with the assistance of PFP. With the demise of PFP, arrangements were made with the Fundacion Carvajal, a small-enterprise promotion institution based in Colombia, to implement the project. Since Carvajal's model of enterprise development differs substantially from that of the Partnership for Productivity, the resulting program does as well. The Project Paper places a considerable emphasis on the need for self-sufficiency, and the efforts were intended to be 70 percent self-supporting within three years.

The Fundacion Carvajal, under the credit component, provides an integrated package of training, technical assistance, and credit. This package includes four basic courses, with three additional optional courses, and follow-up consulting sessions. Each course lasts six to eight weeks, covering a variety of business and management topics. The program reaches out to microenterprise clients by involving local chambers of commerce, associations, and other organizations that organize entrepreneurs. Intensive promotion efforts are put forth by local participating institutions to reach potential clients. All available media channels are used as well as local guild and chamber organizations to promote the program.

Fundacion Carvajal advisors are given client targets on a bi-weekly basis. The small entrepreneur pays \$24 for each training package and receives an analysis of his or her firm with a plan of action for its improvement as part of the services provided for that fee. It has been estimated by the Fundacion Carvajal that approximately 40 percent of the operating budget of the local foundations in Ecuador can be covered by these user fees. They estimate that another 30 percent of the operating budget can be financed by the interest margin earned on the credit activities.

Some form of subsidization or additional revenues would be necessary to meet the remainder of the operating budget. The Carvajal project comes close to meeting the self-imposed target of 70 percent self-sufficiency set by the project.

In accordance with Fundacion Carvajal methodology, credit is provided only after training and technical assistance. Credit is available to those who (1) have participated in the training and consulting programs, (2) have been in business for a minimum of one year, and (3) have the capacity to use the credit productively. Once the microentrepreneur has completed the training courses, technical advisors from the local foundation collaborate in preparing an investment proposal to be presented to the local branch of participating commercial banks. Advisors of the local foundation, and in the initial stages from the Fundacion Carvajal, participate in the credit committee with the Bank. Although responsibility for loan disbursement and collection is left to the bank, the advisors of the local foundation are responsible for "post-credit supervision." Under this credit scheme the bank shares no risk and most of the administrative cost is borne by the foundations.

Currently, the beneficiaries of this credit pay 40 percent annual interest plus a one-time 2.25 percent tax. The distribution of this interest charge is as follows:

4	percent	Corporacion Financiera Nacional
4	percent	Participating Commercial Bank
11	percent	Local Foundation
21	percent	Capitalization of Loan Fund

The extremely high administrative cost charged against this credit fund (19 percent) is the result of having three intermediaries, all of whose services are not required. Assuming no default on the part of borrowers, given the maximum increment of 21 percent a year, this \$200,000 credit fund will grow to \$520,000 at the end of five years. However, with an average rate of inflation of 40 percent over the next five years the real value will have fallen to \$96,000 constant 1988 dollars.

The Fundacion Carvajal implements its programs by teaching its training methodology to local institutions. Selected college students receive a six-month Carvajal training course to become advisors. In this respect, an institution-building function is being provided. In each of the five cities designated by the SEDP, a local foundation has been located or created, and these foundations are expected to take over administration of the training and technical assistance.

A credit fund for the coastal city microenterprises served by Carvajal has been created to be used in conjunction with the training and technical assistance program designed by Fundacion Carvajal. Local currency funds in the amount of \$200,000 have been passed through the CFN to private banks with branch offices in these cities

Since this project agreement was signed only in August 1987, little data are available for impact analysis. The project was initially launched in Santo Domingo and Quevedo in February and March 1988. The other three cities started their respective programs in August 1988.

Data for the five-city program were obtained through September 30, 1988. Considering the short time since the program was initiated (only Santo Domingo and Quevedo have been in operation for six months), the coverage is impressive. A total of 133 courses reaching 2,553 small entrepreneurs and employees were reported. Courses were provided in bookkeeping, cost control, marketing, financial analysis, project investment, and management. An additional 1,234 in-depth shop consultancies were provided.

The data were partially desegregated by gender or industry. Of 642 microenterprises found participating in the five-city program, 43 percent were women. Fifty-one percent of all participants were in commerce, 29 percent in some manufacturing line, and 20 percent in services.

In Santo Domingo, where the Carvajal program has been running for seven months with average attendance of 40 participants per course, more than 40 percent were women. Significantly, about 40 percent of the participants were employees, representing a cadre of potential future entrepreneurs. About 50 percent of the participant employees were women.

The only credit component of the Small Enterprise Development Project currently in operation is managed under the Carvajal sub-component. Although the training component in Santo Domingo began about six months ago, credit was first disbursed in August 1988. To date, of 192 microentrepreneurs that have completed the training sequence in Santo Domingo and Quevedo 15 have received loans under this program.

	<u>Number of Loans Amount in Dollars</u>	
Santo Domingo	12	19,000
Quevedo	<u>3</u>	<u>3,000</u>
TOTAL	15	23,000

The average loan size is about \$1,500. This is considerably in excess of what was originally planned, and with an overall loan fund of S 100,000 very few of the clients will be accommodated.

The technical assistance and training services of these foundations provide benefits both to the microentrepreneur and foundations. The benefits which the foundations can internalize are in the form of greater interest income as a result of reduced default and delinquency. The microentrepreneur benefits from increased productivity and income, which is the direct result of technical assistance and training. The cost likewise must be distributed between the foundation and the microenterprises and donor agencies if the entire cost cannot be covered by the microentrepreneurs.

A critical element in insuring the financial sustainability of these foundations is to determine the optimal level of training and technical assistance to be provided. To what degree does training and technical assistance lower the institutions's losses due to default and delinquency? If the microentrepreneurs obtain additional benefits, how does the foundation go about distributing the cost of this service?

A major difficulty in evaluating the operation of these foundations results from the mingling of credit and technical assistance--and the ensuing difficulties in assessing their costs and benefits separately. Because the credit and training components are linked, it is difficult to clarify the degree of cross-subsidization. In addition, because a proportion of the demand for the training sequence is induced by access to credit, willingness to pay for the training service alone may be overstated, and is not subjected to the discipline of the market which would serve as an important check on the quality and relevance of the program. In other words, the foundation may end up providing too much training of inferior quality, which may undermine its financial viability. The costs are higher with the technical assistance, and it is not clear what the corresponding benefits are. If charges and support for technical assistance and credit are separated, they can be assessed and planned separately.

Financial intermediation could certainly be made self-sustaining without providing training and technical assistance. If training and technical assistance is considered to be an important component in insuring enterprise success it should be financed in such a way as not to undermine the viability of the credit fund. If a major proportion of the financial margin is required to pay for training and technical assistance, the credit fund's financial viability may be undermined.

CARE. The third activity, which will be carried out directly by CARE, is to provide technical assistance to the FOPINAR program in the CFN and to the provincial CGCs and RGF. The major purpose of

this component is to strengthen existing credit and credit guarantee mechanisms whose objectives are to facilitate graduation of microenterprises from microenterprise credit programs to the commercial portfolio of private financial institutions.

3.3 FOPINAR and the Guarantee Schemes

FOPINAR provides a rediscounted line of credit through participating commercial banks which has been the major formal sector source for small scale enterprise credit in Ecuador. FOPINAR was ostensibly anxious to increase its credit to smaller borrowers. Adequate lending funds were available with FOPINAR from World Bank and Dutch bilateral sources, but A.I.D. felt some targeted technical assistance might assist it to support lending to smaller borrowers, such as the graduates of microenterprise credit programs.

The other programs represent existing guarantee mechanisms. The CGCs exist on a provincial level, and it was proposed to assist them to open in new provinces. Some technical assistance was planned through CARE to encourage the expansion of these guarantee mechanisms to enable them to serve smaller borrowers.

To date, activities designed to strengthen FOPINAR, the CGCs, and the Retroguarantee Fund which were to be provided directly by CARE have not begun and are therefore impossible to evaluate. Initial contacts with the Director of the Fondo de Garantia de Colombia, Mr. Daniel Hernandez, to obtain the necessary technical assistance for this component have been made. However, this activity has been postponed until the government of Ecuador's policy with regard to these institutions is clarified. Recently the Monetary Board has reduced the margin that the CGCs can charge from 4 percent to 2 percent, which places in question their ability to carry out their functions.

Nonetheless, FOPINAR has been quite successful at increasing the number of medium-sized firms in the portfolios of the formal banking system. By the end of June of 1988, the disbursements of this program in U.S. dollars were as follows (the exchange rate used is the current market rate, \$1 to S/495):

<u>Size loans</u>	<u>No.</u>	<u>Disbursements</u>	<u>Percent</u>
1 - 2,020	244	332,462	6.6
2,021 - 6,060	252	843,491	16.6
6,061 - 10,101	87	665,973	13.1
10,102	<u>165</u>	<u>3,236,475</u>	<u>67.7</u>
TOTAL	748	5,078,401	100.0

Since the banks that participate in this program assume all the risk it is not surprising that almost 64 percent of the loans are in excess of \$10,000. By injecting liquidity into the financial markets the FOPINAR program may be achieving some degree of additionality by increasing the number of medium sized firms that gain access to credit. However, it is clear that this type of program cannot be expected to reach the same size firms as the FED and FEE or even Carvajal programs.

3.4 Technical Assistance Services Component Institute for Socioeconomic and Technical Research

INSOTEC, established in 1979 by a group of industrialists, technicians, and researchers as a nonprofit organization, is the principal private entity providing technical assistance to small- and medium-sized enterprises in Ecuador. Its objectives include promoting research on microenterprises, training managers and researchers for microenterprises, and improving technology through individual technical assistance and group-oriented interventions. INSOTEC has two program divisions: CEDEP and CIEDC.

Technical assistance is extended to microenterprises through technical courses, workshops, seminars, clinics, and individual technical consulting. Target clients are enterprises with five to 20 employees, larger than those dealt with by the Carvajal program, which also provides training to microentrepreneurs. INSOTEC provides industry specific technical assistance to labor-intensive microenterprises which use local materials and have linkages to other domestic industries.

The two divisions implement a variety of activities in support of small- and medium-sized enterprises, including organizational development of national and provincial small industry associations and artisans groups, sector surveys and needs assessments, publication of technical manuals, and direct technical assistance to enterprises. INSOTEC's strategy gives priority to building associations of small businesses to support, direct, and manage the provision of technical assistance to specific sectors. INSOTEC works actively with 10 such associations. The sectors targeted are based on industry surveys and ensuing seminars with entrepreneurs in the selected industry on technical constraints identified, on the basis of which training material is developed. INSOTEC organized 49 seminars for 1,500 entrepreneurs over the 1983-85 period. Besides its own limited technical staff, it draws on a wide group of outside consultants and universities through its CONTACT program. The technical assistance activities often operate on a subcontracting basis, whereby external resources are brought in to meet specific needs. The INSOTEC budget was \$180,000 in 1986 and has been rising continually. It is supported principally by fees for service, but did receive a \$100,000 grant from the Konrad Adenauer Foundation for the years 1985-1987.

The agreement with INSOTEC to expand and improve technical assistance to the small- and microenterprise sector in the target cities was signed on July 31, 1986. A target of reaching 500 small enterprises with technical assistance was established. For the SEDP project activities it is to receive an \$840,000 grant, matched by \$220,000 representing its own overhead contribution, and \$80,000 of service income.

About one-third of the money was to be used to train 200 independent private consultants. INSOTEC views the initial design objective of training 200 private technical consultants as unrealistic and is not seeking to train that many. Its present staff numbers 48 but will expand to 60 within two or three months, partly to accommodate the new work under the A.I.D. project.

On September 30, 1988, a grant agreement was signed between INSOTEC and A.I.D. to form a credit fund of \$600,000 to be provided to the beneficiaries of their training and technical assistance programs. INSOTEC has recommended that these funds be channelled through the Corporacion Financiera Nacional, in a manner similar to the Carvajal credit fund. However, no decision on precise credit modalities has been made by the A.I.D. Mission in Ecuador.

Under the Technical Assistance component, INSOTEC provides technical assistance to microenterprises in five secondary coastal cities. The selected cities are Esmeraldas, Manta, Porto Viejo, Quevado, and Santo Domingo. The assistance is provided through technical courses, workshops/seminars, clinics, and individual technical consulting.

INSOTEC deals primarily with small- and medium-sized enterprises of 5 to 20 employees. INSOTEC targets industrial entrepreneurs, larger than those typically dealt with by the Carvajal program, which also operates in the designated coastal cities. Within the selected cities, the INSOTEC project component emphasizes assistance to enterprises that are labor-intensive, use local materials, and have linkages to other domestic industries. Enterprises with these characteristics are found in the food processing, clothing, wood products, and metalworking subsectors.

In addition, INSOTEC will include a Women's Program within this project. A "Plan of Action" for this Program was just completed during the team's visit to Santo Domingo. The Women's Program will concentrate on small clothing manufacture (garment shops) in which women compose a large percentage of the work force. Within this activity, more than 80 percent of the proprietors are dressmakers. The industry is well organized in guilds and artisan groups. It represents an entrepreneurial base, because many of the women dressmakers aspire to have their own shop. Demand for their products remains high and is not, presently, a problem.

The objectives of the Women's Program are to raise the dressmakers' income through increased productivity, improved supply channels, and increased production capacity. Within a 16-month time frame the Program plans to strengthen their organizational base, deliver a training and technical assistance package, and obtain both collective and individual credits. However, before implementing these activities the Program design calls for two additional studies, one to operate the credit scheme and one of the feasibility of the raw materials purchasing center.

While INSOTEC signed the microenterprise agreement in July 1986, their activity in this project only started in March 1987. Six-month performance data (March 1 to August 13, 1988) reflect real accomplishments for the INSOTEC technical assistance program. While only 16 consultants have been trained, each of the other objectives are on target. About 575 small manufacturing enterprises have received in-depth technical assistance, which surpasses the initial target of 400. The programs consisting of shop seminars, clinics, practical courses, and individual technical assistance are presently 69 percent completed. The publication of 21 technical manuals has surpassed the initial objective of five.

INSOTEC has managed to cover a greater proportion of the costs of these services than expected. The recipients of group technical assistance, who were expected to cover 40 percent of such costs, were covering 48 percent by the end of August. The user fees for individual in-depth technical assistance, which were expected to cover 70 percent, were running at 74 percent.

INSOTEC's training program has also progressed in four of the five designated secondary cities. The figures for technical seminars, courses, and clinics are as follows: Santo Domingo--21 courses, 262 participants; Quevedo--20 courses, 353 participants; Manta--15 courses, 282 participants; and Esmeraldas--17 courses, 371 participants. The six-month period covers a total of 73 technical assistance activities with 1,268 participants, some of whom attended more than one activity. Participating enterprises totaled 575, the same number as received in-depth technical assistance.

3.5 Graduation of Microentrepreneurs

One of the major objectives of the Small Enterprise Development Project is "graduation" of SSEs from the microenterprise credit programs established to the commercial portfolios of private banks. This is the primary objective of the technical assistance component that CARE and ACCION are providing.

Implicit in the design of many microenterprise credit programs is the idea that private bankers are simply too conservative or that they are simply misinformed with regard to the riskiness of small borrowers. In addition, it is believed that because of a lack

of contact with the formal sector these small entrepreneurs become inhibited by these large impersonal institutions. It is assumed that if some contact with the microentrepreneur is achieved both the microentrepreneur and the banking community will become better informed. If the banker can observe positive repayment rates within the microenterprise credit program, and if microentrepreneurs open a savings account or checking account, the banker may be willing to incorporate the small borrower in the bank's portfolio in the future. This assumes that the risk of default is the overwhelming reason why bankers do not lend to microenterprise. In fact, Ecuadorian bankers faced with credit ceilings would not be interested in microentrepreneur borrowers even if they were without risk. The administrative costs of dealing with them are high, and their potential for generating new business is less than with prime bank clients.

Few graduates were observed in the microenterprise programs studied, but it is too early in the project to say that they will not emerge. However, if the graduation of the most credit-worthy clients of the microenterprise credit program were possible it would mean that the most secure and profitable clients would be constantly turned over to the private banks leaving the most risky and costly clients to be served by the microenterprise credit program. Therefore, even if graduation were possible it would hardly be advisable for the long-term sustainability of the microenterprise credit program itself.

What may be advisable is the graduation of intermediaries (the microenterprise credit programs), and not of clients. The intermediaries could become regular fixtures of Ecuador credit markets. An intermediary with good clients could borrow in the formal financial markets. The ability of microenterprise foundations to obtain access to Ecuadorian financial markets is critically dependent upon their capacity to become self-sustaining. They must demonstrate a comparative advantage in providing credit to microenterprises with a reasonable cost structure and risk exposure. These intermediary institutions must achieve an optimal mix of financial services, training and technical assistance that will assure long-run financial self-sustainability. None of the project institutions have yet achieved such sustainability, and burdened as their credit programs are by tied technical assistance, most of them are unlikely to achieve such sustainability in the future.

3.6 Project Impact on Economy

The impact of the project on the economy is expected to occur from three activities: expatriate technical assistance, training of microentrepreneurs, and the credit program. The technical assistance is supposed to improve the efficacy of the foundations which provide training and credit. The training for microentrepreneurs will help increase the efficiency with which

they manage their businesses, while credit programs will enable them to expand their scale of operations.

Clearly, benefits to microentrepreneurs from the expatriate technical assistance by various development foundations and INSOTEC will likely appear only in the longterm. Similarly, while training may increase the human capital of microentrepreneurs in terms of management know-how and operational skills, monetary benefits will likely be manifest only in the long run. Thus, the impact of technical assistance and training would be difficult to estimate at this time, when the project has been in effect just over one year. Similarly, the benefit impact of credit program is also impossible to measure, simply because the project began to disburse credits in August 1988, only two months before this report. On the other hand, impact data from the earlier FED and FEE lending were not available.

4. FACTORS INFLUENCING PROJECT PERFORMANCE AND IMPACT

The SEDP project has not been in operation for a sufficiently long enough period of time to accurately measure performance or to have generated significant economic impact. However, despite the relative youth of the project the team was able to determine some general factors that influenced project performance and impact to date. These factors cover several aspects of the project including its implementation, sustainability, impact, and the approaches pursued under the project.

- (1) Project implementation, performance, and impact is hampered by a project design that is extremely complex, and extremely difficult to implement without alterations. The project attempts to deliver a variety of services, to specific geographically separated groups of clients, through a multi-layered contract mechanism. It is a case of too many services, clients, and contractors, all rolled into one, for all to go as planned. For example, an individual microentrepreneur, the ultimate beneficiary is four layers removed from A.I.D. The channel in this case leads from A.I.D. to CARE, to ACCION, to FEE/FED.
- (2) Changed economic and political conditions, changed judgments about A.I.D. project elements, and changed implementing contractors led to a number of project elements either not implemented, or implemented in random sequence. Others elements were implemented in a very different way than originally planned. The result was that the desired complex interaction of project elements did not occur. The planned assistance to FOPINAR and the Guarantee schemes which were designed to help Carvajal graduates has not occurred. The Representational and Coordination and Evaluation Components are still not operational.

- (3) Changes in the project, and the necessary abandonment of previous project rationales, led to overlaps and gaps among project components. The Carvajal program was supposed to provide credit to the smaller producers, but it served somewhat larger enterprises, overlapping the size class served by INSOTEC. Carvajal's services were in the general management area, and INSOTEC services focussed on providing production technology, but overlaps still did occur.
- (4) The project has conflicting objectives of operating widespread, low-cost technical assistance and self-sustaining credit funds. The increasing project emphasis on technical assistance reduces the possibility of achieving financial self-sustainability. Increased technical assistance, without user fees that cover the costs of providing the assistance, strains the capacity of credit projects to be financially self-sustaining. The Carvajal project providing credit and technical assistance recovers only 40 percent of the operating budget from user fees for technical assistance. The planned credit activity could be self-sustaining if it were not required to support the technical assistance activities. The high level of inflation, and the layered sharing of interest charges with financial institutions also increased the pressure on the income from the Carvajal credit activity.

Projects could charge fees for technical assistance or subsidize it to the extent desirable. INSOTEC in particular and the Fundacion Carvajal more generally have been able to charge a considerable amount of their training costs to clients. Both INSOTEC and Carvajal are currently ahead of projections in the percentage of training and technical assistance costs which are covered by user charges.

Both the credit and the technical assistance approaches being implemented seem to promise positive impact on promoting microenterprises, and if properly restructured to separate the funding and evaluation of the two elements, indicate some form of sustainability.

- (5) The prospects for client graduation to the formal sector are limited. To date there is little evidence that the FEE, FED, or Carvajal projects have graduated clients to the formal sector. The non-implementation of the FOPINAR and Guarantee elements designed to aid in this process even further reduces the possibility that the commercial banks will be willing to serve former project clients. Even as the projects improve the overall functioning of the client enterprises, the formal sector financial

institutions have remained unchanged and face the same constraints related to small-scale lending that were present prior to the project. It is the client that has changed, and not the bank.

The possibility of financial self-sustainability of the project itself by restructuring the support for the credit and technical assistance activities would permit the institutions implementing the credit programs to borrow directly from the bank. Banks may be more willing to loan larger amounts to these better known entities, especially if the institutions have a strong financial record. This institutional graduation may be a much more feasible goal than graduating individual clients.

- (6) The project components that had been implemented moved quickly to establish themselves and serve their intended clients. An impressive number of people had gone through the Carvajal courses and received technical assistance. The credit programs were somewhat slower in starting, in part due to the reluctance of commercial banks to participate. A.I.D. even found itself compelled to add some direct provision of credit for the INSOTEC clients. This lack of cooperation by the commercial banks may be connected both with a misjudgment in the project design and a changed condition on the availability of bank credit in Ecuador.

5. LESSONS LEARNED. IMPLICATIONS FOR FUTURE PROGRAM AND POLICY DIRECTIONS

- (1) Complicated, integrated projects are very hard to implement, particularly in rapidly changing environments. This is not to say that the original design may not have been desirable or feasible under other circumstances, but when such a design is undermined, it becomes essential to consider each element independently. Precisely in these circumstances, it becomes essential to coordinate with other donors and the government to see that A.I.D. does not operate at cross purposes to them.
- (2) It is easier, less risky, and cheaper to implement a project through existing organizations than creating new ones. When PFP ceased to exist, Carvajal was certainly an appropriate replacement, but it represented a different approach to enterprise promotion in terms of clients, goals, and service mix. Adapting Carvajal's different approach, while not the optimal situation, was probably better than creating a new organization.

- (3) Project design is dependent on political and economic conditions that can change faster than project implementation, and influence the project. Changing political and economic environments affected the implementation of the FOPINAR and guarantee mechanism portion of this project. The Representational Component and the Coordination and Evaluation Component were also affected by a changing political environment.
- (4) Financial self-sustainability is hard to achieve unless credit and technical assistance functions are separately funded and evaluated. The full costs of credit programs can and should be covered by internally generated revenues from the loan fund. Technical assistance costs can be partially covered by user fees, and subsidies from credit components, but may require separate funding. The Fundacion Carvajal and INSOTEC are recovering greater proportions of expenses for technical assistance, but widespread, low-fee technical assistance cannot be self-sustaining.
- (5) Graduation of clients is often very difficult to achieve. Banks have a variety of reasons beyond simple risk aversion for not serving them. Local level financial institutions and cooperatives might be more anxious to serve microentrepreneurs. In any case, it is probably more feasible for successful, sustainable credit programs themselves to borrow on the market and then lend to their clients. Financially self-sustaining institutions can then graduate to the formal sector and continue serving the needs of their clients, some of whom may eventually graduate to the formal sector. Institutions such as CARE, ACCION, the Fundacion Carvajal, and, to some extent, FED and FEE, have a better chance to get credit from formal financial institutions than small, unknown microenterprises. If the institution can establish sound financial and managerial controls they have a better chance to quality for loans.

The following reports on related topics are available from CDIE:

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A.I.D.'s Microenterprise Stock-taking: Malawi Field Assessment, July 1989, No. 20, (PN-ABC-701).
A.I.D.'s Microenterprise Stock-taking: Senegal Field Assessment, July 1989, No. 21, (PN-ABC-702).
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