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ECUADOR MICRO-ENTERPRISE SECTOR ASSESSMENT: Institutional Analysis

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GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
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ECUADOR MICRO-ENTERPRISE SECTOR ASSESSMENT:

Institutional Analysis

by

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PREFACE

This Institutional Analysis is one of four background studies sponsored by USAID/Ecuador as part of an assessment of the micro- and small-scale enterprise (MSE) sector in Ecuador. The overall purpose of the sector assessment has been to present a broad description of the nature and characteristics of the MSE sector as a basis for planning and designing future program interventions. Within this context, the Institutional Analysis was intended to cover three broad issues related to the provision of support services to small-scale entrepreneurs:

- Describe the relationships that currently exist among the various GOE institutions and programs, international donor agencies, local financial institutions, NGOs and other local intermediaries, universities, community groups, and other institutions involved in MSE activities; identify impediments to effective cooperation and coordination of activities; and make recommendations on the types of relationships that should be developed to optimize resource use and impact on the MSE beneficiaries;

- Assess the institutional strengths and weaknesses (financial, managerial, and operational) of selected intermediary organizations involved in MSE development activities and make specific recommendations for a program of technical and financial assistance to develop these institutions into effective MSE promotion and support institutions; and

- Determine the efficacy of training and technical assistance in general, and of the different training and technical assistance approaches used by the various NGOs and, based on that, make recommendations on the most appropriate approach to follow in future training and technical assistance support activities.

Within these three broad areas, the Institutional Analysis was to examine the following specific issues:

Relationships

- The degree to which different programs complement each other or duplicate efforts;

- The degree to which organizational objectives are compatible or contradictory;

- The extent to which coordination of resources and efforts could enhance the overall impact of different programs;

- The need to involve other groups (such as local community groups) in MSE support activities; and

- The need to share information among institutions.

Local Intermediaries

- The effectiveness and performance of various approaches to providing support services to MSEs, including the variety, level and quality of services offered, plans for future expansion, breadth and scope of beneficiary coverage, and prospects for increasing outreach;

- The adequacy of resources to carry out objectives, financial strengths and weaknesses, and prospects for achieving financial self-sufficiency; and

- Managerial, staff, operational, procedural and policy strengths and weaknesses.

Training and Technical Assistance

- The need, effective demand for, and constraints to obtaining training, technical assistance, and advisory services among MSEs;

- The effectiveness and impact of alternative approaches to training and technical assistance in terms of (a) number of beneficiaries reached, (b) cost per beneficiary reached, and (c) the impact of training and technical assistance on introducing changes and improvements in beneficiary operations, practices and attitudes, including an assessment of the degree of acceptance and perceived benefit of training and technical assistance activities;

- The marginal benefit of providing training and technical assistance to MSEs through NGO-type programs, as opposed, for example, to the approach used by credit unions, which do not attempt to provide business, managerial or technical training in connection with credit;

- The desirability of combining credit with training and technical assistance or administering these as separate activities;

- The ability to develop financially self-sustaining training and technical assistance activities, including an assessment of alternative pricing, costing and funding mechanisms; and

- The feasibility of involving other institutions — such as polytechnic institutions, universities, vocational schools, and private firms to facilitate technology transfer and reduce program costs.

The study team was composed of the following individuals:

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Training Specialist:	Donald A. Swanson, Ph.D. Mission Director Instituto Centroamericano de Administración de Empresas (INCAE)
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The team was assisted by Eliana Pozo, Paulina Garzón, and Cecilia Vásquez of the staff of the Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC), an Ecuadorean NGO that provided personnel and administrative support to the project team.

Field research for the study was carried out between August 12 and September 30, 1990.

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The team wishes to express its appreciation to the staff and officers of USAID/Ecuador for their insightful and helpful comments, critiques, and suggestions that were offered in numerous review sessions and early drafts of the report. In particular, we are indebted to Charles Costello, Mission Director; Robert Kramer, Deputy Mission Director; Derek Singer, General Development Officer; Mike Deal, Projects Officer; Maruska de Burbano, Enterprise Development Specialist; and Carmen Lopez, Project Assistant.

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We are also grateful for the time and patience of those involved in MSE development in Ecuador who collaborated in the study. We wish to thank each and every one for the open and frank interviews, helpful suggestions, and valuable insights into the fascinating world of micro- and small-scale businesses in Ecuador. Most important, we want to thank the entrepreneurs who shared their time and experience.

As in every study of this nature, however, the opinions, conclusions, and recommendations presented in this report are the sole responsibility of the authors, and should not be interpreted as representing the opinions or official positions of any of the institutions or individuals who have so graciously helped in this effort.

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EXECUTIVE SUMMARY

BACKGROUND

Only recently has the micro- and small-scale enterprise (MSE) sector become popular with international donors, government agencies and the nongovernmental organization community. Until the publication of Hernando de Soto's pioneering work in 1986, MSEs were largely ignored by the development community as insignificant, marginal activities.

The past few years have witnessed a rapid proliferation in the organizations and institutions involved in the field. As recently as 1986, USAID/Ecuador was the only international donor agency supporting small-scale enterprise development on a major scale.[1] Today more than a dozen international donors are providing resources for development activities related to improving this sector of the population. In the mid-1980s there were no official government programs for MSEs,[2] and only a handful of nongovernmental agencies were involved in the sector. Today four government ministries have official programs for small-scale enterprises, and between 30 and 40 local organizations have been formed to provide assistance to small-scale entrepreneurs.

This proliferation of institutions, and the plethora of approaches to MSE support that they represent, raises questions about redundancy and the possible need for coordination. It also creates a need to understand the relative advantages and disadvantages of the different approaches to MSE support used by the various institutions. The design of new program interventions should be built on the body of information in the country, learning from program and institutional development experiences over the past several years, to produce strategies that better meet the needs of the sector.

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[1]World Bank and Dutch development assistance programs to the Fondo de Financiamiento de la Pequeña Industria y Artesanía (FOPINAR) predated USAID/Ecuador involvement, but the definition of "small enterprise" used by FOPINAR was such that the program benefitted enterprises that would normally be defined as medium-sized firms. Also, the Inter-American Development Bank (IDB) provided a limited amount of assistance through its small projects office, and the Inter-American Foundation (IAF) was providing limited support to several nongovernmental organizations. USAID/Ecuador's Small Enterprise Development project was the first systematic approach to assisting the MSE sector.

[2]Of the two major government credit programs, FOPINAR was involved with larger-scale businesses and the Banco Nacional de Fomento's (BNF's) portfolio was almost exclusively dedicated to small-scale agricultural producers.

EARLY INSTITUTIONAL EXPERIENCES

By 1986 several NGOs — including the Fundación Ecuatoriana de Desarrollo (FED), the Fundación Eugenio Espejo (FEE), the Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC), and the Fondo de la Pequeña Industria y Artesanía (FOPINAR), a department in the National Finance Corporation (Corporación Financiera Popular) — had embarked on major new initiatives to provide assistance to the MSE sector. It was a time of experimentation in which different kinds of assistance were provided under different methodologies.

In 1986 the Government of Ecuador (GOE) started the Unidad Ejecutora del Programa Nacional de Microempresas (National Program for Microenterprise Development of the Ministry of Labor [UNEPROM]) as a response to the growing recognition of the macroeconomic and political importance of the informal sector and micro-enterprises. With the new government currently in power, in 1989 the Corporación Nacional de Apoyo a las Unidades Populares Económicas (CONAUPE) was started to work with essentially the same target beneficiaries as UNEPROM, but with a difference. The new program, in an effort to better address the credit needs of the target groups, designed a program that tied the training component even more strongly than UNEPROM to the credit program in the hopes that this would make the rediscounting process through the commercial banks more responsive than it had been since 1986. Each of the two GOE agencies has been given relatively large credit funds to disburse to micro-entrepreneurs through a credit rediscount system using participating commercial banks.

Also in 1986, USAID/Ecuador started its Small Enterprise Development (SED) Program that became, for all intents and purposes, action research into the relative merits of the Acción International/AITEC (Cambridge, Massachusetts) quick turnaround, self-sustaining credit methodology and the Fundación Carvajal (Cali, Colombia) training-based approach. Under the USAID/Ecuador program, another credit rediscount operation was started in 1989, in part in response to the problems of rediscounting through the commercial banks in Ecuador. This rediscount system was designed to give the banks more incentives to on-lend to micro-entrepreneurs by increasing the interest differential they would receive and reducing the banks' risk, in the first tranche, to practically nothing.

MAJOR FINDINGS

The Donors

The recent increase in donor activity in the MSE sector has resulted in a significant increase in the level of resources available to support micro- and small-scale businesses. However, the total amount of resources provided by all donors will cover only a small proportion of the estimated demand for financial and technical services. Proposed new programs need not be overly concerned about excess resources or saturation in the sector.

In spite of the apparently large level of funding dedicated to the sector, only a small portion of that will actually reach truly small-scale enterprises. The large program sponsored by the World Bank, although it includes funds for small-scale enterprises, primarily focuses on larger-scale enterprises (larger small-scale businesses and medium-sized industries); only a small portion of the resources provided by the World Bank will filter down to the level of micro- and small-scale producers and businesses. Similarly, although the new IDB program is described as a micro-enterprise program, the maximum loan size and cumbersome administrative structure that will be administered by the GOE suggest that this program will primarily benefit larger micro-enterprises and small-scale businesses.

The donor agencies are correctly insisting on non- or low-subsidized interest rates on the credit portfolios, but the availability and administration of funds is creating strong dependency relationships rather than fostering the development of locally sustainable programs. The availability of donor funding is the primary reason for the proliferation of NGOs in recent years.

Donor activities are not coordinated, and most of the donors are unaware of the activities of the others. This lack of coordination is not a major problem, however, except in the case of programs that work through the same government agencies and that may have different philosophies, objectives, and requirements. Most of the international donors are working in small-scale, discrete projects — supporting specific local institutions or projects — that have little overlap and little need to coordinate with other programs.

The GOE Agencies

GOE agencies involved in the MSE sector act in either a promotion and service or supervision and regulatory capacity. The institutions that have a supervisory and regulatory function — the Central Bank of Ecuador (BCE) and Superintendencia de Bancos — are long-standing institutions with a strong, well-defined mandate. Involvement in MSE activities derives from their responsibility to exercise these mandates. Promotional and service entities tend to be of two types: on-going institutions with banking functions (such as the BNF and the Corporación Financiera Nacional) or special entities created specifically to service the MSE sector (such as UNEPROM and CONAUPE).

These special institutions conform to traditional GOE approaches to development. A new government creates and staffs a new institution to provide subsidized credit and other services to a specific target audience. Subsequent governments either continue the institution and its programs (as in the case of the BNF) or create a new institution and allow its predecessor to atrophy (as in the case of CONAUPE surplanting UNEPROM). There is a strong rationale for this. Social welfare programs are an important forum of political patronage, yet it is difficult to close institutions once they have been established. Creating new institutions allows the new government to distribute patronage without alienating existing constituencies. The problem is exacerbated by donor agency tendencies to prefer working with new, "untainted" institutions rather than trying to reform and improve existing ones.

But since these programs are viewed as mechanisms for transferring resources — either from one sector of the population to another or from donors to beneficiaries — they seldom have a commitment to self-sufficiency, sound economic and financial principles or fundamental banking rules. As a result, the institutions must be continually subsidized and provided with new capital to replace inflation- and delinquency-eroded portfolios.

UNEPROM and CONAUPE are prime examples of this syndrome. UNEPROM was established by the previous government, and allowed to stagnate as the Borja government replaced it with CONAUPE. Yet CONAUPE views its role to be one of providing subsidized financial and other resources. Only strong negotiations with the IDB have forced the program to adopt positive real interest rates on the credit portfolio. The future of CONAUPE is uncertain. Administering the large IDB small-scale enterprise development program will provide it a measure of stability that UNEPROM dose not enjoy. At the same time, next year's elections could very well result in a new political coalition in the government, with a greater tendency to down-play CONAUPE's role.

The Local Intermediaries

Because the current high level of interest in MSEs in Ecuador is a relatively new phenomenon, few of the NGOs participating in the MSE sector have been doing so for more than a few years. Some are older, established organizations whose primary mission is enterprise development. Most, however, are organizations that have been formed in the past few years, or that have added micro- and small-scale business assistance as a new service, taking advantage of the developing focus on these economic sectors. Most are guided by altruistic motives. A few seem to be opportunistic organizations that were formed to take advantage of the availability of donor-provided resources and may not have had any particular "mission" or expertise in the field of MSE development.

In spite of the large number of programs, penetration (in terms of number of beneficiaries) has been extremely limited, even among the long-standing institutions. Although the data is not always solid, it is our calculation that all of the programs together over their life have reached no more than 25,000 different beneficiaries out of the more than 250,000 to 350,000 micro- and small-scale businesses in the country. Only 15-20 percent of these have actually received credit assistance through the programs.

There are far too many local intermediaries involved in the sector for the size of the country and the availability of resources. The low penetration rates (in terms of number of clients, or beneficiaries) is indicative of too many redundant organizations with too few resources. The continued proliferation of these organizations should be discouraged when they are simply clones of each other vying for the same target populations with no particular comparative advantage to offer to differentiate themselves from the next organization on the block. Preventing the generation of new institutions is easier said than done, however, because fostering the formation of new organizations is a form of political patronage that is difficult to resist.

The similarities among the different institutional approaches and among the institutions are more significant than their differences. Very few of the organizations, including their field personnel, have had direct business experience, and few are qualified to provide technical (specific to a given product or technology) training and technical assistance. As a result, their service offering is based primarily on what they are capable of providing rather than on MSE needs and requests. They tend to provide the same kinds of training (general business-oriented courses) and technical assistance (primarily credit supervision).

No more than 10 of the NGOs dealt with in this institutional assessment are solid organizations with a primary focus and expertise in enterprise development, and that have the potential of achieving financial viability. Very few of the so-called "foundations" have local endowments or resource bases; they depend almost exclusively on outside donations originating from international donor programs. Most of these institutions are scurrying to find ways of generating income to offset expenses because of the uncertainty of continued donor support and increasing focus on sustainability in donor-financed programs.[3]

All programs provide training in varying amounts, much of it required as prerequisites for receiving credit. However, where training is largely limited to providing inexpensive short seminars on practical business topics, programs tend to attain greater financial viability. Those programs that put primary emphasis on in-depth training (in the context of the Ecuadorean business environment) are those that tend to be the least well developed and the least financially viable. They have also concentrated on perfecting training delivery systems and methodologies, but not on developing viable institutions to house on-going program interventions.

Sustainability (or self-sufficiency) is a complex issue for nongovernmental organizations involved in this field. First, organizations formed to mobilize donations cannot be expected to be self-sufficient on the basis of fees charged — the ability to mobilize sufficient donations to cover costs and programs is the indicator of self-sufficiency. Second, organizations supported by donor agencies tend to be involved in activities — and incurring levels of expenses — that they would not do in the absence of donor funding. There is no reason to assume that they should continue those functions if donor support were to end. Discussions of self-sufficiency, therefore, should focus on minimum "survival" income levels and the ability of the organization to mobilize sufficient resources to cover that.

Most programs contain a credit component, and are dependent on it for income. There are three common credit intervention types:

- Direct lending programs;
- Rediscount lending through the commercial banks; and
- Guarantee funds.

Credit is the one service that has demand even at a market determined price; training is more difficult to "sell," or to cover costs through charges to the beneficiaries. The expensive, relatively long and sophisticated training programs cover on the order of 20-30 percent of their training costs through charges to beneficiaries. The balance is subsidized by donors, such as USAID/Ecuador. The GOE rediscount programs provide the budget for the training and the providers charge nothing to the final beneficiaries. Programs, however, that emphasize credit, giving low levels of affordable training, can finance the training through the credit system and are able to achieve high levels of sustainability and financial viability. Training alone cannot be self-financing, but the costs can be covered if training is combined in small, appropriate doses with credit, and is paid for through the interest charged or as an up front deduction from the loan.

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[3]At the same time, it is curious to note that only "endowed" foundations should be expected to be self-sufficient; the mark of a successful foundation is its ability to mobilize donations to cover operating and program costs.

With few exceptions — notably INSOTEC — the intermediary institutions do not focus their attention on specific client subsectors. Instead, they seek and accept clients from the MSE sector at large, with the result that their client base is comprised of small and micro-entrepreneurs from many different subsectors. This has important implications. First, the institutions are forced to be generalists; they do not have sufficient clients in any one subsector to develop business expertise in any one. Second, lacking technical expertise in their clients' businesses, they cannot tailor training and technical assistance to the particular needs of given client groups — such as marketing problems of shoemakers, drop forging or tempering alloys problems of the metal-working sector, or design constraints limiting dressmaker sales — and are forced to offer general business courses that apply to all clients but are not the primary needs of any. Third, their intervention with a given micro-entrepreneur is limited to the business as an isolated entity; they do not have a sufficient client base in any given subsector to look beyond the concerns of the immediate client to problems or constraints that affect the subsector as a whole. Fourth, their support to the micro-entrepreneur is limited to what they are able to provide from their stock list of services; they lack the resources, contacts, or expertise to provide specialized services that meet specific client needs. Finally, their impact is limited to their actual clients; there is little spread effect or indirect benefit from their activities.

All of these factors conspire to make the standard NGO and foundation approach a high-cost, low-impact effort.

MAJOR LESSONS LEARNED

General

- Institutional development must be viewed as a medium- to long-term proposition, especially if trying to start an institution from a very low level. Five years to achieve institutional consolidation is not uncommon.

- There has been heavy emphasis on program development — that is, providing funding to carry out a specific intervention — and not enough attention paid to bona fide institutional development. A program cannot survive for very long if it does not have the institution to house the program.

- Institutional strengthening is needed in planning, accounting, and how to achieve financial viability. More of a market orientation is needed in determining the kind, level and cost of the services that are to be provided.

- Management and administrative assistance training interventions tend to be highly standardized. The same core topics are covered, although with differing degrees of intensity. There are several problems with the approach. Programs do not often do a very good job of designing the actual work plan for the target market in the "canned" programs, although a program may have been very appropriate for the original group for which it was designed. This illustrates the problem of direct, wholesale transferability of techniques or methodologies. In addition to problems in targeting the proper level of enterprise given the content of the assistance, specific direct technical interventions important to a specific subsector are frequently not available because project interventions are general rather than specific.

- Foundations and programs that are operating with outside donor assistance, or that are bank owned, tend to have more complete statistical information and accounting data and better income and expense controls than strictly locally based social service organizations. Whether the better information systems are the result of donor assistance or the level of donor assistance the result of relatively good management capability is not clear.

- Accounting procedures are lacking in most organizations; balance sheets and income statements are usually completed on a yearly basis and kept primarily to provide yearly historical data to donors, but not for managerial decision making purposes.

- Dangerously, there has been substantial erosion of the assets of NGOs since 1987, and no firm accounting and financial policies have been established to counter this phenomenon.

Organizations and Programs Having Control Over Their Own Financial Resources and Credit Assistance to MSEs

- Institutions that show a propensity and probability of achieving self-sufficiency, or are moving in that direction, generally: (a) have their own in-house credit and/or guarantee funds; (b) do everything from promotion of the credit program, training, and follow-up to collection; and (c) perhaps most importantly, are in charge of their own credit decisions. Their rotation of credit funds is quite rapid; they tend to charge closer to market rates of interest than the Ecuadorean government programs, and their arrearage rates are very acceptable, being in the 2-5 percent range.

- Since self-sufficient institutions are responsible for the good stewardship of the funds at their disposal, they tend to have better accounting and controls over numbers and arrearages than organizations and programs that do not control their own credit operation. This is a direct result of ownership of the funds and the need to keep good track of what is happening in the system.

- These self-sufficient institutions are generally more experienced organizations that have identified the most appropriate methodologies for the beneficiaries with whom they work. In doing so they attempt to provide a level of service that is commensurate with the needs of the beneficiaries. Some have achieved financial viability (or are about to) based on keeping the level of services and their costs in line with what the market will bear — that is, what the beneficiaries can or are willing to pay for the service. They tend to be more entrepreneurial than organizations that do not seek to be financially viable.

- They appear to have stronger management than younger or more socially oriented organizations. This is probably a function of their experience and personnel growth over time.

Organizations that are Agents for Rediscount Credit Programs

- These institutions are reliant to a large degree on the "attitude" of any given bank branch manager and the credit official that operates the micro-enterprise line for the movement of the applications presented to them and the expediency of the process. If the will to implement the program is not there it will be lethargic at best. The point is that these kinds of programs appear to be impossible to force on the banks through legislation and the fact that there are participant bank contracts do not make much of a difference. The key is in how the banks perceive the intermediary NGO and the level of confidence in that organization that exists.

- Many NGOs have not been formed with any particular expertise or ability to essentially take on banking functions in the area of credit appraisal and follow-up. As a result, they have gotten off to a bad start in some cases generating negative repercussions for NGOs and the system generally.

- Banks are not particularly enamored with the prospect of working with unprofitable tiny micro-enterprise loans. They will often find ways to avoid having to work in the system. Since this is the case and since under the GOE rediscount programs the income that NGOs derive from their training services and loan application channeling function is dependent ultimately on whether loans are actually disbursed, they are in a very tenuous financial position. No NGO that strictly works as an agent under the rediscounting systems can be financially viable. Contracts are usually for one and sometimes two years and are one-shot affairs. There is no assurance that a follow-on contract will be forthcoming. Institutions should consider the rediscounting programs as one, but not the only, source of income.

- Rediscounting through the commercial banks appears to work best under two conditions: first, when the NGO is more experienced and has developed credibility in credit management, and, second, when the client enterprises are at the upper end of micro-enterprise or small businesses that are more consolidated than the lowest level of microbusiness, and have some clearly definable growth potential.

Guarantee Mechanisms

- Donations destined for use as guarantee funds can be used like endowments to earn interest income; they can form an assets base for the beneficiary institution and can be used to leverage local currency bank funds for on-lending, as the NGO sees fit, to micro-enterprise clients that the banks might not have any interest in serving under the rediscounting operations of UNEPROM and CONAUPE. In this way, competent NGOs can be assisted in their objective of building toward financial viability and they will, simultaneously, develop more control over their own financial destinies.

- Donations or loans made to institutions can be deposited in dollar-denominated accounts, still draw interest at a rate similar to those of Certificates of Deposit (CDs) in the United States, and serve very nicely as a hedge against the assets-eroding effects of inflation.

- The Corporaciones de Garantía, the IAF, and the Acción/AITEC systems are more realistic in their handling of interest rates and delinquency. This may be attributed to the fact that the guarantee operators have a clear financial interest in seeing that the assets of the guarantee funds do not decapitalize through payouts on bad debt. First, they earn interest income on the funds deposited and, second, the users of the funds, in the case of the *corporaciones de garantia*, also contribute on a monthly basis to it. It is human nature to take better care of something in which one has a stake than something in which one has no sense of ownership. Therefore, care is taken by the NGOs to make good loans.

RECOMMENDATIONS

1. The formation of new NGOs and foundations, except when these are endowed by domestic resources, should be discouraged. Consolidation of existing institutions should be encouraged, but is unlikely to be successful.

2. Several of the more entrepreneurial NGOs (foundations) that show a potential for becoming good, reliable, credible intermediary agents for financial institution programs still need outside assistance (technical and financial) for a period of up to five years.

3. The local intermediaries need to develop a less standardized approach to providing services to their clients, and need to develop services that respond to client needs. Because the cost of providing individualized technical training and assistance is high, the organizations should be encouraged to act as brokers rather than providers of key training and technical assistance services.

4. The NGOs need to develop their own direct loan and guarantee operations to ensure a diversified and stable income. Support to these institutions should be coordinated among the donor agencies and government programs to avoid redundancy, duplication of effort and conflicting objectives.

5. Both the government agencies involved in the MSE sector and the nongovernmental organizations providing direct support to small-scale entrepreneurs need to (a) be aware of the decapitalizing effect of inflation on resources, and (b) implement policies and procedures to combat it.

6. The Ministry of Finance has approved a "*Reglamento de Aplicación del Sistema de Corrección Monetaria Integral de los Estados Financieros*" that will be applied starting in 1991. Foundations and other NGOs should be required to apply these regulations.

7. The institutions involved in MSE programs — donors, GOE and local intermediaries — need to focus increasing attention on vertically integrated interventions that address subsector problems. Technical assistance in supply, production, and marketing problems specific to different subsectors should be given more emphasis — particularly at the small enterprise level — targeting those enterprises that have growth potential and the financial and managerial resources needed to implement the recommendations that could come from these kinds of interventions.

CHAPTER ONE

DONOR AND GOVERNMENT PROGRAMS OF SUPPORT TO MICRO- AND SMALL-SCALE ENTERPRISES IN ECUADOR

by

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INTRODUCTION

This chapter examines issues of complementarity, duplication of program activities, and the need for coordination among various entities currently providing support to micro- and small-scale (MSE) enterprises. Specifically, it addresses:

- The degree to which different programs complement each other or duplicate efforts;
- The degree to which organizational objectives are compatible or contradictory;
- The extent to which coordination of resources and efforts could enhance the overall impact of different assistance programs;
- The need to involve other groups — such as local community groups — in MSE support activities; and
- The need to share information among institutions.

The major objective of the analysis is to understand how these organizations relate or connect with each other when delivering technical expertise and financing for developing the Ecuadorean MSE sector. The impact of the type of assistance provided, how that assistance is channeled, the MSE operators served, and the effect of conditions imposed on MSE programs are discussed.

OVERVIEW OF INSTITUTIONAL SUPPORT TO THE MICRO- AND SMALL-SCALE ENTERPRISE SECTOR

There has been a rapid proliferation of institutions involved in the MSE sector during the past few years. At the present time there are more than 50 organizations either directly or indirectly involved in servicing the MSE sector. These include international donor agencies and institutions; Government of Ecuador (GOE) public sector entities; local intermediary organizations providing training; technical assistance, and credit (foundations and nongovernmental organizations (NGOs); and private sector financial intermediaries such as banks and credit unions.

This chapter discusses the roles and relationships of international donors and public sector entities in providing services to MSEs. Other chapters in the sector assessment focus on the other types of organizations.

EXTERNAL DONORS

Numerous international donor agencies are actively supporting MSE development programs in Ecuador. These include major international donor programs of:

- The U.S. Agency for International Development (A.I.D.), which has funded a Small Enterprise Development (SED) project through the bilateral assistance program of its in-country Mission (USAID/Ecuador);
- The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank, which finances small industry loans through the Corporación de Fomento Nacional (CFN);
- The Inter-American Development Bank (IDB), which is in the process of financing a major program of assistance to MSEs through the Ministry of Social Welfare; and
- the Inter-American Foundation (IAF).

In addition to these large-scale programs, specific assistance to individual foundations, NGOs, and special projects has been provided by both private- and public-sector international agencies and organizations, including:

- U.S. Peace Corps;
- United Nations Development Program (UNDP);
- Canadian International Development Agency (CIDA);

- Konrad Adenauer Foundation (KAF);
- Gesellschaft für Technische Zusammenarbeit (GTZ);
- Women's World Banking (WWB);
- Acción International/AITEC;
- Spanish Development Assistance Program (CODESPA); and
- The German Cooperative Movement (CONCAF).

The type of assistance provided, the institutions or programs supported, the intended or actual beneficiaries, and the limitations of the assistance vary according to the bilateral or multilateral nature of their activity.

The Major International Donors

U.S. Agency for International Development

The U.S. Agency for International Development (A.I.D.) has been involved since 1986 in providing direct assistance to the MSE sector, primarily through its SED project. This project, of approximately $4.5 million, supported the on-going MSE activities of two existing NGOs,[1] the establishment of MSE services in two existing foundations in secondary coastal cities of Ecuador, and the creation of three new foundations specializing in MSE-support activities in three other secondary cities.[2] The project is managed by CARE,[3] a U.S.-based private voluntary organization (PVO), and implemented by two separate institutions with experience in MSE- development programs. One of these (Acción International/AITEC) provides limited technical assistance and advisory services to the two foundations in Guayaquil and Quito (FEE and FED). The other (Fundación Carvajal, a private foundation with headquarters in Cali, Colombia) helped establish and provide technical assistance to the five foundations located in secondary coastal towns. The Acción International/AITEC model concentrates on direct lending to very small micro-enterprises, combined with training and business-development assistance to be paid for by the entrepreneur upon receipt of a loan. The underlying premise is that access to credit is the principal constraint to enterprise strengthening and growth at this level of micro-enterprise. The Carvajal model emphasizes training as the real key to business development arguing that poor management — of both working capital and the business itself — are the primary constraints to business

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[1]The Fundación Eugenio Espejo (FEE) in Guayaquil and the Fundación Ecuatoriana de Desarrollo (FED) in Quito.

[2]These foundations are located in Quevedo, Santo Domingo, Manta, Portoviejo, and Esmeraldas.

[3]CARE did not have microenterprise experience in Ecuador until 1988 when it assumed responsibility for the SED project, which had originally been managed by Partnership for Productivity.

strengthening and growth. The program is a training program and does not assume that credit will be a solution or be needed by the entrepreneur. This project is scheduled to end on December 31, 1990.

In addition to the SED project, USAID/Ecuador established a small credit line to support the lending activities of other NGOs that are associated with the National Program for Microenterprise Development (UNEPROM) of the Ministry of Labor.

Although there are few specific limits or guidelines,[4] USAID/Ecuador's programs are aimed at key target groups — primarily very small-scale enterprises and those owned by women.

This is the smallest of the major donor programs. Approximately $5.0 million (between the SED project and the line of credit through the CFN) have been committed to date, and the Mission is considering an additional four-year project of approximately $4.0 million.

The World Bank

The International Bank for Reconstruction and Development (IBRD — commonly referred to as the World Bank) has one major project for small and medium industry implemented by the CFN through a special program called the Fondo de de la Pequeña Industria y Artesanía (FOPINAR). To date, IBRD has committed approximately $130 million to the FOPINAR program, which extends credit and technical assistance for industrial recovery. The IBRD program does not target MSEs. FOPINAR is a fund for small- to medium-sized industries, and few, if any, of the current beneficiaries of the FOPINAR program would fall within conventional definitions of MSEs.

A second World Bank project provides funds to the Servicio de Capacitación Profesional (SECAP) to support training of private-sector entrepreneurs. This project includes an agreement to create small-scale enterprise development activities, including training, but the SECAP and UNEPROM project managers have not implemented this component of the project.

IBRD staff on Mission to Quito indicated that the MSE sector does not figure in their portfolio of projects. The IBRD prefers to work with small- and medium-scale productive enterprises — enterprises larger than those targeted by either USAID/Ecuador or IDB programs. The maximum loan size is currently $85,000, considerably higher than credit required by the small-scale enterprises surveyed for this sector assessment. Although the minimum loan size is $1,000, no loans of this size have been made. Credit and production information is reaching the intended target group in an adequate manner. The CFN staff as well as private bank staff have been prepared to understand the needs of small- and medium-scale industrial enterprises by (INCAE) instructors.

The World Bank and the IDB are complimentary donors in the MSE sector, with the World Bank addressing the larger small-scale and medium-sized firms, and the IDB concentrating on micro- and smaller small-scale firms. The IBRD is not really interested in developing MSE projects at this time. It will fund SECAP, including a component for small-enterprise development training, but have no plans of scaling down operations to reach truly small-scale producers.

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[4]Loan sizes are limited to a maximum of $5,000 per client.

Inter-American Development Bank

The IDB is the only multilateral agency with programs specifically targeted for small-scale enterprise development in Ecuador. Until recently, IDB involvement in the MSE sector in Ecuador was limited to a number of discrete, independent interventions to support specific foundations through its Small Projects Office. This has included assistance to both the FEE and FED, as well as Fundación Guayaquil and the Instituto de Investigaciones Socio-Económicas y Tecnológicas Small Projects grants (nonreimbursable loans) are less than $500,000, and provide funds for credit lines and budget support for the institution itself.

Small Projects activities in Ecuador will be replaced by a major loan and grant package that the IDB is currently negotiating with the GOE to support micro-enterprise development activities in the country. This program will provide approximately $16.0 million in funding for credit lines to small-scale entrepreneurs. The fund will be administered by the Banco Central del Ecuador (BCE) for rediscounting through the commercial banking system. Individual NGOs will be able to establish formal agreements with the private banks, subject to approval by the Corporación Nacional de Apoyo a las Unidades Populares Económicas (CONAUPE), a second-level public-sector support institution located in the Ministry of Social Welfare (MOSW).[5] The NGOs will be able to rediscount loans to MSE clients with the private banks (or, as an alternative, prequalify clients for direct bank loans), earning a commission or spread on their client portfolio. The IDB package also includes some $3.0 million for institutional development and support, part of which would be used to fund CONAUPE activities and part for the development and costs of individual NGOs.

This program is designed to be cofinanced with the GOE. Because of delays in the negotiations and approval process, the only funds available to the program to date have been provided by the GOE, in the amount of approximately $8.0 million, which has been used as seed money to get the program operating.

The program is designed to build local institutional capability to provide services to MSE clients and to finance MSE business activities. The minimum loan size is expected to be $1,000 per client, while the maximum is currently targeted at $5,000. This means that the IDB-financed program will be able to reach between 3,000 and 16,000 clients, or a maximum of 1-4 percent of the estimated firms in the MSE sector. With loans of this size, the program will primarily reach the larger micro-enterprises and small- to medium-sized small enterprises. As currently planned, the program will charge market rates of interest (54 percent per year to the final borrower). Loans may be made to either commercial firms (including market vendors and small stores) or production- and service-oriented firms, although most of the loans are expected to go to production-oriented businesses.

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[5]This program is discussed in greater detail in the section on GOE activities in the MSE sector.

The Inter-American Foundation

The IAF has channeled relatively large amounts of financing to the MSE sector through individual local foundations and nongovernmental organizations. This assistance averages between $1.0 and $2.0 million annually, or an amount approximately equal to USAID/Ecuador's annualized support to small-scale enterprises through the SED project. Recent activities have included:

- A $300,000 grant to the FEE for credit activities ($100,000), administrative support ($100,000), training of FEE staff ($50,000), and training of micro-entrepreneurs ($50,000);

- A $333,000 grant to INSOTEC to support a program of assistance in the city of Ambato, of which $100,000 supports a line of credit for small-scale entrepreneurs; and

- A grant of approximately $400,000 to Fundación Guayaquil to support its small-scale enterprise program.[6]

IAF grants tend to be one-time, project-specific donations to individual foundations to cover credit lines and administrative support costs. The intended beneficiaries of IAF programs are low-income individuals and families, both rural and urban. The program places few restrictions on interest rates, maintenance of value, or delinquency control.

Other International Donors

The U.S. Peace Corps

The U.S. Peace Corps has a Small Business Assistance program, which is active on a small scale in Ecuador. The financing is short term, and project specific, with loans managed by on-site volunteers. The nature of the program does not lend itself to coordination with other projects and programs, although it does complement urban and rural MSE projects.

United Nations Development Program

Three United Nations programs are currently active in Ecuador, although none are presently involved in MSE activities. The UNDP has in past years been instrumental in directly funding MSE-related projects in Ecuador, but is not presently providing direct support for MSE activities. Another program, the United Nations Organization for Industrial Development (ONUDI), offers technical assistance for industrial development, conducts technical studies, and facilitates technology transfer for industrial expansion. ONUDI does not finance specific MSE projects, but is willing to participate in programs that link MSEs with other programs and services. The International Labour Organisation (ILO) has been the U.N. agency most involved in MSE activities in Ecuador. Due to financial constraints of the UNDP programs for Ecuador, very little activity has been directed for MSE-sector assistance in recent years.

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[6] A breakdown on the planned use of these funds was not available to the team.

Canadian International Development Agency

Very little information was available on CIDA activities in support of the MSE sector. CIDA has provided financial and technical support to a number of private foundations and other nongovernmental organizations.

Acción International/AITEC

Although not an international donor in the true sense of the term — it usually functions as an intermediary of resources provided by one of the international donors — Acción International/AITEC (a U.S. PVO) has initiated a series of credit guarantee programs that allow individual foundations and NGOs to obtain access to credit resources from local financial institutions. The Corporación Feminina Ecuatoriana (CORFEC) and FEE are two institutions working with the Acción/AITEC guarantee program.

Others

The Konrad Adenaur Foundation (KAF) has given seed financing for institution building and start-up of NGO activities that included MSE support. Among others, funding by the Konrad Adenaur Foundation permitted INSOTEC to provide technical assistance to two separate NGO activities — PRODEPEM and ADEMEC. SWISSCONTACT, a private organization based in Switzerland, channels project funding to local NGOs on behalf of the Swiss Government, several political parties, and individuals. CONCAF, the German Cooperative Movement's international assistance program, is providing support to the Ecuadorean credit union movement and the national federation of small industry associations. This is discussed in greater detail in a separate report on credit unions that is included as part of the financial markets assessment.

Comparison of Donor Strategies

Relations to GOE Programs

The World Bank and IDB's proposed loan program are implemented through established GOE programs — the World Bank through the CFN, and the IDB through CONAUPE, a program operating in the MOSW.[7] USAID/Ecuador's SED project has worked directly with a select number of private NGOs, although its line of credit through FOPINAR has been associated with the small enterprise program of the Ministry of Labor. IDB's Small Projects Office activities have also worked directly with individual foundations and other NGOs. The other donor sources tend to work directly with the institutions they are assisting.

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[7] The IDB credit line will be administered by the Central Bank of Ecuador; institutional support to the NGOs will be coordinated by CONAUPE. The CONAUPE program is described in greater detail in the following section.

Implementing Agency

USAID/Ecuador tends to provide assistance through contractors, consultants or U.S.-based PVOs. The SED project, for example, is managed by CARE and implemented through cooperative agreements with Acción International/AITEC and the Fundación Carvajal (a Colombian private foundation). Both the World Bank and the IDB large project provide resources directly to the GOE; projects are implemented by public or quasi-public sector institutions such as the CFN, UNEPROM, or CONAUPE. The other international donors tend to provide funds directly to the local intermediary; technical assistance, when included, is provided directly by the donor institution.

Local Intermediaries

With the exception of the World Bank lines of credit through the CFN-FOPINAR program, the donor agencies tend to support the creation or expansion of services through local intermediaries. In the case of Ecuador, these are NGOs (including foundations) that have either added MSE-support activities to their portfolio of services, or they are newly established institutions involved in the sector. Most of the projects included a credit component and budget support funds for the institution itself.

Target Beneficiaries

The World Bank program targets medium-scale enterprises. With maximum loan sizes ranging from $20,000 to $85,000, the scale of enterprise assisted by this program is considerably larger than that of any of the other donor programs. The proposed IDB loan will primarily serve clients in the larger micro-enterprise through medium-sized small enterprise range. These activities of IDB's Small Projects Office, the USAID/Ecuador program, and IAF-supported activities all target enterprises in the small micro-enterprise through smaller small-enterprise range. Donors from the European community tend to be less precise about the intended beneficiary. A strong segmentation of the small-scale enterprise clientele therefore exists among the various donor agencies.

Coverage

Total resources provided (or currently programmed) for enterprise development in Ecuador by the international donor community appear to be in the range of $150 to $200 million. Resources provided or planned for small-scale enterprises, however, are only in the range of $30 to $50 million. Given the size of the MSE sector — estimated at 250,000 to 350,000 firms, with total credit demands in the range of $150 to $350 million — total resources for MSEs will reach between 10-20 percent of the potential client base. Saturation in providing services to small-scale enterprises is not an issue.

Program versus Project Focus

The donors employ two major vehicles for financing economic development activities: programs and projects. Programs are more general, broader in scope and usually include policy reforms with a sector orientation. Programs of this nature look at policy issues resulting from interventions, legal reforms, and fundamental changes in fiscal and monetary policies. Nonproject assistance, sector- adjustment loans, and similar vehicles are program rather than project oriented. This kind of application of development assistance financing can have an effect on the design of projects. Usually nonprojectized money involves hard currency cash transfers to offset balance of payments deficits. When carefully crafted, such loans or grants can be used to implement policy reform measures.

Projects, by contrast, are more micro oriented. They try to attack a specific problem and require a tailor-made intervention, which is usually accompanied by a short life span — usually in the range of two to three years.

Program and subsector assistance involving cash transfers to the government in local or foreign currency equivalents are generally offered in U.S. dollars.[8] The Central Bank handles the cash transfer through special financial tracking mechanisms. These mechanisms may or may not be regarded as favorable to the government at a given time, or applicable for the kind of project level support sought by the implementing agencies. What the donor agency may do is say to the GOE, "Here is the money, do with it what you will as long as we get the policy reforms that we want." Negotiating the proper mix and tenor of the reforms has been beset by intricacy and misunderstanding.

There are many stakeholders who stand to profit or lose by the outcome of the reforms. Reforms that support or promote the MSE subsector are sometimes opposed by those larger industries that may not be permitted to take advantage of the benefits; or the larger industries, if included in the benefits, may drive out the MSE sector. Quite often lack of information contributes to poor decision making.

Other donors, such as the IDB and IBRD, also work through similar financial mechanisms when they seek to achieve policy changes (structural transformation). For example, the application of sector adjustment loans (SECAL) can be designed so that banking regulations affecting the MSE subsector are made more flexible. Structural reform packages can specify language that will accomplish the desired objectives. But language alone will not necessarily achieve the objectives sought.

A key to understanding the kinds of relationships that can effectively assist the MSE sector rests in tracing the funding path, its policy implications as well as the manner in which local institutions interpret the use of program and project financing.

A.I.D., for instance, has argued that using nonproject assistance as a lever for reforming a subsector entails less management effort in achieving the desired policy changes, therefore estimates less management oversight by Missions. What happens in practice is that nonproject assistance can be more management intensive than expected. Newly placed teams must be retrained to track the funds, and assessing the impacts is difficult because the mechanisms in place reflect the complex array of regulations, legal impediments, and inflexibility of the Ecuadorean public bureaucracy in responding to structural adjustment programs. Frequent staff changes and disruptions in ministries are a cost that the GOE is simply unable to afford in the short term.

[8]ESF refers to the A.I.D. fund for economic support to a country. The World Bank uses the same acronym, ESF, when referring to the Emergency Social Fund.

GOVERNMENT OF ECUADOR AGENCIES

The following GOE institutions are involved in providing services to or regulating the MSE sector:

- Frente Social (Social Front), which includes the Ministries of Labor, Social Welfare, Education, and Health;
- The MOSW, which administers CONAUPE;
- The Ministry of Labor and Human Resources (MOLHR), which administers UNEPROM and SECAP;
- Banco Central del Ecuador;
- The Corporación Financiera Nacional;
- Banco Nacional de Fomento; and
- Superintendencia de Bancos.

The discussion of each of these entities includes a description of the type of assistance provided, the institutions or programs that they support, the intended or actual beneficiaries, the limitations or conditions of the assistance, and comments or conclusions about the relationships of this entity to the others working in the MSE sector.

The function of the GOE entities can be either that of regulator or implementor of MSE programs.

Frente Social

The Frente Social is the designated GOE entity for general policy guidance on poverty programs. The Consejo Nacional de Desarrollo (CONADE), the principal planning agency of Ecuador, is required to act as advisor to the Frente. Executive Decree No. 195, dated 4 November 1988, authorizes the creation of the Social Development Fund that is the source of financing for Front activities.

President Rodrigo Borja organized these ministries for the purpose of coordinating social action programs aimed at the poorest segments of society on a nationwide basis. Detailed planning is left up to each ministry and department, a task that has proven to be beyond the capacity of middle managers.

The Social Front has placed CONAUPE in the role of directing support for policy changes and distribution of external assistance for MSE, which includes providing professional training for popular economic units (that is, MSE or UPEs), providing access to institutional credit, and proposing improvements in the legal status of MSEs. The program is not fully operational as of this time.

Ministry of Social Welfare

When President Borja came into office in August 1988, his Minister of Social Welfare, Raul Baca Carbo, took on the task of addressing the needs of the informal sector. At his instigation and relying on previous work done by the ILO, he argued for and achieved the creation of **the Corporación Nacional de Apoyo a las Unidades Populares Economicas (CONAUPE)**, whose purpose is to "support the efforts of hundreds of thousands of men and women workers in the urban and rural areas" of Ecuador. The organization began operations on 18 August 1989. There are eight services being organized by CONAUPE:

- Credit;
- Training and advisory services;
- Institutional strengthening for organizations serving "popular economic units" (that is, MSEs);
- Technical and technological improvement;
- Marketing;
- Legal support for UPEs (includes MSEs);
- Social security; and
- Communication and culture.

Not all the services are presently being offered because the project has not been approved by the IDB, which initially entertained a $30 million loan. Only $10 million (actually $7.5 million due to devaluation and subsequent allocations by the GOE) in local currency seed capital has been appropriated by the GOE for the operations of CONAUPE. The agreement is expected to be signed in December of 1990 for an amount closer to $20 million.

CONAUPE is the principal GOE entity responsible for implementing and coordinating MSE programs. Its legal basis comes from Presidential decree, which allows it to work with private institutions, NGOs, and enter into bilateral agreements with donors. Because of its association with the past government, UNEPROM has been allowed to atrophy, but has been seeking a niche in the overall microenterprise program of the GOE by offering to provide broker-training services to beneficiaries seleced by CONAUPE.

To receive support through one, MSE beneficiaries must meet two criteria: they must have no more than eight workers per enterprise and have capital assets equal to no more than 50 SMV per laborer.

As of the time of this report, UNEPROM was seeking a niche in the overall microenterprise program of the GOE by offering to broker training services to the beneficiaries selected by CONAUPE.

Indigenous groups and community groups need to be better represented and involved in MSE activities. Associations and *gremios* should be included as members of the Board of CONAUPE. This Board is made up of high-level officials, two ministers, the Central Bank manager, the secretary of the cooperative system and representatives of sierra and costal MSEs. Given the ongoing time constraints of high-level officials, the Board is not as involved in operations as it needs to be.

There are no representatives from the Confederación de Nacionalidades Indigenas del Ecuador (CONAIE), which represents about half a million MSE operators in rural and urban areas. Politically, it may not be acceptable to include the vast number of indigenous MSE operators within the GOE delivery system. This speculation did not meet with great acceptance when initially proposed to GOE officials.

The best estimate of the capacity of CONAUPE to implement its ambitious program is in the volume of $10 to 15 million within two years. Therefore, the $30 million package that CONAUPE is expecting from IDB is not likely to be utilized within that timeframe.

Ministry of Labor and Human Resources

During the administration of Leon Febres Cordero, the Ministry of Labor was asked to create a unit that would channel assistance to the "popular" sector, a unit called **Programa Nacional de Microempresas (UNEPROM)**. Support has been obtained from USAID for training of its staff, technical assistance and a credit fund. UNICEF provided funding for women's programs.

The stated objective of UNEPROM is to "maintain, improve, or create sources of employment and income, so that the living conditions of certain target groups, such as marginal populations in cities and the most vulnerable population groups, such as women, can improve. In order to achieve this objective, (UNEPROM) will create micro-enterprise development projects."[9] UNEPROM was established on 17 January 1986.

The services UNEPROM offers MSEs include training manuals for micro-enterprises, and legal services from Catholic University in Guayaquil for Guayaquil-based MSEs. To date, UNEPROM has conducted a few workshops and hosted one international seminar on training personnel to support the informal sector.

Financial and technical assistance is channeled to MSEs through the Fondo de Desarrollo del Sector Microempresarial (FODEME). UNEPROM has operated credit funds through special agreements with several private banks and one public bank, the Banco Nacional de Fomento.

The experience with the UNEPROM facility has not been encouraging. Private banks voiced concern that the beneficiaries were too politicized and were not considered sound credit risks. The preparation

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[9]UNEPROM, "Cuadernos Microempresariales," *Nueva Epoca, Ano 3, No. 3,* introduction.

of loan documents by foundations for borrowers was often deficient, requiring the bank to devote its own staff time to verify the information contained in loan applications. This judgement has resulted in the approval of relatively very few loans compared to the estimated demand.

Also under the MOLHR is **the Servicio Ecuatoriano de Capacitación Profesional (SECAP)**, which has a cooperation agreement with UNEPROM that seeks "to incorporate the graduates of SECAP with the benefits offered by UNEPROM and vice versa."

SECAP and UNEPROM are capable of providing training for the MSE, but only those persons that are included in the current training program of SECAP can qualify. UNEPROM does not have an installed capacity to deliver training programs to the MSE sector. It depends on NGOs to provide this training.

SECAP prepares potential MSE operators using its nationwide training facilities. UNEPROM may then help those graduates willing to undertake an entrepreneurial activity to gain access to special lines of credit from BNF and participating private banks.

SECAP trains vocational-level skilled workers who eventually may find employment in the private sector. By law, private industry contributes 5 percent fee on gross sales for training activities. This source of revenue has enabled the organization to expand its training programs. The World Bank has a loan project aimed at improving the capacity of SECAP. There is mention of micro-enterprise linkages in the agreement, but no specific MSE focus.

The private sector is a player that needs to have a better role defined by SECAP. This is not, in itself, a dominant factor in determining the kinds of projects or programs that SECAP pursues.

Banco Central del Ecuador

A key institution of the GOE grouping is the Central Bank whose function is primarily to discount credit lines to second-tier financial institutions (private banks mostly) for MSE as well as medium-scale industry development. The Central Bank does operate a social development program for rural MSE beneficiaries under the Fondo de Desarrollo Rural marginal (FODERUMA).

Corporación Financiera Nacional

The CFN administers the FOPINAR fund with IBRD loan financing. The CFN has successfully managed the fund and has recently expanded its credit line with a fourth replenishment.

Banco Nacional de Fomento

The BNF offers a subsidized loan interest rate for MSEs of 32 percent for a two-year period, amortized quarterly. The maximum loan available is based on 30 times the minimum monthly salary equivalent (SMV = $1,500 in 1989 dollars, or approximately S/.850,000). Currently the interest rate charged by BNF is 39 percent, which is considerably below the rate of inflation and commercial bank interest rates.

Private banks — such as La Previsora, Banco Los Andes, Banco Pichincha — offer adjustable interest rates that begin at 36 percent for one year for working capital and two years for fixed-capital assets. Loan payments are due monthly or quarterly depending on the individual loan approvals. The maximum loan offered for working capital is 20 times the SMV, and 36 times the SMV for fixed assets. Group loans are available with a maximum of 100 times the SMV, or approximately $5,000.[10]

Superintendencia de Bancos

The Superintendencia de Bancos (Bank Board) has regulatory authority for banking activities. The Ministry of Finance and the Central Bank have operational jurisdiction with respect to foreign currency transactions affecting the national budget and discount facilities.

For example, interest rate structure can be established on a program basis when approved by the Central Bank, or governed by an agreement with the Ministry of Finance. The Bank Board establishes the liquidity requirements of all private banks in the country, and enforces banking regulations. Cooperatives are not regulated by the Bank Board.

CONCLUSIONS AND RECOMMENDATIONS

Although a large number of external donor agencies are involved in the MSE sector, the field is not saturated. Total resources applied to the sector will reach only 10-20 percent of enterprises in the sector, and will meet less than 5 percent of the potential demand for credit.

Furthermore, with rare exception, there is no particular problem of redundancy or duplication of assistance to MSEs. Each institution tends to specialize either in a specific stratum of the MSE sector or on specific institutions. The new IDB program would have overlapped with some of the functions of the USAID/Ecuador SED project, in that they would have involved the same institutions in a similar package of credit, technical assistance, and training. Since the SED project is ending in December 1990, this is not an issue.

The broad-based spectrum of support to and through NGOs that will be financed by the proposed IDB project reduces the need for similar activities by other donor agencies. Specialization in terms of regions, resources, and beneficiary sectors may be more appropriate interventions for other donors working in the field.

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[10]The SMV varies in sucre amounts. In late 1989 it was S/.27,000, or about $50.00. By August 1990, it had climbed to S/.35,000, but declined to about $40.00 due to inflation and increase in the dollar exchange.

GOE organizations involved in the MSE sector tend to have one of two functions: supervision and regulation or promotion. Entities involved in regulatory functions are long-standing institutions that include supervision or regulation as one of their routine functions. Entities involved in promotion, however, tend to be political creations, strongly associated with a particular party or government.

Furthermore, GOE programs to promote MSEs tend to function as social welfare agencies, with a commitment to transferring domestic or donor resources to beneficiaries at highly subsidized rates and with a variety of auxiliary services. Both UNEPROM and CONAUPE, for example, have strongly paternalistic approaches to supporting the MSE sector, involving considerable political patronage. Because they are established as conduits of externally provided resources, there is little or no impetus to adopt financially or economically sound practices or procedures

While there is an obvious need to coordinate GOE and donor activities in the MSE field, it is not clear that this function can be performed effectively by a GOE agency such as CONAUPE and UNEPROM.

CHAPTER TWO

INSTITUTIONAL ASSESSMENT

by
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INTRODUCTION

The objective of this chapter is to summarize the institutional support system for MSEs in Ecuador. It focuses on the public and private sector institutions providing direct assistance to MSEs,[1] and describes the programmatic, organizational, and managerial strengths and weaknesses of the different kinds of organizations, the methodologies they use, and their level of development. This information should serve international donor institutions and the GOE in a common endeavor to improve programming in this field and foster a rational division of labor.

OVERVIEW OF MICRO- AND SMALL-SCALE ENTERPRISE DEVELOPMENT PROGRAMS IN ECUADOR

General Background

Because of the significant increase over the past decade in interest in and financing for MSEs in Ecuador, the number of nonprofit NGOs that are working in the sector has multiplied. Additionally, as differing viewpoints on how to best assist these levels of enterprise emerged, the late 1970s and 1980s became a time of experimentation with different modes of operation.

Prior to 1980, a few local institutions provided limited (primarily credit) services to individual small-scale enterprises. The credit union system had a large number of members who were owners of micro- and small-scale businesses. The Banco Nacional de Fomento (BNF) also provided some credit to small-scale urban enterprises, although most of its activities were oriented toward small-scale agricultural producers. Also, the Banco del Pacifico, a private for-profit bank, initiated its Community Development Program in 1976. Located in Guayaquil, this program was small, but important as a demonstration of

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[1]As opposed to Chapter One, which focused on the international donor programs and GOE entities that provide coordination and channel resources to intermediaries working directly with the small businesses.

a methodology of credit assistance for very tiny enterprises and a commitment to the idea of increased private sector assistance to micro-entrepreneurs.

Institutional support for at least the larger micro-enterprises and small businesses has existed, but has not always been well managed and has maintained policies of providing highly subsidized credit and technical assistance services, thereby limiting the level of services and leaving some large constituencies unattended and their advocates unhappy.

The Decade of the 1980s

A large number of new organizations and programs have come into existence during the past decade. In many cases, the new programs were experimental and were formed to test new ways of assisting micro- and small-scale entrepreneurs. They were seeking new solutions to old problems; part of the focus of the new efforts was to redefine the problems, so there was an action research kind of atmosphere. In other cases the new organizations were formed in response to the availability of donor funding. One dictum in institutional development and change is that it is always easier to start new organizations than to restructure or change already-established ones.

In 1981, the GOE initiated a new program to support small-scale enterprise (pequeña industria y artesanía) through the FOPINAR, which was created with World Bank, FMO (Dutch development organization), and USAID/Ecuador collaboration. To date, the World Bank has contributed some $80 million to finance FOPINAR; the recently approved Fourth Credit Line would inject another $50 million in financing for small- and medium-scale enterprises. This represents one of the GOE's earliest concerted efforts to work with smaller enterprises in the economy that did not have access to formal credit sources, although the small enterprises targeted by FOPINAR are substantially larger than what would currently be classified as micro-enterprises.[2]

Also in the early 1980s, the Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC), an Ecuadorian NGO, was established by a group of private sector professionals, technicians, and researchers to address the perceived need for an organization that would serve as a technical information base for the small-enterprise sector. INSOTEC would later concentrate on technical studies of various sectors within manufacturing to detect the technological and marketing requirements of the different sectors in order to be competitive — to increase productivity and product quality — and, perhaps most importantly, to concentrate on business segments in which clear comparative advantages had been identified through INSOTEC's research. FOPINAR and INSOTEC collaborated on several projects, one of which explored entrepreneurship and the behavioral traits of entrepreneurs in an attempt to improve the technical, managerial, and motivational training assistance provided by FOPINAR through its department of technical assistance. INSOTEC also maintained close relations in its initial years with the Federación Nacional de Cámaras de Pequeños Industriales (FENAPI) and was the research, information, and technical arm for the Federación.

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[2]The BNF concentrated most of its lending program on small-scale agricultural producers, ignoring the urban sector. Also, it apparently was not an effective institution, lacking efficient management and a technical orientation for urban-based enterprises.

Neither of these organizations, however, worked with the smallest urban informal sector enterprises. They focused on larger micro- and small-scale businesses that had a formal structure, however rudimentary, and growth potential.

Other nonprofit NGOs began to focus increasingly on the income- and employment-generation aspects of integral community development at much lower levels of enterprise during that time. Two foundations, FED and FEE, in response to the extreme deficiency in services for urban informal sector economic activities, initiated experimental work in the early 1980s (1980-1984) to begin to find systems and approaches to working effectively with informal sector entrepreneurs.

In 1983, the GOE, recognizing the problems of bank lending to MSEs due to lack of collateral, initiated the National Credit Guarantee System (*Sistema Nacional de Garantías*). It had problems in its initial years, but now receives assistance from the Konrad Adenauer Foundation. Several credit guarantee corporations are working adequately now and have been successful in leveraging some loans from the private banking system.

A major series of new initiatives was launched by the GOE and USAID in 1986 to work with true micro-entrepreneurs lacking access to any form of institutional support. Since then there has been a major emphasis on expanding credit and training services to micro-enterprises and delving further down into the micro-enterprise sector. Based on the experiences of the early and mid-1980s, both in Ecuador and elsewhere, various methodologies were implemented by the GOE's UNEPROM (1986) and CONAUPE (1989) programs to reach large numbers of micro-entrepreneurs (as distinguished from subsistence entrepreneurs) through credit, training, and technical assistance. The idea was to complement the efforts of the programs working with larger, better-established small enterprises — such as the programs of FOPINAR and INSOTEC — and greatly expand assistance to micro-entrepreneurs.

The key post-1986 program concept was based on finding ways of "scaling-up" programs to increase coverage at reasonable costs that would be consistent with growing emphasis on higher levels of cost recovery and self-sufficiency. "Massification" — that is, implementation of credit and/or training projects through NGOs that would work all over the country and provide access to services to literally tens of thousands of micro-entrepreneurs needing help — appears to be the outgrowth of the focus on scaling-up. In the overall scheme of micro-enterprise program development, the decade of the 1980s was a time of research and development.

The A.I.D. Effort

The SED project financed by USAID/Ecuador was designed to experiment with two very distinct approaches — the Acción International/AITEC model and the Fundación Carvajal approach — to provide support to small-scale enterprises. Program operations were initiated in 1987.

The Acción International/AITEC model concentrates on direct lending to very small micro-enterprises, combined with training and business-development assistance that would be paid for by the entrepreneur upon receipt of a loan. The underlying premise is that access to credit is the principal constraint to enterprise strengthening and growth at this level of micro-enterprise. The model follows a minimalist approach defined as providing services for which there is a market, at prices that will cover costs, and services that were given in minimal doses that were considered cost effective. The assumption was that over 90 percent of AITEC trainees would receive credit. Although the partner NGOs (FED and FEE) were established institutions, there was a strong emphasis on institutional development by AITEC to develop the internal management, planning, monitoring, and control systems for the credit programs.

The Carvajal model emphasizes training as the real key to business development arguing that poor management of working capital and the business in general are the primary constraints to business strengthening and growth. The program is a training program and does not assume that credit will be a solution or be needed by the entrepreneur. The entrepreneur would pay for the training independently of receiving any loans, although the program contemplated assistance in loan preparation in cases where it was deemed justifiable. Commensurate with this philosophy, recent studies show that about 10-15 percent of Fundación Carvajal graduates have received credit through GOE- and USAID-supported rediscount systems. One of the Fundación Carvajal's initial tasks was to identify its partner foundations and then provide them with training in the Carvajal methodology. Broad institutional development for the counterparts was not formally part of the mandate, however.

In 1989, recognizing that the FOPINAR system was effective, but did not reach smaller small enterprises or the micro-enterprise level, USAID/Ecuador signed agreements with the Corporación Financiera Nacional (CFN) to operate a rediscount line of credit directed at MSEs. This line of credit was designed to work like two GOE-subsidized credit lines for the smallest entrepreneurs, but with a much more attractive spread for the banks of 12.5 percent versus 5 percent under the other GOE micro-enterprise schemes. The GOE lines also are restricted to charging 39 percent to the final borrower, which is far below market, while the USAID/CFN line could go to the maximum legal rate in the commercial banking system, around 54-55 percent. Under the USAID/CFN line the banks only are required to put up 10 percent of each loan from their own funds, while under the other GOE lines they must put up 50 percent. The banks assume 100 percent of the credit risk under all three micro-enterprise rediscount lines. The first tranche moved quickly and a second tranche of $600,000 is contemplated, but is currently on hold.

The GOE Effort

In 1986, the same year that A.I.D. began its SED program, the GOE began its National Program for Microenterprise Development (UNEPROM) under the Ministry of Labor. Within a few months a special credit fund called FODEME was established by the Central Bank that would attend the credit needs of micro-entrepreneurs channeled to it by foundations that would be selected and qualified by UNEPROM.

The primary function of the foundations was to provide micro-entrepreneurs with up-front training before they could qualify for credit. The methodology is somewhat reminiscent of the Carvajal model. UNEPROM has developed a rediscount system where credit is channeled to micro-entrepreneurs through the commercial banking system. The foundations assist the entrepreneurs with the credit application process and carry out post-disbursement monitoring of the loans. The training, application, and follow-up services are free to the entrepreneurs under this model being paid for by UNEPROM under contract with the foundations. This is discussed in detail later in this paper.

In 1988, CONAUPE was formed under the aegis of the Ministry of Social Welfare to attend the same target population of informal sector micro-entrepreneurs as UNEPROM, but with a fundamentally different operating procedure. Foundations would be paid on the basis of the credit they would channel to micro-entrepreneurs through a rediscounting operation. Another special fund was created by the Central Bank under CONAUPE. Projections of loans to be made by each foundation are established and training costs are established. CONAUPE pays the foundation the costs of training up to 4 percent of the total loan portfolio with 45 percent of the total paid up front.

Since 1983 the GOE has operated a National Guarantee System that allows interested parties to buy into the system through the establishment of *corporaciónes de garantia* at the local level. Apparently the system has seen troubles over the years, but it is operating in several cámaras de pequeños industriales currently and has, apparently, been improved.

Given the problems of rediscounting to micro-entrepreneurs, we felt it necessary to review the system, especially in light of the fact that the *cámaras* that have established local *corporaciónes de garantia* are another type of institution that works with MSEs and should also be reviewed.

Other Initiatives

Guarantee Funds

Over the past several years, the Inter-American Foundation has provided several donations, part of which have been used as guarantee funds, which have had the effect of leveraging 2 sucres for every 1 sucre deposited with the bank. The funds are used like an endowment would be, except that they are not as safe as most endowment investments since they are put up as collateral on loans by the owners of the guarantee funds. Interest income is generated on the deposit as well as on the loans made. Since the owners of the fund are also responsible for making good loans and collecting on them, this should provide some insurance that loan review and approval will be taken seriously.

Soft Loans from the Inter-American Development Bank

The IDB has made several loans (very soft) through its Small Projects Unit to the FED, the FEE, and the Fundación Guayaquil to capitalize funds for direct lending to micro-enterprises. The terms are almost like grants and have had the effect of strengthening the financial position of the foundations not only on the income statement but also on the balance sheet.

SERVICES AND DELIVERY MECHANISMS

A Typology of Micro- and Small-scale Enterprise Support Institutions

A typology for classifying institutions, based on the kinds of programs and services provided, was developed to guide the data collection and analysis of the different types of institutions dealing with MSEs. Institutions generally fell into one of six categories:

- Private banks with a special credit line;
- Private banks with a micro-enterprise window;
- Public sector support institutions;
- NGOs with direct-lending programs;
- NGOs acting as rediscounting agents; and
- Membership organizations.

The remainder of this chapter concentrates on three different kinds of NGOs — those institutions involved in direct lending, those operating with guarantee funds, and those acting as rediscount operations.

Institutions Involved in Direct Lending

A number of NGOs in Ecuador have opted for direct lending to micro-enterprises as the most efficient way to provide credit assistance in an opportune fashion. They are cognizant of the fact that credit, while perhaps not the only factor in the improvement of micro-enterprises, is a crucial element.

Increasingly there is the recognition that it is advantageous at the micro-enterprise level for organizations to establish their own credit programs in which they lend their own funds to the beneficiaries as a bridging mechanism between the micro-entrepreneur and regular bank lines or the rediscount lines that are channelled through the commercial banks. (For larger and more established enterprises receiving assistance from more business-oriented and technical institutions, it is less important that institutions assume as direct a banking function, since the banks are more open to this level of client if they have a good NGO intermediary backing them up — such as INSOTEC in Manta/Portoviejo.)

By becoming direct lenders, institutions can maintain control over the credit function, the number of loans made, and, to an increased degree, their income flow. If there is very limited access to credit through even the GOE's UNEPROM and CONAUPE rediscounting systems, alternatives need to be found. The direct lenders also believe that the efficient management of a credit operation internally will not only fill a critical felt need of micro-entrepreneurs in a timely way, but also will generate substantial amounts of income to defray expenses and help the NGO toward achieving financial and economic viability.

Very small loans are made through these programs of several hundred dollars with the possibility of automatic increases once the first loan is paid off. Interest rates range from about 52-60 percent; delinquency is less that 5 percent. The system works.

The direct-lending programs visited are the Acción International/AITEC affiliates, FED, FEE, and CORFEC.[3] The methodology followed by these organizations is to provide small amounts of short-term credit to micro-entrepreneurs, rotating the capital quickly and charging near-market rates of interest. They have a definite focus on becoming self-sufficient and charging beneficiaries for the services they receive.

Other institutions visited in this category are the Fundación Guayaquil, that has IDB, IAF, and other donor financing; the Fundación Banco Popular; and the Banco del Pacifico.

Findings and Conclusions

- Institutions that do direct lending tend to be older, mature organizations that have a clear sense of their priorities and have had sufficient time to develop on the basis of experience the operating systems and methodologies that address the felt needs of the target beneficiaries.

- Direct lenders have developed credibility as serious, professionally run organizations enabling them to obtain funding from a variety of different sources for credit, technical assistance and training, and other program efforts.

- Direct lenders control the loan application, review, and approval process, meaning that they are not dependent on other organizations for the approval or rejection of loans, that is, the decisions that affect their own credibility with the client group and their income and cash flow capacity are their own.

- The loan and guarantee funds are set up as income-generating assets for the institution; as long as they are managed properly and charge positive real rates of interest, or as close as permitted by law, there will be an on-going income source that can be counted on by the institution. This is one of the fundamental ingredients of establishing a viable institution.

- Direct lenders earn interest on the credit they provide.

- Because survivability of the direct-lending institutions depends on the good stewardship of their own funds, they are careful in their use.

- Because of their capacity to handle relatively large sums of money, they are in a good position to attract donor financing in addition to their own income, giving direct-lending organizations a better opportunity than other types of institutions lacking this kind of expertise to achieve financial viability.

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[3]See the institutional profiles in Chapter Three for additional detailed information.

- Their arrearage rates are low (2-5 percent) for several reasons — they know both their credit clients and their program methodology well and the pitfalls and consequences of poor implementation.

- Their involvement with the rediscounting lines is periferal to their central program and payments through these systems for the services rendered account for only part of the organization's overall cash flow (that is, they are not dependent on this income source).

- They have begun to develop better planning capability and are emphasizing higher levels of recurrent cost recovery and self-sufficiency.

- Their accounting and internal information and control systems are more complete and organized than programs that are not responsible for the funds they are making loan decisions for.

- Direct-lending institutions all require beneficiaries to receive training, but emphasize the credit component; those with the best prospects for financial viability keep training at the level of a series of low-cost mini-courses; they are aware of the market for their services and the prices that can be charged for them. There is a correlation between the level of self-sufficiency of the organization and the degree of emphasis the organization puts on training, the greater the emphasis on training, the higher the costs of training, the greater the tendency toward a subsidization mentality, and the lower the level of self-sufficiency.

- Because of their efficiency orientation, they tend to reach larger numbers of people at a much lower cost than organizations that emphasize depth of service rather than efficiency.

- There is a strong market for the service provided and programs tend to become self-promoting.

- The rotation of the credit funds is very rapid and the philosophy is frequently to charge market rates of interest; this rotation allows a better effective rate of return on the fund and increases the possibility of at least maintaining its value of increasing it.

- Although direct lenders desire to reach large numbers of beneficiaries through an internally operated credit delivery system, the total reached is quite small. FED has the largest number of beneficiaries per year (1,211), followed by the Centro de Promoción y Empleo para el Sector Informal Urbano (CEPESIU) (749), Banco del Pacifico (705), FEE (528) and the Fundación Guayaquil (314). In the overall picture, the coverage, given the age, maturity, and specific objectives of these institutions, is not as significant as one might expect. In terms of actual loans made per year, including repeat lending, FED leads with a three-year average of 2,558. At this level of operations, it has achieved at least short-term financial viability. It needs to come to grips, however, with the impact of inflation on its assets, particularly the IDB loan fund.

Despite apparently low coverages per NGO, they are needed and should be supported. Several thousand people assisted a year through the programs is not much, but if selected NGOs are identified that are on the right road to achieving financial viability and have the policies and technical competency among the staff to do this, they ought to be supported in this endeavor until the "institution" and the management and administrative systems are consolidated. There is a growing competency in Ecuador to implement increasingly successful programs.

It is important to create a select group of institutions throughout the country composed of independent, private sector organizations working at the local level to ensure decentralization of the program, local credibility, and efficient handling of the loan processing and follow-up process. It is better, in our estimation, to support a reasonable diversity of mid-sized organizations in the field, always keeping in mind the need for economies of scale — for example, a properly dimensioned organization and the market for the services provided at the price charged.

Finally, this type of program is capable of achieving self-sufficiency over a three-year period. They often work with the smallest of entrepreneurs and have as an objective the massification of assistance to the lower-income strata in the economy. Part of the objective is to assist more enterprises and increase potential program impact. The other objective is to have a greater loan base and capital fund rotation in order to generate more income.

If a donor wishes to emphasize minimizing or eliminating subsidies and long-term institutional sustainability, this kind of program would merit further consideration.

Credit Guarantees

Parallel to direct-lending operations are the various guarantee mechanisms that exist in Ecuador. Part of the solution to the problem of the reticence of banks to become more active participants in MSE lending has been to find a way to reduce the risk taken by the banks by distributing it to other stakeholders. Several government and private sector guarantee systems are currently in force.

The National Guarantee System

The National Guarantee System (*Sistema Nacional de Garantías*) works, generally, much like a bank or NGO direct-lending operation would in that the local corporación, an NGO established to operate the guarantee fund, does the complete loan work-up which is reviewed by a loan committee and a guarantee certificate is emitted. The *corporación de garantia* at the local level establishes agreements with local banks that will honor the guarantee on the basis of the loan approvals presented by the corporación. The national-level *corporación de retrogarantia* assumes 65 percent of the risk, the local corporación 20 percent, and the participating bank 15 percent. At the local level, members of the corporación contribute on a monthly basis to the guarantee fund. They have a stake in it and in its preservation.

The loan fund is maintained in bank accounts that generate interest income for the corporación and serves as the backing for the loans made by the bank. The size of the fund determines the size and number of loans that can be guaranteed.

The Inter-American Foundation Guarantee

The IAF has begun making endowment-like grants to organizations that invest in 120-day Certificates of Deposit (CDs) with a bank. The bank uses the certificates as the guarantee to leverage, 2 to 1, local currency funds for lending to micro-entrepreneurs. The IAF, in the INSOTEC Ambato program, is trying to provide access to credit to smaller enterprises than those habitually attended by INSOTEC. Income is generated for the program-implementing organization through interest generated on the base fund and a part of the spread on the loans made against the fund. The loans are small (approximately $100 to $1,000) and turn over every 120 days, thereby getting a good rotation of funds and additional income for each unit invested.

The Acción International/AITEC Guarantee

In an effort to leverage local micro-enterprise financing, AITEC established a system in which deposits are made in the Chemical Bank in New York. A standby letter of credit is drawn up in favor of the local bank that makes a credit line (1 to 1) available to the local program-implementation organization. The FED and the FEE both have the guarantee, but in the case of the FED, due to liquidity problems in the participating Banco Consolidado, only $63,000 of the $125,000 limit has been used. In the case of the FEE, there is a $150,000 guarantee, but it has not been very well received by the banks in Guayaquil.

The organizations visited in Ecuador operating institutionalized credit guarantee systems were the Cámara de Pequeños Industriales de Pichincha; Cámara de Pequeños Industriales de Tungurahua; Cámara de Artesanos de Azuay, under the National Guarantee System; INSOTEC/ADEMEC and the FEE, under the IAF program in Ambato and Guayaquil, respectively; and FED and FEE, under the Acción International/AITEC letter of credit guarantee system. Also, independently and with no institutional underpinning for it, the Centro de Investigación y Educación Popular (CIPEP) and the Fundación de Investigación y Desarrollo Empresarial (FUNDIEMPRESA) have started very small locally financed guarantee funds of their own in response to the extreme problems of working with rediscounted credit through commercial banks.

Findings and Conclusions

- Donations, such as those made by the IAF to establish credit guarantee funds, can be handled much like endowments. Using loan guarantees as a sort of endowment is an interesting way to increase the leverage of scarce resources and assist institutions in their objectives to minimize their dependency on continual donations while at the same time increasing their financial and economic viability. That is, donations are converted into income-generating assets that earn interest (deposits in banks). They can also generate a credit fund at least double the size of the guarantee fund on deposit on which the institution can earn part of the interest spread on the loans channeled to the fund. If the financial instrument or deposit is dollar denominated, it is a good hedge against inflation as well.

- The National Credit Guarantee System is operational in two small business chambers (*cámara de pequeñas industrias*) and one artisan chamber visited. There is enthusiasm outside Quito for the system and it has alleviated only somewhat the problems encountered with the banks and the rediscounting systems. However, the funds are still scarce and their capacity limited to guaranteeing only a few very small loans to small-scale entrepreneurs. One observation in Quito was that little demand exists for the fund since the maximum S/.2.0 million ($2,400) guarantee is too little to be of much use. In Ambato the maximum guaranteed is S/.1.0 million ($1,200).

It appears that this system is designed for small enterprises, but at current loan fund levels, the size of loans possible is much smaller than what is sought by the corporations.

- The guarantee fund operators have a strong stake in their survival and capitalization. They are often potential users of the guarantees themselves, have a financial interest in them, and have a sense of ownership in the funds. They either make contributions to them, or their institutions derive income from them. Thus, it makes sense for them not to approve guarantees that clearly will abuse the funds and deplete either the income from them or the number of loans that could be made through them. In short, if you own your own guarantee fund and it is earning interest income for you, you are likely to be careful about how it is used.

- The corporations set up to operate the guarantees under the National Guarantee System are very similar to banks in their focus and operating objectives. Their role is somewhat like that of the intermediary foundations in the credit rediscounting systems under CONAUPE, UNEPROM, and the USAID/FOPINAR system in that they channel loan applications to the banks. The difference is that the guarantee corporations also make the loan decisions, avoiding the bottlenecks of the formal rediscounting systems. They are supported by KAF with start-up grants for fund development and initial operating capital, and are required to be financially viable. The corporation in Ambato is self-sufficient, albeit small, and has excellent systems that are being reviewed by other corporations for replication.

Rediscounted Credit Programs

As in most micro-enterprise credit systems that rely on the disbursements of loans through the commercial banks, the flow of credit through the CONAUPE and UNEPROM systems has been reduced to a trickle. There are a number of reasons for this, but perhaps the most important one is that making small loans to micro-enterprises is not attractive to the banks because their perceived risk is high and they generate more work than is warranted by the size of the loan. Therefore most banks will be reticent about supporting this kind of program, even if there is a contractual arrangement with any one of the rediscounting systems.

Foundations are supposed to assume a large portion of the loan preparation and follow-up burden, thereby reducing the loan-transaction cost, but whether justified or not the banks often say they do not have a great deal of confidence in the foundations. Their position is that often the procedures for completing loan applications and follow-up are not performed adequately. Therefore, the banks say that loans are not solid and arrearage rates are poor; thus the banks must essentially do the work anyhow and this is not profitable.

The problems encountered in Ecuador with getting the commercial banking sector involved in lending to nontraditional client groups are very similar to those encountered in other countries. Some improvements could probably be added to current programs, but the banks will get into these programs only if they want to and they cannot be legislated to do so. There are simply too many invisible barriers that the banks can put up to nullify the program should it so desire. For example, it can extend the review and approval period for a loan indefinitely until it wears down both the intermediary NGO and the beneficiary by sending documentation back for revisions as many times as it wants and for any reason.

Despite some bright spots, banks are tending to move very slowly in making loans; some have cut off some NGOs altogether due to 30-50 percent arrearages; hundreds of loan packages in the areas visited are not being accepted by the banks or have simply been returned, in cases where the bank will no longer work with the NGO.

One of the central problems seems to be that under the UNEPROM and CONAUPE lines the banks get only 5 percent of the spread for taking 100 percent of the credit risk and putting up 50 percent of the loan from their own capital. Thus, the incentives for the banks to get involved and assume any significant exposure through the program are not very attractive.

The first tranche of the USAID/FOPINAR rediscount line, on the other hand, was successfully disbursed through the commercial banks. It addressed the problem of lack of incentives by ensuring the banks a much larger interest spread and no exposure of their own funds in the loans. However, since the USAID funds were a donation, there was no cost of money to the Ecuadorian financial system; and, although the final beneficiaries paid near-market rates of interest, and they were not highly subsidized, the banks were heavily subsidized under the system. In the second tranche, the banks will take the credit risk and expose 10 percent of their own funds, but there will still be no cost of capital to the financial system, since it will be another donation.

Specific Conclusions

- Commercial banks are not set up nor do they generally have the disposition to on-lend to very tiny enterprises no matter how easy or attractive USAID, the GOE, or any other bilateral or multilateral donor tries to make the deal. This is particularly true when the full credit risk falls on the bank and when it is required to put up its own funds.

- Rediscounting, given the current quality of the base of NGOs, is not a credit massification type of mechanism. It will be selective and the banks will lend to the best of the crop of nontraditional clients — such as the Banco del Pacifico and the Banco Popular are currently doing. As more NGOs gain credibility through a continuing process of institutional development, more banks will start to lend through this type of operation — as long as the reimbursement mechanisms of the Central Bank function efficiently. But for now, only a few loans will be made to relatively better-off (albeit nontraditional) clients. Several hundred loans by any foundation per year is a high number; less than 20 loans is not unusual over the past year. Several foundations have literally 100 or more applications on hold.

- As in any business, confidence in one's partner is critical. This rarely develops overnight. When a bank is asked to participate in rediscounting operations and turn a crucial part of the banking function over to another organization, such as loan preparation, review, and follow-up functions to a foundation, this represents a major leap of faith. Thus, a number of things can happen: either the bank redoes the whole process creating an untenable workload for itself or, if there is the slightest doubt and it really does not want to get involved in the first place, it can create all manners of "invisible barriers" to approvals.

- In some cases the banks work relatively well with the foundations. This may be attributed to two factors. First, some branch offices, where the implementation decisions are really made, are in favor of the program and have a good personal relationship with the foundation leaders and other personnel. Second, some foundations have more experience and have earned an element of trust, thereby making the program work better.

- The degree to which any one branch of a bank collaborates with a rediscount micro-enterprise-lending program is largely dependent on the attitude of the branch manager and the person in charge of the micro-enterprise portfolio as well as the relationship with the participating NGO(s) in the area.

- It appears that where the rediscounting system is working best is where the NGO is well established, respected technically, and is working with small enterprises that are established in the community and have growth potential, that is, almost the same traditional clientele of the banks.

- For NGOs whose target enterprises are very tiny micro-enterprises having only an owner, one or two workers, and very low levels of capitalization and credit requirements, to hinge the survival of new and fragile NGOs on the willingness of the commercial banks to rediscount tiny loans that for them are unprofitable, is a short-term design strategy that could be very dangerous to the NGO's aspirations for financial viability.

- Channelling rediscounted loans makes more sense as an additional and alternative income source for more successful better-established NGOs, such as INSOTEC, having business technical training experience, credibility, and multiple sources of financing. Higher credibility seems correlated with an appreciation by the banks of the higher level of expertise of personnel in the organization.

- The rediscounting experience appears better when dealing with slightly more consolidated businesses on the higher fringe of micro-enterprise or small business, such as those assisted by INSOTEC in Manta (working through AID/FOPINAR and World Bank/FMO/FOPINAR systems. However, the key is the confidence that the bank has in the ability of the NGO to promote reasonably solid loans and to do the follow-up necessary to foster efficient loan collection. This is more important than the size of the loan per se under the rediscounting mechanism using intermediary foundations as channelers.

- The GOE programs lack an emphasis on developing the quality of the personnel in the NGOs to carry out the work and earn credibility. Many NGOs are new and have little prior experience in credit and business development and the quality of their work has earned a reputation in the banks of being poor.

- Coupled with the need to upgrade the technical expertise of many of the foundations is the parallel requirement for greater institutional development in the universe of NGOs, to create a core of strong enterprise-development institutions that will be a long-term force in the development of MSEs — not simply passing shadows in the night.

But institutional development will not occur if the NGOs do not have a financial base. There is no financial future for them if they must rely on a single income source, under the current contracting mechanisms being used in the UNEPROM and CONAUPE systems.

Women's Participation

Except for the Corporación Feminina Ecuatoriana (CORFEC), whose beneficiaries are all female, most of the NGOs visited serve more men than women in their programs. Ratios of 60/40 and 65/35 are not uncommon. In looking at the information gathered, the following findings and conclusions about the nature of programs and institutions and their coverage of the female population are offered:

- The institutions that reach the largest number of women also work with the smallest enterprises. There is an inverse relationship between the size of the businesses assisted, average loan sizes in programs, and the proportion of women served.

- The higher the proportion of manufacturing (except garments) and service businesses assisted in a program, the lower will be the number of women served. This is because typically these enterprises have more stringent barriers to entry reflected in the capital investment required, which women generally lack, and, to a degree, because of gender stereotypes. Except for garment production, most manufacturing has the aura of "male work." Furthermore, loans for manufacturing will often have a proportionally larger share obligated for fixed investment in machinery and equipment making them larger loans relative to predominantly working-capital loans, which are the essence of loans to people involved in buying and selling produce and other food items, work that is often stereotyped as "women's work." Because manufacturing loans tend to be larger loans than loans for commercial activities, women often do not have loan access, first because of the loan size and, second, because they have not been afforded access to manufacturing and services because of the assets base required. For example, 83 percent of the beneficiaries of the Fundación Banco Popular are in manufacturing and services and 22 percent are female; Fundación Guayaquil, 100 percent manufacturing and services and 2 percent female participation; Banco del Pacifico, 65 percent manufacturing and services and 34 percent female participation.

- Conversely, institutions that serve small commercial establishments (*microcomerciantes*) and eateries that have relatively low-capital requirements and fit the gender stereotype will have higher proportions of women in their programs than those that concentrate on manufacturing and services.

- Because female-owned businesses tend to be smaller than those of males, their fixed and working-capital requirements are also lower. Thus, female participation tends to be lower in those programs where minimum loan amounts are relatively high in the Ecuadorian context. For example, the Fundación Guayaquil, Banco Popular, Fundación Austral, and Banco del Pacifico have set a minimum loan size of S/.300,000 ($350 approximately) These institutions serve lower proportions of women (2 percent, 22 percent, 34 percent, and 34 percent, respectively) than other programs where the minimum loan sizes are much smaller. FED, FEE, CEPESIU, CORFEC, and FUNDIEMPRESA have set minimum loan sizes at between S/.50,000 ($60 approximately) and S/.80,000 ($100 approximately) and have 60 percent, 52 percent, 57 percent, 100 percent, and 72 percent (training program) female participation, respectively. (In the case of CORFEC, the organization is restricted by its own statutes to working with female beneficiaries exclusively.)

INSTITUTIONAL DEVELOPMENT ISSUES

General Conclusions

Training alone will not generate enough income through fees for services to cover its costs. It can cover costs if it is relatively short, more of an orientation than full-fledged training, and is paid for as part of a credit operation. NGOs that have emphasized the training component are contracting with the GOE's UNEPROM and CONAUPE credit systems to carry on training. They cannot survive with fees for services paid by entrepreneurs alone. The training is paid for by the two agencies and not the beneficiaries; therefore, the agencies are really the "market," not the final beneficiaries, since they are the ones paying for the service. The decision was made that training would be tied to credit despite very good arguments against this kind of system that distorts the way one assesses the market for training. In the end, with the GOE subsidies, training continues to be provided, despite serious questions about its costs and benefits, and the NGO survives.

But this is changing. Since 1986, training programs financed by UNEPROM, CONAUPE, and the MICROs network have trained thousands of entrepreneurs. Only a fraction are receiving credit through the commercial bank-based rediscounting systems. Since UNEPROM and CONAUPE have a clear interest in channeling credit funds to final beneficiaries, if the rediscount system is not working, a reassessment of the training link-up by these two GOE programs would be imminent.

In response to the rediscounting situation, UNEPROM will not now contract more training with a particular NGO if the credit is not flowing. After an initial payment, CONAUPE pays NGOs for training services on the basis of the amount of the loan portfolio disbursed. If loans are not made, payment is not forthcoming.

Most formal and fairly intensive training can cost anywhere from S/.50,000 ($60; CIPEP Manta) to S/.100,000 ($120; Fundación Banco Popular Quito) and programs are recuperating in the range of 20-40 percent of the costs of the training by charging fees. In the case of the MICROs program, the difference has been covered by USAID subsidies.

As programs are increasingly expected to cover larger portions of their costs of operation, institutions that manage the programs find it necessary to become part of the credit process as direct lenders using their own money, to use bank funds backed up with guarantees, or act as agents to channel loan applications to banks in the rediscounting schemes as a means of generating income. Training NGOs rely on heavy subsidies through grants or charge fees for services to UNEPROM and CONAUPE.

One conclusion is that credit for MSEs, although not the only intervention they need, is the only intervention with a strong enough market for which entrepreneurs are willing to pay full price. Training, while getting positive marks from respondents of the Microenterprise Survey, does not appear to be the kind of intervention that will pay its own way at the current costs.

A strong relationship exists between the efficiency, organization, and management of an institution and the type of program it is capable of carrying out. Organizations that are seriously oriented to achieving financial viability are probably going to be directly involved in the credit function with a high degree of control over it. They will have better internal controls and longer-range planning and financial strategies than those organizations that are not oriented toward financial viability.

Lessons Learned

Program vs. Institutional Development

During the 1980s, there was increased emphasis by donors on the issue of sustainability. The problem that sparked this interest was that when budgets ran out for programs, new subsidies were not generally available and the intervention ended. The result of the effort was short-term benefits to a few beneficiaries, but there was generally little, if any, continuity. Therefore, in their concern that their investments have longer-term and increased impact, donors now often require that programs become self-sufficient in a two- or three-year period.

Nonprofit NGO programs for MSEs in Ecuador are concerned with their survivability, but the shift in donor policy that required high levels of cost recovery and self-sufficiency has been a major problem for these organizations and for the donors, as well, since they themselves have little expertise in running a break-even operation. Because they generally focus on the implementation of specific programs and budget (usually donated), they have generally neglected to set up institutions that plan for the future and keep records of the past to know how well they have done and how much income they need to survive. What are often termed institutions are really programs with a management structure to implement a budget. This is borne out in the financial analyses of various NGOs presented in Chapter Three of this report. The major accounting tool that NGOs have is a budget.

Under the self-sufficiency requirements, these programs have had to begin to cover their operating costs through new or increased fees for training and technical assistance services, income from credit operations charging market or near-market rates of interest, and other sources. They need to be very conscious of whether the service they are providing has a market, what the real costs are, and what percentage of these costs are being covered by the price being charged. They need to determine whether they are providing too much, too little, or about the right amount of a service given the cost. In short they need to know the business they are in.

As soon as programs set self-sufficiency objectives they are confronted with a completely different set of management and organizational demands that require, in turn, that they have (or acquire) a level of institutional development that will provide the tools to be able to achieve these goals. They must be entrepreneurial; they must think about markets; and they must adapt their services and prices to the willingness and ability of the target market (the beneficiaries), that is, the level of enterprise, to receive and pay for them. They must be managerial and have the personnel not only to provide the specific services under the program, but also to plan and provide for the resources to sustain the program over time.

Only when a program has reached a point where it has achieved this level of planning, management, and program-delivery expertise can it be said to be an institution. As a colleague from INSOTEC put it, if the institution to house the program does not exist, the program cannot be viable and the service will eventually die.

Furthermore, these additional management and institutional-development requirements take time to consolidate and have a cost in addition to the direct program expenses and these outlays must be covered. The problem is that the process of institutional development often takes more time than is programmed in donor institutional-development grants and new donors generally do not pick up where another has left off. (Donors usually have their own agenda and carve out areas of institutional influence.) Thus, fledgling institutions are often left high and dry before they have achieved even institutional adolescence and the probability of long-term impact that was the objective of the grant in the first place may be lost.

The problem of financing or providing technical assistance for a specific program intervention rather than full-fledged institutional development assistance has not been focussed on clearly by donor project designs or programs working as intermediaries in the UNEPROM and CONAUPE credit rediscounting systems nor the MICROs program.

Financial Considerations in Institutional Development and Sustainability

Foundations in Ecuador are initiated with very limited financial backing. They receive few or no unrestricted funds or endowments that can be used to invest in income-generating assets that can be used to defray even a small percentage of the expenses of the organization, and their initial ability to attract qualified people to run their programs is severely restricted.

Many of the newer organizations are formed to provide a specific service, and a budget is developed, often with a financier already in mind. These organizations, often having only a single source of income, are in a very tenuous financial situation.

This is particularly true in the UNEPROM and CONAUPE network of new collaborators. When an NGO/foundation is paid a fee to carry out a specific set of obligations, this income is only part of the picture in developing financial viability. These fees will probably not cover the direct and indirect costs and overhead of the organization. As the organization matures, it is confronted with the crude realities of paying its fixed and variable costs regularly and on an on-going basis, not just for the term of a specific intervention.

Additional core-type financing is needed to support the organizational systems required to sustain an income flow over a period of time. Financing is needed, for instance, for general administrative and marketing costs, costs that the intervention-specific budget will probably not cover. The organization must be entrepreneurial enough to anticipate these costs and convince a financing entity to cover them or generate sufficient internal income to cover them. This is an area in which donors have often been short sighted. They have not financed the parts of a comprehensive budget that will enable sustainable financial viability and strength.

The MSE-assistance foundations in Ecuador that began since 1986 rely on the GOE's credit rediscounting systems, UNEPROM, and/or CONAUPE. They are essentially contractors that carry out project identification, loan application and preparation, and credit follow-up functions. The foundations are paid a specific fee for their services, a fee that will probably not cover the costs including overhead. Through these contracts, there is no possibility of generating additional assets to help finance the institution in the future and they are not financially viable.

NGOs are in many ways similar to the businesses that they are trying to assist. They have the same problems to resolve if they are to become viable institutions and need to develop many of the same kinds of attitudes, behaviors, and levels of expertise. Lack of management expertise, marketable services, on-going cash flow, and administrative and monitoring systems is typical. Undercapitalization remains a problem, and, at a minimum, stunts growth. In instances where foundations and other NGOs were established as social-service or advocacy organizations, the entrepreneurial skills required to meet at least self-sufficiency objectives do not come naturally. The time required to develop financial and economic viability can take at least three to five years, depending on the assistance provided, the utilization of the assistance, and the commitment and dedication of the organization's staff to remaining an on-going operation?

The NGOs in Ecuador with the greatest levels of self-sufficiency share several characteristics. They are older and more established and have developed reputations for good management and dedication and seriousness in their work. They have opted for implementing their own credit programs where they have control over the application and decision process, making them much more efficient and able to have greater coverage than intermediary organizations that assist rediscounting operations in distributing and collecting funds but have no control over whether loans are made or not. Successful NGOs have monitoring systems to adequately determine the level of program coverage and the services provided.

Just as any professionally sound business with an ability to deliver on commitments and with a demonstrated dedication to their program, successful NGOs are better able to market their services to the beneficiaries and donors. Successful NGOs have several sources of financing because they have built their credibility over time. An established reputation for doing credible work is the key to developing financial and economic viability. A lack of reputation is the root of the problem that the foundations working in the UNEPROM and CONAUPE rediscounting systems have with the private banks; some organizations have not performed well and have tainted the reputation of others as well; others are good organizations but have not had the time to develop to their potential and reputations.

Program Development in the Context of the Institution

There are two underlying approaches to providing assistance to MSEs. In current MSE-development programming, the two most common interventions are credit and technical assistance and training. Some NGOs in Ecuador believe that credit and efficient programs to manage the loan funds will have the most impact on enterprise development. They believe that small injections of capital for operating funds or fixed assets is the key to launching the enterprise out of stagnation. These programs emphasize the credit function and this is the principal service that they provide.

Other organizations believe that the main problems are in business management, and that lack of cash is often symptomatic of poor business-management decisions. These organizations emphasize training and technical assistance and this is the principal service they provide. For them credit is a periferal, often unnecessary tool to business strengthening. In either case, the first question is specifically how to deliver either the credit or the training to the targeted beneficiaries. Delivery of service becomes, in turn, a function of the orientation, philosophy, and expertise of the organization.

The second question is what kind and level of sophistication in the services would be the most cost effective overall in terms of the level of target beneficiaries. Questions that might be asked in the project design stage are:

- Should we provide larger loans to fewer enterprises or should we "massify" credit with tiny, quick-turnaround loans?

- Should we immerse the beneficiaries in a great deal of training in the hope that the more given, the more will be absorbed?

- Do we try to operate our own loan fund and take advantage of the flexibility and income-generating capability it offers? Or do we work off the spread provided in the rediscount lines as *comisionistas* in an effort to generate income internally?

- What are our objectives in terms of income generation? Do we expect training to be self-financing through fees for services? Will positive real rates of interest or at least legal market rate limits be charged on credit?

The delivery mechanism and its cost of operations will be a prime determinant in the potential of an institution to reach financial and/or economic viability.

A problem is that often NGOs select their services independently of any particular market or cost analyses, so rational market-driven decisions on services are not made. The model typology for determining levels of MSE, when it is filled out, can be a helpful tool in selecting the most appropriate levels of interventions based on the needs of the beneficiaries, and for carrying out an adequately targeted market survey. As an example:

- If credit forms and application processes are very sophisticated and require nonexisting or unnecessary information, then the design of the intervention or program is not appropriate.

- If tiny entrepreneurs are required to receive a course in accounting covering more than the bare essentials of recordkeeping and pricing a product, then the training or technical assistance would unlikely be implemented and would not be cost effective because impact would be practically nonexistent.

- If the target enterprise is so small that it does not have any administrative layer, even one person part-time, and only has the owner/manager and production employees, then formal management and administrative training as prerequisites to credit disbursements would be inappropriate.

Subsidies

If a market does not exist for the service provided through a program that will cover costs, then either the type and amount of service needs to be adjusted to bring prices in line with what the market will bear; the target beneficiary needs to be adjusted to a market niche that wants the service at the price; or a new client, such as a donor that believes the service is worth providing anyhow, needs to be found to subsidize the difference between the cost of operating the program and the income received for the services provided.

The importance of this point is that if implementing agencies and donors want to support certain kinds and sophistication of services, they need to know the market for the service, the costs of that service, and the portion of costs that the target beneficiaries are able and/or willing to pay.

FINANCIAL ANALYSES

Accounting Practices

Accounting practices in the institutions visited was generally rudimentary and in need of strengthening. The quantity and detail, that is, the amount and breakdown of the information, is insufficient for use by managerial decision makers.[4]

Most often the only accounting tools found are program budgets prepared at the request of donor agencies for specific projects they have funded and year-end consolidated balance sheets (very global and with little disaggregation). In sum, the type and timing of the information in the systems can give an overall snapshot of the financial situation of most organizations at a given time, but cash flows and monthly balance sheets and accounting information for management's use are practically nonexistent. Although some organizations have sufficient information in their financial statements to be able to ascertain the general situation at a given time, they are generally not used for decision making purposes because they are produced only once a year.

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[4]It should be pointed out, however, that USAID, for example, began to insist on better financial information in the context of general institutional development only about a year and a half ago.

The team found that, generally, the foundations and programs operating with international assistance or those that are bank owned tend to have more complete statistical information, better financial statements, and more control of their income and expenses than those that are not assisted by international donors or are not bank owned, even if only by using budgets which at least give projected and actual income and expense figures. The reason, however, that most projects have incomplete accounting and financials is that they respond to what is required of them and donors usually only request budgets and budget controls; they do not request complete financial statements. An exception, for example, is the Inter-American Development Bank.

Economic Viability

The team has defined economic viability as the capacity of an institution to generate enough income in a given period from its own operations through commissions, fees, and interest charges to cover all costs (financial and operational) of the organization, including the build-up of reserves. Under this definition, only the FED has achieved economic viability.

A few foundations have started to change over to policies more in line with institutional development. Increasingly, NGOs are charging more for training and technical assistance and have raised their interest on credit to closer to real rates in cases where they control their own credit funds and projects.

Financial Viability

We have defined financial viability as an institution's capacity in a given period to obtain the resources (financial and/or in-kind) necessary to sustain a planned level of operation. In many cases, foundations and other NGOs may not intend to be fully economically viable, and instead project donated financing as a major part of their income-generation strategy.

NGOs are frequently organized with little financing or seed capital. They are often promoted by international or government donors to channel subsidized resources to the target population, and their financing comes from donations to cover their operational expenses and survive.

Most institutions are able to obtain resources to sustain at least a minimal level of operations in the near term. These resources are provided as donations by international and local donors or as bank loans. When a program succeeds in obtaining these resources on a continuing basis, it is considered to be financially viable and sustainable.

Pricing, Costing, and Sustainability

Pricing and costing policies are a reflection of the business and/or social orientation of foundations. There is a wide range of self-sufficiency indicators that give a picture of how the different institutions are approaching the issue. Sustainability, or the capacity of an institution to support itself over time, requires financial viability, sound administration, technical expertise, the possibility of maintaining or increasing market share, and strategic planning. Under this definition, few foundations are sustainable over the long run.

The training institutions of the MICROs program that are intermediaries in the credit rediscounting systems had low rates of self-sufficiency during the period March through August 1990. In the opinion of several of the foundations, there is not a sufficient market for the training they provide. Therefore, adjustments are being made in the amount and cost of training, to be more in line with the level, need, and absorptive capacity of the beneficiaries the foundations work with. With an emphasis on self-sufficiency, the foundations are trying to stimulate demand, independently of credit, which has turned out to be a more difficult process through the rediscounting systems of UNEPROM and CONAUPE than was anticipated.

The organizations that are doing best in the self-sufficiency arena are those that have control over at least a portion of their income sources. In Ecuador, these are the institutions that control their own direct lending or guarantee funds and make the decisions. They have or are moving toward nonsubsidized interest rates, adjusting other training, technical assistance, and ancillary services to be more in line with what the beneficiaries find particularly important to them and can or are willing to pay for. They are becoming more cost conscious.

Improvements have been made in pricing and costing training and technical assistance. Costing of these services are detailed and expressed sometimes in hours, cents per sucres loaned, or direct costing. However, competition is seldom taken into account when setting prices.

A shift in overall goals and policies toward reaching economic and financial viability will also strengthen pricing and costing policies.

Finally, in analyzing the issue of sustainability, it should be recognized that an institutional budget consists of core activities and project-specific interventions. Essentially, core activities are on-going and are the required to keep the institution as an entity functioning independently of the specific project activities. The specific project-by-project interventions, however, may or may not be intended by the institution or the project sponsor to be on-going or self-sustaining over long periods. NGOs and donors need to recognize these distinctions and design their sustainability strategies and objectives accordingly.

Inflation

Probably the most significant accounting problem facing the institutions working with MSEs in Ecuador is that none of them have clear and concise policies and procedures to adjust their financial statements for inflation. Even for foundations with the best recordkeeping, it was difficult to determine the real impact of inflation. Part of the reason is because dollar-denominated accounts had not been clearly reflected in their reports, and, in other cases, only certain fixed assets had been adjusted while other assets, liabilities, and net worth had not.

The danger of inflation is the erosion of the real value of income-generating assets and how to continue to generate equal or higher levels of real income to keep up with current spending levels. A snapshot today may indicate that an organization is covering its operating expenses, but will not indicate whether or not the institution will be able to continue covering its expenses at the same level of activity next year.

This situation is not unique to the MSE sector but belongs to the entire Ecuadorian economy. Attempts have been made to regulate policies and procedures to correct financial statements. The Ministry of Finance has approved a *Reglamento de Aplicación del Sistema de Corrección Monetaria Integral de los Estados Financieros.* These regulations are to be applied generally starting in 1991. Foundations should be required to apply the regulations also.

RECOMMENDATIONS FOR FUTURE INTERVENTIONS

1. Donors should continue to provide financial support and technical assistance to carefully selected NGOs for true institutional development. They should avoid continuing to finance one-shot program interventions without concurrently developing the institution within which the program can survive. Selection criteria should include that the organization be created primarily for the purpose of enterprise development and be oriented toward charging market rates of interest or as close to positive real rates on credit programs as possible and should charge for training, either through inscription charges or the interest spread if training is offered. Their stated policies and actions should be oriented toward economic and financial viability and their credit operations, at a minimum, should be economically viable with safeguards against inflation.

2. Donors should concentrate their financial resources and program designs on building income-generating assets and a long-term financial base for the assisted organization, rather than putting large sums into subsidizing daily operating expenses.

   To accomplish the objective of building a financial base for selected competent NGOs, a fund should be established by the donors, similar to what the IAF is doing with INSOTEC in Ambato and the Fundación Guayaquil, to leverage local currency financing for an internally directed credit operation that would generate income on both the deposit of the money in the bank and from a percentage of the spread from loans from the leveraged funds.

3. Organizations, to be considered for international donor financing, should have a minimum of two years of experience working in a combination of credit and training/technical assistance services before financing for an endowment-like financial base would be made available to them. Funding for start-up operating expenses, in the case of new organizations, should be left in large part to local financing sources to establish a local commitment to the institution and the program it is implementing.

4. A special endowment fund would be another way of creating the financial base needed to pursue self-sufficiency. The organization receiving money from the fund should be provided technical assistance and training to invest this fund in financially sound, high-yield instruments, property, or businesses. The proceeds of the fund, after covering erosion from inflation (that is, maintaining the value of the fund), should be used to defray operational costs and demand for credit. All

donations received by foundations should be used in this way. Immediate program coverage will probably be less and program growth slower, but the probability of achieving economic and financial viability in the medium term and long-range sustainability will be enhanced.

5. Donors should formalize a division of labor by collaboratively designing programs, with each concentrating on a specific task or time period. The design would provide enough time and base capitalization for institutional development to be consolidated. The required common denominators that the donor institutions would have to agree on would be the size and type of final beneficiary sought, and the need to support entrepreneurial organizations that seek self-sufficiency and financial viability.

6. Donors should insist on project designs and methodologies that are consistent with the target market for the services to be provided.

7. A standardized business typology describing the characteristics at each level of business activity should be developed and presented to the public and private sector assistance organizations in order to arrive at standardized definitions and help MSE support organizations (both public and private) to target their services with a minimum of unnecessary duplication of efforts and a maximum of coordination.

8. Projects should begin to take measures to reflect the impact of inflation on its donated resources and should approve policies and procedures to counterbalance their effects. The Ministry of Finance has approved a *Reglamento de Aplicación del Sistema de Corrección Monetaria Integral de los Estados Financieros*. These regulations are to be applied generally starting in 1991. Foundations should be required to apply the regulations also.

9. Projects should be aware of the implications of their decisions on the target level of beneficiary and type of business, especially the possibility and probability of female participation in their programs.

10. Donors should take into consideration how industrial subsectors function in order to be able to determine the set of barriers along a vertical scale to improved production and productivity of small-scale enterprises, ranging from difficulties in obtaining raw materials and supplies to production inefficiencies and bottlenecks, to the barriers to national and international marketing. This kind of analysis could help donors select the areas of intervention most appropriate to their interests, expertise, and policies. This would be a vertically integrated scheme, whereas, the coordination mentioned in Recommendation 5 above is a horizontal series of actions on one rung (that is, financial assistance to overcome production bottlenecks) of the vertically integrated approach suggested here.

ANNEX 1

METHODOLOGY

Work on this segment of the overall Micro- and Small-scale Enterprise Sector Study on Ecuador commenced during the week of September 10, 1990. Our initial activity was to review pertinent existing information and reports and find out what other team members had accomplished and possible areas in which our work would overlap or where we might be able to help fill in gaps in other segments of the overall research, if needed. This exchange of information was helpful in orienting us to the study in general and the initial information being generated, and specifically to the organizations and institutions that were working with the MSE sector.

Given the large number of groups, associations, institutions, and organizations working with MSEs it became clear that it would be important to find a way to select institutions representative of different kinds of programs being carried out. Therefore, an institutional classification scheme identifying different program types was developed. On the basis of the information at hand from existing reports and listings, institutions were grouped into the proper classification area and a final selection was then done.

During the next two and one half weeks, the team visited 23 institutions in Quito, Guayaquil, Manta/Portoviejo, Ambato, Cuenca, and Santo Domingo.

A presentation of the work and initial findings, conclusions, and recommendations was made to USAID officials on October 11 and the prescribed workshop with NGOs, government, and donor officials was carried out on October 16.

CHAPTER THREE

INSTITUTIONAL PROFILES AND PROGRAM SUMMARIES

by

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APPROACH

This chapter provides detailed profiles of a limited number of local institutions that are involved in providing services — credit, training and technical assistance — directly to small-scale entrepreneurs. These profiles serve as a background for the summary analysis presented in Chapter Two; they are included here to provide readers with a more complete description of the major differences among institutional approaches to helping the MSE sector.

Local intermediaries working in the MSE sector in Ecuador vary considerably in their approach and range of services. A classification scheme used to distinguish among these approaches concluded that the institutions present in the country generally fall into one of six major categories:

- Private banks with a special credit line;
- Private banks with a micro-enterprise window;
- Public sector support institutions;
- NGOs with direct-lending programs;
- NGOs that act as rediscounting agents; and
- Membership organizations.

These categories generally distinguish among NGOs operating under different approaches, those financed by different international and local donors, and those that are under various degrees of development. An attempt was made to obtain a reasonable representation from each group identified in the classification. Specific institutions interviewed included:

1. **Private banks with special credit lines for MSEs using their own funds.**

   - Banco del Pacifico (Guayaquil and Quito)
   - Banco Popular-Fundación Popular (Quito)

2. **Private banks with micro-enterprise lending windows.**

   - Banco de Pichincha (Guayaquil, Ambato)
   - Banco La Previsora (Manta, Ambato)

3. **Public sector institutions that operate rediscount systems and contract out training and technical assistance to "foundations" and a few others.**

   - Corporación Nacional de Apoyo a las Unidades Populares Económicas (CONAUPE)
   - Unidad Ejecutora del Programa de Microempresas (UNEPROM)

4. **NGOs with their own programs of financial assistance for micro-entrepreneurs and low levels of business training/orientation (commercial banks disburse loans but with/through foundation's own capital funds and/or guarantees).**

   - Fundación Ecuatoriana de Desarrollo (FED) (Quito)
   - Fundación Guayaquil (Guayaquil)
   - Corporación Feminina Ecuatoriana (CORFEC) (Quito)
   - Fundación Eugenio Espejo (FEE) (Guayaquil)
   - INSOTEC Ambato - ADEMEC

5. **NGOs that are rediscounting agents between micro-enterprise special funds of AID/CFN, UNEPROM, and CONAUPE and the final beneficiary. Training is obligatory and payment is made jointly by the trainee and the program (UNEPROM)/AID or by the program based on an up-front payment and subsequently the actual amounts of loans disbursed and repaid (CONAUPE).**

   a. Fundación Carvajal Affiliates

      - Centro de Investigación, Promoción y Educación Popular (CIPEP) Manta/Portoviejo
      - Fundación OFFSETEC — (sponsored by Empresa Carvajal branch in Quito)
      - FUNHABIT (Esmeraldas)

b. UNEPROM and CONAUPE Affiliates

- Universidad Católica (Guayaquil)
- Centro de Promoción y Empleo para el Sector Informal Urbano (CEPESIU) Guayaquil
- Fundación Austral de la Microempresa (FADEMI) Cuenca
- FUNDIEMPRESA (Ambato)

c. INSOTEC Office

- PRODEPEM - Manta/Portoviejo

6. Membership organizations.

a. Federación Nacional de la Pequeña Industria

b. Cámara de Pequeños Industriales de Pichincha (Quito) — Has formed a credit union, and is affiliated to the Corporación de Garantia.

c Cámara de Pequeños Industriales de Tungurahua — Has formed a credit union, and is affiliated to the Corporación de Garantia.

d. Corporación de Garantia de Crédito affiliated with La Cámara de Artesanía de Azuay.

In addition to compiling a comparative description of the programs of the different institutions, the analysis included a financial review of selected institutions from which financial statements could be obtained. Information for the financial analysis was obtained through interviews and, where available, audited financial statements and reports for the last three years, budgets, and cash flows were requested.

It is important to point out that for a ratio analysis to be meaningful and useful, at least two conditions must be met:

- A series (3 to 5 years) of consistent and detailed financial statements must be available for analysis of changes and trends over time within the organization; and

- Standard ratios for the type of operation being analyzed must also be available to compare the institution against its peers.

Neither condition existed in the cases examined. Thus, meaningful and reliable ratio analyses could not be completed, although an attempt was made to get some sense of the trends and ratios wherever possible. Analyses of 5 of the 11 institutions visited personally and 3 organizations visited by other team members were completed. Two institutions sent their financial statements too late to be included in the analysis.

TABLE 1

FINANCIAL INFORMATION OBTAINED

Institutions	Balance Sheets	Inc.& Loss Statements	Budgets	Cash Flows
INSOTEC/Q	87,88,89	87,88,89	No	No
INSOTEC/AMB	No	No	89/90	No
INSOTEC/AID	No	No	89/90	No
FUNDIEMPRESA	Aug.90	Dec.,89	No	No
FEE	88,89,90	89	No	No
FED	88,89	88,89	No	No
GUAYAQUIL	88,89	88,89	No	No
CORFEC	88,89,90	90	No	No
BCO.POPUL.	Jun.90	Jun.90	No	No
COR.GARANT.	Aug.90	Aug.90	No	No

To try to measure the impact of inflation on the financial statements, 1985 was used as the base year to be consistent with the Financial Markets Study. The year 1987 was also used because the majority of foundations are new and data prior to that year are nonexistent. The erosion of the value of financial resources was calculated at 65-80 percent, depending on which year is taken as the base.

The following are the selected profiles that were completed on the basis of the interviews conducted during the Institutional Assessment segment of the Ecuador Micro- and Small-Scale Enterprise Sector Study.

FUNDACION ECUATORIANA DE DESARROLLO (FED)

General Background

The Fundación Ecuatoriana de Desarrollo (FED) was created in 1968 as a private not-for-profit institution to promote an awareness in Ecuador of the responsibility of the society at large to contribute to the wellbeing of lower-income sectors of the population. The organization was formed to be a channel for private development resources to economic and social improvement projects.

The FED worked in a variety of different programs and with several donors over the years. However, in 1985, the Fundación decided to dedicate itself to micro-enterprise development because, as an organization, it had become too diverse, with too many different activities. The result of too many activities going on was a low level of overall effectiveness. Furthermore, it became very involved and complex to continue to work with several donors, all with differing administrative and programmatic requirements.

FED's objective was to simplify its overall operation, focus on a specific area of activity, and concentrate on improving the impact of the program.

In 1984, with a $200,000 grant from USAID for operations and initiating a loan fund as well as institutional development support from Acción International/AITEC and the Ministry of Labor, FED implemented the Program for the Development of Microenterprises (PRODEME).

Program Description

PRODEME provides credit, training and technical assistance to informal sector micro-entrepreneurs involved in production, service (currently IDB-financed portfolio) and commerce (currently financed through the Acción/AITEC Guarantee Fund in conjunction with the Banco Consolidado). The program operates in the urban areas of Quito, Ambato, Sangolqui, and Santo Domingo.

Credit

Access to credit is considered in this program the most important need of micro-entrepreneurs of the size attended by PRODEME. The mechanism is based on a system of escalating short-term loans, market interest rates, automatic reloans, and rapid disbursement. Loan amounts range from a minimum of S/.100,000 in practice to S/.600,000, for both working capital and fixed assets. The interest charged is nominally 54 percent annually calculated up front. Loan terms run from two months minimum to six months maximum. Two guarantors, who are gainfully employed or who have a stable business, are required. The loan review and approval/denial period for first loans is 15 days after receipt of the application; reloans are automatically disbursed in 24 hours.

The loan application is drawn up jointly between the promoter and the entrepreneur and then submitted to the FED credit committee for approval. Credit decisions are made by the FED/PRODEME and loan disbursements are made at the program office. A check is written against a local bank, either for disbursement from the FED loan fund or Banco Consolidado funds guaranteed by the AITEC guarantee mechanism, but the bank does not intervene in the credit review and approval process. The FED is in control of the process.

Training and Technical Assistance

A 10-hour basic training course in business administration is required of all loan applicants, new and renewals. Courses are imparted in five two-hour sessions and attendance to an additional course per each loan received is also obligatory. However, loan application and approval take place parallel to training, thus the loan is disbursed immediately after course completion.

The 54 percent interest charged on a loan is assumed to cover training and other pre-loan and post-loan follow-up costs. Nonmandatory vocational training will also be available through the program in coordination with SECAP. A $2.00 fee per course is charged.

Small doses of technical assistance are provided by PRODEME's promoters on an individual basis once a month. The promoteur follows-up the implementation of basic accounting techniques, and the loan status. Precredit assistance is also provided in the preparation of the credit application.

Program promotion initially relied on door-to-door visits to potential beneficiaries; actually it mainly relies on word-of-mouth mechanisms.

Other Services

In addition to the credit, training, and technical assistance, a family health-care program has been established in which FED buys generic medicines from the Ministry of Health and passes the savings on to the beneficiaries at 20 percent the normal cost. Membership in the program is for credit beneficiaries and, in addition to the cost of the medicines they must pay a $2.00 fee every six months to continue on the roles. Marketing services (annual exposition for microproducers) are also available to program beneficiaries.

Beneficiary Profile

The PRODEME initially targeted micro-enterprises in the manufacturing and services areas. However, with the implementation of the AITEC Guarantee Fund the program expanded its coverage to include commerce. It has defined *microempresarios* as being involved in manufacturing and services and *microcomerciantes* as being in sales and commerce.

The target beneficiaries in the manufacturing and services areas are primarily micro-entrepreneurs with less than 10 employees, who have business assets of $1,500 or less, whose individual monthly incomes are below two minimum salaries (currently S/.64,000 or $72), and who have been in business for at least one year.

About 70 percent of the entrepreneurs that the FED worked with in 1989 were involved in manufacturing activities, half of which were in garment production. The balance were in services half of which worked in some form of food preparation and sales. Initially the program did not attend the needs of *microcomerciantes*.

Female beneficiaries represent 60 percent of the total. Note that this percentage of female beneficiaries is substantially higher than other MSE programs in Ecuador, probably related to the incidence of clothing and food-preparation businesses in the universe.

Seventy percent of the program beneficiaries have less than six years of education.

Program Coverage

As of July 1990, PRODEME had reached 2,660 micro- entrepreneurs, of which 60 percent are women. The 2,660 beneficiaries have received 5,620 loans for a total amount of S/.1,122.8 million or $1.32 million. The average loan is S/.199,777. The loan portfolio amounts to S/.406.8 million and delinquencies, including the period between 0 and 30 days, stand at 5 percent. (The delinquency rate is calculated by the FED on the basis of being more than 30 days overdue.) Unrecoverable loans stand at 0.8 percent of the portfolio. The cost per sucre loaned is calculated by the FED at S/.0.04. Currently the FED is able to cover all of its expenses through internally generated income.

Funding Sources

PRODEME is currently utilizing financial resources from The Inter-American Development Bank, $580,000 for loan fund development ($500,000) and technical cooperation ($80,000); and Acción International/AITEC, $125,000 guarantee authority to back local currency loans through the Banco Consolidado. As previously mentioned, the A.I.D. provided a $200,000 donation to get the program off the ground in 1984. Currently, PRODEME is also negotiating a loan from the Banco de Prestamos for S/.30.0 million based on the FED's own collateral, that is, various investments it has made over the years.

The PRODEME loan portfolio is made up of the current money from the IDB Small Projects Operation, the AITEC guarantee mechanism, and approximately $30,000 of accrued interest.

Each funding source either works with a different beneficiary group or in a different geographical area; the IDB funds finance micro-manufacturing and services in Quito, the AITEC guarantee finances *microcomerciantes* in Quito, and the FED, using its own resources, is now financing micro-enterprises in Sangolqui and Ambato.

Operations and Management

The FED has developed a well-run operation since 1984 when it began to concentrate on developing its institutional capacity in the area of micro-enterprise credit services. It has developed, with Acción/AITEC assistance, the methodology and the administrative and management systems to run an efficient program. Although its handling of inflation needs improvement according to the financial analysis, the FED is focussed clearly on the objective of cost recovery and sustaining its ability to cover operating costs with internally generated income. To date it is having success in this area and is not taking direct outside subsidies to cover operating expenses.

The FED has created personnel management systems that provide excellent financial incentives for its promoters/advisers based on a combination of a competitive base salary and performance, that is, how well they manage their assigned portfolios. Personnel turnover is practically nonexistent.

Program Strengths and Weaknesses

Strengths

- PRODEME is oriented toward making large numbers of loans efficiently and keeping its operating costs low. Relative to many other government and private sector programs, the FED is doing very well in the Ecuadorian context and is reaching, at least temporarily, its goal of self-sufficiency by intelligent use of its donated or low-cost assets.

- Program performance is good. Credit is being provided at a low cost of S/.0.04 per sucre loaned and repayment rate is slightly over 99 percent.

- Long-term sustainability is supported by the FED's management and administrative capacity. It has concentrated its efforts on gaining expertise in micro-enterprise lending and the intricacies and difficulties of achieving self-sufficiency. It has received the institutional strengthening support needed to develop the overall capacity to run the "business" it has chosen and has gained credibility with its beneficiaries, the local banking system, and certain international donors.

- FED has opted for providing beneficiaries with one short course per loan instead of attempting to cover too many areas prior to receiving the first loan. This method facilitates the initial loan process and provides an on-going learning opportunity to the target micro-entrepreneurs as they receive follow-on loans.

- PRODEME provides continuous access to credit through the possibility of quick follow-on loans that increase in size as needed. This system facilitates business growth ("ratcheting-up") and encourages micro-entrepreneurs to engage in a more systematic planning process. As important, however, this system provides a real incentive for micro-entrepreneurs to pay off their initial loans in order to qualify for larger, more growth-oriented subsequent credit.

- If the FED can protect the real value of its assets from erosion by inflation, it can establish independence from unhealthy levels of reliance on additional external sources of funding (normally subsidized) to cover current operating expenses that are continually increasing with inflation.

- Women's participation in this program is high relative to many other NGO programs for MSEs in Ecuador. About 60 percent of the program beneficiaries are women. It could be conjectured that this is due to the size (truly micro-enterprise) and the large numbers of clothing producers, food-preparation businesses, and commercial establishments.

Weaknesses

- Due to the Banco Consolidado's own liquidity crunch, more *microcomerciante* lending has not been done through the AITEC credit guarantee scheme. The guarantee could theoretically support a larger loan volume.

- Even though the FED has the best yearly average of the NGOs working in micro-enterprise credit in Ecuador, the fact that the PRODEME has reached only 2,660 micro-entrepreneurs in the past six years is concerning. There was an unfortunate period in the FED's history several years back that may have been responsible for this low yearly average compared to other "massification" programs in other countries.

- The major financial weakness is in the FED's treatment of inflation.

Financial Analysis

Accounting

FED provided two audited annual financial statements for 1988 and 1989 with their respective income and loss statements. The level of detail is sufficient to provide a good understanding of the financial and economic situation of the institution. The complementary report on the IDB loan includes information that allows a good comprehension of the operational details of the IDB Loan. IDB's policy is to require audited annual financial statements and periodic, special operational reports on their projects. It even approves the chart of accounts of each client as a prior condition before making any disbursement. As would be expected, institutions receiving IDB support have better accounting and financial controls than most NGOs in which these requirements are not made.

FED accounting enables the analyst to identify the use of IDB and other donor resources. Accounting policies and procedures, however, do not take into account the effect of inflation and devaluation on financial statements. Except for last year's correction of the value of equipment, other accounts were not adjusted for inflation.

Financial Analysis

With the information provided, common-size financial statements were prepared and an attempt to readjust their values for inflation to 1985 sucres was made.[1]

Assets, Liabilities, and Net Worth: Current assets represented 89 percent of total assets as of December, 1989. Sixty-seven percent of this amount is reflected in accounts receivable (or loans). During the two years under analysis only 12 percent and 11 percent of total assets were invested in equipment and other assets.

Long-term liabilities are financing this high level of accounts receivable (78 percent and 77 percent), respectively. The IDB loan accounts for more than 95 percent of this financing.

Due to a substantial loss incurred during 1988 (51 percent) of total income, the social fund was reduced from a relative importance of 33 percent of net worth to only 4 percent in 1989. In 1989, the FED made a come-back and turned the situation around with a surplus of 19 percent of total income.

Estimate of the Impact of Inflation Since 1985: As is the case with other successful NGOs, the real value of its assets, disbursed IDB funds, in particular, that represent a large portion of the FED's assets, have decreased by either 80 percent or 65 percent over the last 3-5 years depending on the base year taken, that is, 1985 or 1987.

Even if operational surpluses are added to the value of disbursed IDB funds, there is still a loss of 60-78 percent depending on the method of calculation and the base year. If this trend continues, despite its current positive indicators, the FED will have to seek additional donations in the not-too-distant future to make up the difference that will be needed to generate the levels of income to cover ever-increasing costs of operation or it will be obliged to cut back operations and concomitantly its program coverage.

The gross margin on financial operations is 37 percent, again an indication of the dependency on almost-free operating capital. This margin is not high enough to counterbalance inflation as was already explained. The return on total and productive assets were 9.4 percent and 10.6 percent, respectively, in 1989, still far below the level of inflation.

Despite the efforts made by the Foundation to move away from external donors, inflation is eroding rapidly its financial base and will hinder its economic viability if not treated adequately in the very near future.

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[1]Adjustment for inflation should be read cautiously because it affects each account differently. Normally, fixed assets do not decrease in value, while cash assets and liabilities do so. Net worth also decreases along with inflation. If cash is deposited in dollar denominated accounts, then it should be treated accordingly as well as loans in local currency that do not have the clause of variable interests and amounts. The information provided does not have this kind of data.

The same could be stated about the financial viability and sustainability of the Foundation. The IDB loan is being used up during 1990 and additional financial resources will have to be secured just to maintain the present value of the loan portfolio. Again, if inflation is not treated well, the Foundation will be forced to move again to external donors to finance its operations as it was in the past or it will have to reduce its business transactions considerably and eventually close them.

Prognosis for Economic and/or Financial Viability: In 1988, 65 percent of total income was made up of donations and only 24 percent came from operational income generated by loans. In 1989 the situation was reversed: 17 percent came from international donors and 74 percent from interest generated from loans to MSEs. Financial expenses represented only 7 percent of total expenses in 1988 and 27 percent in 1989.

These data indicate that the Foundation is changing its financial base and is adopting policies that are moving it toward economic viability. The self-sufficiency liquidity ratio is very low and declining. This is an indication of the dependency of the Foundation on external financing. Debts ratios are extremely high. Regular financial institutions would have problems in securing additional financing under these circumstances. A nonfinancial institution would be overextended.

Pricing and Costing of Services

FED is following the Acción/AITEC methodology of providing services to MSEs. Thus the Foundation is pursuing long-term self-sustainability and self-financing. Training costs are covered by interest spreads derived from loans to beneficiaries. Under this system, only those that actually receive credit must pay for their training. Since it is extremely rare for someone to receive training and not receive a loan, almost all beneficiaries pay for the training that they receive.

This system also avoids the problem of misunderstandings and dashed expectations that other training-based programs have faced where training is provided and paid for up front by entrepreneurs with their own funds (or, in some extreme cases, borrowed funds) before the credit process begins, and then loans are not forthcoming.

Interest is calculated up front and then divided equally over the period of the loan, as well as one-time commissions and fees for services (not-with-standing the generally very short timeframe of the loans).[2] This results in the FED having the highest effective rate of interest of the NGOs visited in this study and the capacity to cover current costs from internally generated income.

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[2]This kind of pricing is not viewed favorably by some, but ironically, some of the same critics are those that are the firmest proponents of institutional self-sufficiency and sustainability.

BALANCE SHEET - NOMINAL VALUES - (000 SUCRES)
FUNDACION ECUATORIANA DE DESARROLLO (FED)

ASSETS	DEC 31, 1988	DEC 31, 1989
CURRENT ASSETS	$49,280	$214,308
Cash and Banks	$27,057	$52,410
Investments		
Accounts Receivable	$22,223	$161,898
Loans Receivable		
Inventory		
Other Current Assets		
FIXED ASSETS	$6,630	$26,770
Property		$14,250
Plant and Equipment		
Vehicles	$357	$264
Office Equipment	$2,629	$7,129
Other Fixed Assets	$4,414	$6,816
Less Acc. Depreciation	$770	$1,691
TOTAL ASSETS	$55,910	$241,078
LIABILITIES		
CURRENT LIABILITIES	$2,536	$27,552
Accounts Payable	$339	$8,816
Loans Payable		$15,310
Notes Payable		
Interests Payable		
Other Acc. Payable	$2,197	$3,426
LONG TERM LIABILITIES	$43,339	$186,567
Debts Payable	$42,344	$171,169
Other	$995	$15,398
TOTAL LIABILITIES	$45,875	$214,119
NET WORTH AND RESERVES	$10,034	$26,958
Social Fund	$18,572	$9,797
Reserves		
Retained Surplus		
Current Yr. Surplus	($8,537)	$14,805
Inflation Readjustment		$2,356
TOTAL LIABILITIES AND NET WORTH	$55,910	$241,077
TRIAL	$0	$0
ARREARS	50	400

COMMON SIZE BALANCE SHEET
FUNDACION ECUATORIANA DE DESARROLLO (FED)

ASSETS	DEC 31, 1988	DEC 31, 1989
CURRENT ASSETS	88%	89%
Cash and Banks	48%	22%
Investments		
Accounts Receivable	40%	67%
Loans Receivable		
Inventory		
Other Current Assets		
FIXED ASSETS	12%	11%
Property	0%	6%
Plant and Equipment		
Vehicles	1%	0%
Office Equipment	5%	3%
Other Fixed Assets	8%	3%
Less Acc. Depreciation	1%	1%
TOTAL ASSETS	100%	100%
LIABILITIES		
CURRENT LIABILITIES	5%	11%
Accounts Payable	1%	4%
Loans Payable	0%	6%
Notes Payable		
Interests Payable		
Other Acc. Payable	4%	1%
LONG TERM LIABILITIES	78%	77%
Debts Payable	76%	71%
Other	2%	6%
TOTAL LIABILITIES	82%	89%
NET WORTH AND RESERVES	18%	11%
Social Fund	33%	4%
Reserves		
Retained Surplus		
Current Yr. Surplus	-15%	6%
Inflation Readjustment	0%	1%
TOTAL LIABILITIES AND NET WORTH	100%	100%
TRIAL	0%	0%

FUNDACION ECUATORIANA DE DESARROLLO (FED)

INCOME AND LOSS STATEMENT
NOMINAL VALUES

INCOME	$16,783	$78,531
International Donors	$10,921	$13,204
Local Donors		
Donations from Clients		
Interests on Loans	$4,086	$58,034
Service Charges		$6,898
Other Income	$1,777	$396
EXPENSES	$25,321	$63,726
Administrative Expenses	$22,735	$38,387
Financial Expenses	$1,126	$21,486
Other Expenses	$1,460	$3,853
SURPLUS OR LOSS	($8,537)	$14,805

COMMON SIZE
INCOME AND LOSS STATEMENT

INCOME	100%	100%
International Donors	65%	17%
Local Donors		
Donations from Clients		
Interests on Loans	24%	74%
Service Charges	0%	9%
Other Income	11%	1%
EXPENSES	151%	81%
Administrative Expenses	135%	49%
Financial Expenses	7%	27%
Other Expenses	9%	5%
SURPLUS OR LOSS	-51%	19%

# OF PAYMENTS IN ARREARS	5	10
# OF LOANS OUTSTANDING	50	60
$ OF UNRECOVERABLE LOANS	300	6000

BALANCE SHEET ADJUSTED BY INFLATION TO 1985 SUCRES (000 SUCRES)
FUNDACION ECUATORIANA DE DESARROLLO (FED)

ASSETS	DEC 31, 1988	DEC 31, 1989	% CHG 88-89	88-89	% CHG 88-89
CURRENT ASSETS	$15,733	$44,371	182%	$28,638	182%
Cash and Banks	$8,638	$10,851	26%	$2,213	26%
Investments					
Accounts Receivable	$7,095	$33,520	372%	$26,425	372%
Loans Receivable					
Inventory					
Other Current Assets					
FIXED ASSETS	$2,117	$5,542	162%	$3,426	162%
Property	$0	$2,950	100%	$2,950	100%
Plant and Equipment					
Vehicles	$114	$55	-52%	($59)	-52%
Office Equipment	$839	$1,476	76%	$637	76%
Other Fixed Assets	$1,409	$1,411	0%	$2	0%
Less Acc. Depreciation	$246	$350	42%	$104	42%
TOTAL ASSETS	$17,850	$49,913	180%	$32,064	180%
LIABILITIES					
CURRENT LIABILITIES	$810	$5,704	604%	$4,895	604%
Accounts Payable	$108	$1,825	1587%	$1,717	1587%
Loans Payable	$0	$3,170	100%	$3,170	100%
Notes Payable					
Interests Payable					
Other Acc. Payable	$702	$709	1%	$8	1%
LONG TERM LIABILITIES	$13,836	$38,627	179%	$24,791	179%
Debts Payable	$13,519	$35,439	162%	$21,920	162%
Other	$318	$3,188	904%	$2,870	904%
TOTAL LIABILITIES	$14,646	$44,332	203%	$29,686	203%
NET WORTH AND RESERVES	$3,204	$5,581	74%	$2,378	74%
Social Fund	$5,929	$2,028	-66%	($3,901)	-66%
Reserves					
Retained Surplus					
Current Yr. Surplus	($2,726)	$3,065	212%	$5,791	212%
Inflation Readjustment	$0	$488		$488	100%
TOTAL LIABILITIES AND NET WORTH	$17,850	$49,913	180%	$32,064	180%
INFLATION RATE	85.70%	54.20%			
INFLATION FACTOR	3.13	4.83			

RATIO ANALYSIS
FUNDACION ECUATORIANA DE DESARROLLO (FED)

RATIOS	88	89
LIQUIDITY AND SHORT TERM SOLVENCY		
1.- Current Ratio	19.4	7.8
2.- Self-Sufficiency Liquidity Ratio	0.5	0.2
3.- Debt Ratio	82.1%	88.8%
4.- Debt/Equity Ratio	247.0%	2185.6%
5.- Net Worth/Loans Ratio	45.2%	16.7%
ACTIVITY (ASSET UTILIZATION)		
6.- Operating Sufficiency Ratio	0.5	0.2
PROFITABILITY		
7.- Net Profit Margin	-15.3%	6.1%
8.- Net Margin/Total Assets	-15.3%	6.1%
9.- Gross Margins of Financial Operations	27.6%	37.0%
10.- Return on Capitalization Ratio	-200.4%	84.2%
11.- Return on Total Assets	-36.0%	9.4%
12.- Return on Productive Assets Ratio	-40.8%	10.6%

FUNDACION EUGENIO ESPEJO (FEE)

General Background

The Fundación Eugenio Espejo commenced operations in 1978 in Guayaquil on the initiative of Sr. Francisco Huerta, a prominent and popular politician, and other influential citizens representing the private sector. Their objective was to create a private sector institution that would be dedicated to the broad issues of social development. The Foundation is named after an enlightened personage of the Spanish colonial era who established a training center named La Concordia sometime during the 18th century.

Between 1978 and 1981 the Fundación initiated its activities through a program of post-graduate studies in administration called the Instituto Superior de Estudios Administrativos (ISEA). On the basis of the calibre of ISEA, in 1980 the Fundación Nauman, taking advantage of the training expertise of ISEA, decided to sign an agreement with FEE, the parent agency, to provide nationwide training in civic matters, including community leadership.

During its first four years, the FEE began to gain more community experience and in 1982, the USAID agreed on a program with the Fundación called the Proyecto Piloto de Desarrollo Integral de Comunidades Marginales en Ecuador. The program had four components each of which was fully subsidized by USAID.

The first component was for children with learning problems, the Centro de Recuperación Psicopedagogica (CEREPSI). The second was the Programa de Desarrollo de la Comunidad (PRODECOMUN). The third, Programa de Credito y Desarrollo de la Microempresa (PROCREDEM), came about due to the realization that despite intensive community development efforts the fact did not change that people in the poor neighborhoods were not eating adequately due to the lack of personal income. The fourth component of the overall AID-financed program was the Centro de Recursos Humanos en el Sector Informal Urbano (CRESIU), now called the Programa de Capacitación de La Concordia, after the original training center initiated by Eugenio Espejo several hundred years ago. In keeping with its origins, the Foundation has focussed on popular training programs and human resource development in low-income communities. The FEE has been, and continues to be, a highly socially oriented organization.

AID's involvement in the Marginal Communities Program lasted for about two years during the pilot stage. The Foundation continued working with the four components, or subprojects, and all four are still functioning.

PROCREDEM Description

The PROCREDEM, as previously mentioned, was initiated under the auspices of the AID-assisted Marginal Communities Program of 1982. On the basis of its increasing knowledge of the problems of low- income communities and the informal sector, the Foundation recognized that one of the critical constraints to any kind of improvement in the quality of life at this socioeconomic level was the lack of access to the means of increasing personal income. It became clear that it was imperative to understand more fully the dynamics of the economies in these areas.

Credit

Through PROCREDEM, the Foundation carried out its first studies of micro-enterprises in the marginal communities of Guayaquil. By 1984, the FEE had started an informal-sector credit program. One of the first findings was that beneficiaries did not know how to use credit properly. This was really the beginning of the organization's experience in micro-enterprise development and credit operations.

Initially Acción/AITEC provided institutional development assistance to the FEE. The current credit program is based in large part on the Acción/AITEC methodology of small, quick turnover loans for working capital and fixed assets, but the program has incorporated its own adjustments. For instance, the FEE has opted for a much more extensive and expensive training component than the FED in Quito. This adjustment of emphasis is consistent, however with the FEE's focus on human resource development and education rather than business and finance per se.

Loans are made to both individual micro-entrepreneurs or solidarity credit groups for the lowest levels of entrepreneur. The program philosophy for the smallest, least-developed entrepreneurs is to make credit available over a period of time through multiple loans commencing with very small amounts that the entrepreneur can relate to, gradually increasing to successively larger loans (gradual ratcheting up) as loans are paid back and additional need requires. The program considers this system "educational credit." Loans range from a minimum of S/.80,000 ($100 at S/.850 to $1.00) to S/.300,000 ($350) for individual loans and slightly less for members of credit groups. The term of these loans ranges from 4 to 16 weeks. The loan review and approval process takes about 10 days after submission of the application.

The program requires either a group credit guarantee (through the solidarity group mechanism where borrowers guarantee each other based on mutual confidence in each's honesty and integrity, combined with an IOU signed for each credit operation) or, if the loan is to an individual, the borrower must have a cosigner that can demonstrate solvency as well as sign an IOU for the loan. Frequently in these kinds of programs, cosigners are not much better off than the borrower.

IDB financing enters at a higher level of enterprise and need. Loans from IDB funds range from S/.300,000 ($350) to S/.1.5 million ($1,750)

Theoretically, enterprises should "graduate" to commercial banks from the IDB line, but this appears to be more theoretical than the actual situation since, according to the FEE manager, beneficiaries are not very receptive to the idea of borrowing from the banks.

Depending on the source of loan funds, interest rates range between 48 percent nominal annual rate (IAF and GTZ funding) and 52 percent (IDB). A one-time commission of 3 percent is also charged up-front.

The FEE maintains control over credit approvals or denials, although it does not handle any funds directly. Instead it has set up accounts in various banks to handle loan funds from different loan sources.

For example, the Banco Consolidado handles IDB funds and the Banco de Guayaquil (Babahoyo) handles the GTZ Babahoyo program. (See section on Funding Sources.) Once a loan is approved by the FEE loan committee consisting of the PROCREDEM project director, the Director of Finance of the Foundation, the Foundation's Legal Advisor, and either the *asesor* (individual loans) or *jefe de creditos* (para solidarity groups), a check is issued to the beneficiary who cashes it personally at the bank.

One additional aspect of the program is that there is a mandatory savings component built into the program amounting to 5 percent of the loan amount that is deducted from the loan and paid into the beneficiary's account. Accrued interest is added to the beneficiary's savings.

Upon making the loan, the FEE gives the beneficiary a coupon book with the payment dates and amount. Monthly loan payments are made at the bank by the beneficiary at which time the corresponding coupon is stamped. The manager of the Foundation estimated that the delinquency rate was very low — around 1 percent.

Training and Technical Assistance

The FEE requires 55 hours of training either before, during, or after the loan. Eight areas are covered. They are: human relations, legal subjects, basic banking documents, business administration, financial analysis, marketing, cost calculation, and basic accounting. The FEE does not charge a direct fee for these services; rather the costs are defrayed through the loan interest rate.

A list of instructors is maintained by the FEE. All must have formal professional training as well as experience in micro-enterprise training. How a specific subject area will be taught is discussed in course planning meetings with the instructors. Agreement is reached on what will be covered and how. Then the instructors develop the training materials that they will need.

Individual assistance to entrepreneurs is also provided on an as-needed basis by the program advisers.

Other Services

The FEE makes available a life insurance policy for its beneficiaries. The cost is S/.1,000 ($1.20) per year for a $300 equivalent burial benefit. Also, for S/.1,000 per semester a medical services policy can be obtained.

Beneficiary Profile

The beneficiaries of the program reside in the poorest marginal neighborhoods of Guayaquil and the town of Babahoya. They often live in *asentamientos* and their incomes are very low. Over half are women; over 60 percent have manufacturing businesses while about 30 percent are in commerce; the balance are in services.

Beneficiaries must be over 18 years old and have at least one year of experience in the economic activity (manufacturing) or six months for services.

Program Coverage

The FEE has had 2,120 to 1,055 beneficiaries cumulatively in the past five years or slightly over an average of 200 new beneficiaries per year.

Funding Sources

The FEE has been successful in its efforts to generate funding for PROCREDEM from various donor sources for loan fund development, operating subsidies, institutional development, and other technical cooperation. The donors are:

Inter-American Development Bank

The IDB has provided $450,000 to the FEE; $300,000 for the PROCREDEM loan fund for larger micro-enterprises, specifically, and $150,000 for technical cooperation.

Acción International/AITEC

AITEC has put up a $150,000 guarantee through a letter of credit drawn on the Chemical Bank of New York. This guarantee has the purpose of leveraging local currency funds for micro-enterprise lending. (It is clear that there are major problems with the micro-enterprise rediscounting schemes through the GOE-sponsored programs, making guarantee operations attractive.)

AITEC has also been providing technical assistance to the Foundation under the A.I.D.-financed Small Enterprise Development (SED) program since 1986. It has provided direct assistance in the development of the credit component in the past, but now is limiting its role to sharing and exchanging information. It appears to be a deliberate reduction and phasing out of its direct technical assistance role.

Inter-American Foundation

The IAF has donated $300,000 to the FEE — $100,000 for the credit fund (micro-enterprise); $100,000 for administrative expenses; $50,000 for micro-enterprise training; and $50,000 for training FEE personnel and general institutional strengthening.

GTZ Foundation

The GTZ has provided $25,000 for loan fund development and $5,000 for operating expenses to get micro-enterprise lending going in the town of Babahoyo, about an hour from Guayaquil by car.

Domestic Resources

The FEE is working with the UNEPROM and CONAUPE programs. Under this scheme the FEE will receive payment for training services rendered to people receiving loans under the commercial bank rediscounting schemes.

Operations and Management

Though we did not have a great deal of opportunity to be with the Foundation for much time, the impression is that the organization is well managed. This impression is bolstered by the fact that five international donors (the ones mentioned above plus the Fundación CODESPA of Spain) have seen fit to support it with substantial levels of funding the FEE's PROCREDEM operation.

The Foundation has operations and procedures manuals, and has clearly planned for its on-going financing. It has a vision of its own longevity and the management and systems to be sustainable.

Program Strengths and Weaknesses

Strengths

- The FEE has been successful at generating funding for its programs from a variety of donors. It has diversified its sources of financing and has given each one a specific niche. This is an astute move, since each donor is needed for a specific objective. If one donor's funding overlaps another's, there is a greater chance of losing one, if not both sources.

- The Foundation has been directly involved in micro-enterprise and informal sector work for six years. It has developed an institutional capacity in the area of micro-enterprise credit management.

- It is in control of the credit process from project identification to loan approval and disbursement. Thus, it has a greater degree of control over its own destiny than programs that do not have this situation.

Weaknesses

- The principal weakness is that the program, for all the effort that is put into it, reaches only a very few beneficiaries through its credit program. One would think that a great deal more coverage could be achieved given all of the institutional development support being received by multiple international donors.

- The FEE is still highly dependent on subsidies to cover recurrent costs and may be moving too slowly toward self-sufficiency. Furthermore, FEE;s assets have eroded in real value due to inflation; more measures to counter inflation are needed.

Financial Analysis

Accounting

The FEE provided three computer printouts containing balance sheets for the years 1988, 1989, and June 1990. The only income and loss statement provided was for 1988. The Foundation has a soft loan from the Small Projects Unit of the IDB and, as other foundations with assistance from the IDB, that requires certain kinds of financial and accounting information as part of the program. The information provided is sufficient to understand the economic and financial conditions of the institution. We were informed that the accounting system produces reports by sources of funds and programs, but it does not produce information by profit or cost centers. According to the information we obtained during interviews, the Foundation does not show in its statements accounting policies and procedures to counter the impact of inflation on financial statements.

The most important financial tool used to plan and control operations are the individual budgets prepared and controlled periodically for each donor. Income and expenses are only consolidated at the end of each fiscal year.

Financial Analysis

Assets, Liabilities, and Net Worth: Loans and accounts receivable have been increasing consistently from 21 percent of current assets in 1988 to 41 percent by June 1990. Forty-six percent of fixed assets are invested in vehicles and office equipment. The Foundation does not possess any real estate.

The increase in loans and accounts receivable have been financed by and increase in bank notes from 9 percent of current liabilities in 1988 to 37 percent in June 1990. FEE is not reporting long-term debts in its financial statements even though at least the IDB loan is one of them.

Current and self-sufficiency ratios have deteriorated from 2.8 and 4 in 1988 to 1.2 and 1.2 in June, 1990. In June 1990, liabilities financed 51 percent of total assets — an increase from 15.9 percent in 1988. The debt/equity ratio also increased from 37 percent in 1988 to 113 percent in 1990. This situation is a reflection of the shift away from financing assets with net worth or straight donations, and it clearly shows the increased relative importance of external loans to finance operations.

The net profit margin was in 1988, 22 percent of operational income and this margin financed 2 percent of total assets in the same year. These two ratios along with the return on capitalization (-48 percent), on total assets (-24 percent) and on productive assets (-41 percent) also reflect a high degree of dependency on external donors to finance operations through liabilities.

Finally, the Social Fund increased substantially (47 percent) in nominal terms from S/.28 millions in 1988 to S/.77 millions in June 1990, mostly from income derived from international donors.

Estimated Impact of Inflation Since 1985: If inflation is considered, the real value (in 1985 sucres) of the June balance, was only S/.13 million, an 83 percent erosion. The erosion reduces to about 65 percent if 1987 is considered as the base year.

We were not able to compare income and loss statements over a period of several years, but it would seem likely that FEE is experiencing the same change in income generation as other IDB clients. In 1988, the foundation generated 21 percent of total income from interest on loans and service charges, while donors contributed with 62 percent of total income.

Prognosis for Economic and/or Financial Viability: Not considering inflation, it seems that the Foundation is moving toward economic viability and sustainability. Financial viability is apparently secured over the next few years with the agreements signed with several local and international donors including the IAF, IDB, GTZ, and others.

BALANCE SHEET - NOMINAL VALUES - (000 SUCRES)
FUNDACION "EUGENIO ESPEJO"

ASSETS	DEC 31, 1988	DEC 31, 1989	JUN. 30, 1990
CURRENT ASSETS	$28,763	$89,503	$102,726
Cash and Banks	$5,465	$1,686	$4,065
Investments		$30,000	$25,000
Accounts Receivable	$1,282	$4,966	$6,191
Loans Receivable	$12,672	$49,571	$62,188
Inventory			
Other Current Assets	$9,344	$3,280	$5,283
FIXED ASSETS	$36,831	$63,669	$65,840
Property			
Plant and Equipment			
Vehicles	$20,500	$39,200	$45,200
Office Equipment	$7,391	$28,309	$32,359
Other Fixed Assets	$11,921	$4,051	$0
Less Acc. Depreciation	$2,980	$7,891	$11,719
TOTAL ASSETS	$65,594	$153,171	$163,566

COMMON SIZE BALANCE SHEET
FUNDACION "EUGENIO ESPEJO"

ASSETS	DEC 31, 1988	DEC 31, 1989	JUN. 30, 1990
CURRENT ASSETS	44%	58%	61%
Cash and Banks	8%	1%	2%
Investments	0%	20%	15%
Accounts Receivable	2%	3%	4%
Loans Receivable	19%	32%	37%
Inventory			
Other Current Assets	14%	2%	3%
FIXED ASSETS	56%	42%	39%
Property			
Plant and Equipment			
Vehicles	31%	26%	27%
Office Equipment	11%	18%	19%
Other Fixed Assets	18%	3%	0%
Less Acc. Depreciation	5%	5%	7%
TOTAL ASSETS	100%	100%	100%

LIABILITIES CURRENT LIABILITIES	$10,397	$75,610	$87,497
Accounts Payable	$3,753	$9,461	$14,964
Loans Payable			$3
Notes Payable	$5,600	$58,071	$63,000
Interests Payable		$5,561	$7,566
Other Acc. Payable	$1,044	$2,517	$1,964
LONG TERM LIABILITIES	$0	$0	$0
Debts Payable			
Other			
TOTAL LIABILITIES	$10,397	$75,610	$87,497
NET WORTH AND RESERVES	$55,198	$77,561	$81,069
Social Fund	$28,097	$74,571	$77,268
Credit Fund	$22,547		
Current Yr. Surplus	$1,035	$2,990	$3,801
Inflation Readjustment			
Administration Fund	$3,519		
TOTAL LIABILITIES AND NET WORTH	$65,595	$153,171	$168,566

LIABILITIES CURRENT LIABILITIES	16%	49%	52%
Accounts Payable	6%	6%	9%
Loans Payable			
Notes Payable	9%	38%	37%
Interests Payable	0%	4%	4%
Other Acc. Payable	2%	2%	1%
LONG TERM LIABILITIES	0%	0%	0%
Debts Payable			
Other			
TOTAL LIABILITIES	16%	49%	52%
NET WORTH AND RESERVES	84%	51%	48%
Social Fund	43%	49%	46%
Credit Fund	34%	0%	0%
Current Yr. Surplus	2%	2%	2%
Inflation Readjustment			
Administration Fund	5%		
TOTAL LIABILITIES AND NET WORTH	100%	100%	100%

INCOME AND LOSS STATEMENT
NOMINAL VALUES

INCOME	$0	$63,279	
International Donors		$38,995	
Local Donors		$10,767	
Donations from Clients			
Interests on Loans		$11,589	
Service Charges		$1,928	
Other Income			
EXPENSES	$0	$60,289	
Administrative Expenses		$24,272	
Interests		$9,346	
Other Operational Expenses		$19,719	
Training		$6,953	
SURPLUS OR LOSS	$0	$2,990	

COMMON-SIZE
INCOME AND LOSS STATEMENT

INCOME		100%	
International Donors		62%	
Local Donors		17%	
Donations from Clients			
Interests on Loans		18%	
Service Charges		3%	
Other Income			
EXPENSES		95%	
Administrative Expenses		38%	
Financial Expenses		15%	
Other Expenses		31%	
SURPLUS OR LOSS		5%	

BALANCE SHEET ADJUSTED BY INFLATION TO 1985 SUCRES (000 SUCRES)
FUNDACION "EUGENIO ESPEJO"

ASSETS	DEC 31, 1988	DEC 31, 1989	JUN. 30 1990	% CHG 88-89	% CHG 89-90		88-90	% CHG 88-90
CURRENT ASSETS	$9,183	$18,531	$17,476	102%	-6%		$8,294	90%
Cash and Banks	$1,745	$349	$691	-80%	98%		($1,053)	-60%
Investments	$0	$6,211	$4,253	100%	-32%		$4,253	100%
Accounts Receivable	$409	$1,028	$1,053	151%	2%		$644	157%
Loans Receivable	$4,046	$10,263	$10,580	154%	3%		$6,534	162%
Inventory								
Other Current Assets	$2,983	$679	$899	-77%	32%		($2,084)	-70%
FIXED ASSETS	$11,759	$13,182	$11,201	12%	-15%		($558)	-5%
Property								
Plant and Equipment								
Vehicles	$6,545	$8,116	$7,690	24%	-5%		$1,145	17%
Office Equipment	$2,360	$5,861	$5,505	148%	-6%		$3,145	133%
Other Fixed Assets	$3,806	$839	$0	-78%	-100%		($3,806)	-100%
Less Acc. Depreciation	$951	$1,634	$1,994	72%	22%		$1,042	110%
TOTAL ASSETS	$20,942	$31,713	$28,677	51%	-10%		$7,736	37%

LIABILITIES								
CURRENT LIABILITIES	$3,319	$15,654	$14,885	372%	-5%		$11,566	348%
Accounts Payable	$1,198	$1,939	$2,546	63%	30%		$1,347	112%
Loans Payable								
Notes Payable	$1,788	$12,023	$10,718	572%	-11%		$8,930	499%
Interests Payable	$0	$1,151	$1,287	100%	12%		$1,287	100%
Other Acc. Payable	$333	$521	$334	56%	-36%		$1	0%
LONG TERM LIABILITIES								
Debts Payable								
Other								
TOTAL LIABILITIES	$3,319	$15,654	$14,885	372%	-5%		$11,566	348%
NET WORTH AND RESERVES	$17,622	$16,058	$13,792	-9%	-14%		($3,831)	-22%
Social Fund	$8,970	$15,439	$13,145	72%	-15%		$4,175	47%
Credit Fund	$7,198	$0	$0	-100%	0%		($7,198)	-100%
Current Yr. Surplus	$330	$619	$647	87%	4%		$316	96%
Inflation Readjustment								
Administration Fund	$1,123	$0	$0	-100%			($1,123)	-100%
TOTAL LIABILITIES AND NET WORTH	$20,942	$31,713	$28,677	51%	-10%		$7,736	37%
INFLATION RATE	85.70%	54.20%	21.70%					
INFLATION FACTOR	3.13	4.83	5.88					

RATIO ANALYSIS
FUNDACION EUGENIO ESPEJO

RATIOS	88	89	90
LIQUIDITY AND SHORT TERM SOLVENCY			
1.- Current Ratio	2.8	1.2	1.2
2.- Self-Sufficiency Liquidity Ratio	4.0	1.4	1.2
3.- Debt Ratio	15.9%	49.4%	51.9%
4.- Debt/Equity Ratio	37.0%	101.4%	113.2%
ACTIVITY (ASSET UTILIZATION)			
5.- Operating Sufficiency Ratio	395.6%	142.2%	118.6%
PROFITABILITY			
6.- Net Profit Margin		22.1%	
7.- Net Margin/Total Assets		2.0%	
8.- Gross Margins of Financial Operations		80.6%	
9.- Return on Capitalization Ratio		-48.3%	
10.- Return on Total Assets		-24.4%	
11.- Return on Productive Assets Ratio		-41.8%	

CORPORACION FEMENINA ECUATORIANA (CORFEC)

General Background

The Corporación Femenina Ecuatoriana (CORFEC) is a private not-for-profit organization constituted in December 1983 to strengthen womens' participation in the development of the Ecuadorean society through creative action. CORFEC's objectives are to incentivate and assist marginal groups in both rural and urban areas to raise their economic, cultural, and social levels and to take a more active role in the national development process. In March 1989 CORFEC initiated its micro-enterprise program (CREDICORFEC) with assistance of Women's World Banking (WWB) and Acción International /AITEC. The program was established exclusively to meet the credit, training and technical assistance needs of the woman entrepreneur in compliance with the statutes of the Corporation.

Program Description

Credit

CORFEC operates a direct-lending mechanism using a guarantee fund established with resources from WWB and Acción International/AITEC to leverage local currency resources for micro-enterprise lending. Loans are provided in amounts ranging from S/.50,000 ($60) to S/.200,000 ($235) for working capital, and S/.150,000 ($175) to S/.400,000 ($475) for fixed assets. CORFEC charges a market annual interest rate of 60 percent on the declining balance. It is the organization's policy to charge at least 15 percent points above its cost of capital. Loans of 2-4 months are made and collateral, usually jewelry, and one solvent cosigner are required as guarantees.

The loan review and approval process takes approximately 8-15 days after receipt of the loan application for both first loans and follow-on credit.

Loans are disbursed at the program offices and repaid in fixed weekly installments (interest plus principal).

Post-credit technical assistance is provided on individual basis. The beneficiaries receive at least one visit every three months.

Training and Technical Assistance

The training component functions under the methodology and guidelines of UNEPROM. Training consists of five minicourses and a total of 40 hours given in 10 four-hour sessions. Areas of training are human development (4 hours), accounting (12 hours), credit use and management (4 hours); business administration (10 hours), and marketing (10 hours). Attendance in at least 80 percent of the sessions is mandatory in order to be eligible for credit.

A small amount of direct assistance at the entrepreneur's place of business is provided during periodic visits; the first after the second week of the mandatory training course and then three months later. Concentration is on bookkeeping. Credit follow-up is also given within two weeks of disbursement of the loan and then, again, at the discretion of the program advisor.

Basic bookkeeping is a requirement for obtaining a second loan and income and expense records must be presented.

While there are no fees for the above services, other technical training short-courses in the production area are paid for by the user. Course prices run from a minimum of S/.3,000 ($3.50) to S/.10,000 ($11.75).

Other Services

In addition to the administrative courses, CORFEC offers nonmandatory vocational training to all women, whether they are business owners or not. These courses are offered according to their demand.

Beneficiary Profile

CORFEC serves woman-owned micro-enterprises located in the urban areas of Quito. Actual program beneficiaries have less than 10 employees, monthly sales below S/.96,000 ($120) and fixed assets of up to S/.3.0 million ($3,500). About 45 percent of the beneficiaries are involved in production activities, 28 percent in commerce, and 21 percent in services; 78 percent have more than six years of education.

Minimum eligibility requirements are that the beneficiary be at least 18 years of age, have at least a third grade education, and have been in business for at least six months.

Program Coverage

As of August 1990 CORFEC had trained 600 women micro-entrepreneurs and provided credit to 338 of them (56 percent). The program has disbursed S/.69.5 million ($81,765) in loans that average S/.205,621 ($250) per beneficiary. CORFEC has an outstanding portfolio of S/.21.1 million ($24,700) and a repayment rate of 98 percent. According to CORFEC personnel, the cost per sucre loaned is approximately S/.0.05, although income and expense statements were not available to verify this.

Funding Sources

For training services, the GOE's UNEPROM program has provided S/.4.0 million ($4,700) toward expenses. According to the information the team has, this figure appears to be less than half the budget originally prepared by CORFEC for the training.

Acción International and WWB have also put up guarantee funds to leverage local currency loan money for CORFEC's beneficiaries.

Program Strengths and Weaknesses

Strengths

- CORFEC has adopted a policy of charging a relatively hefty interest rate (60 percent), which is above even the commonly quoted market rate in Ecuador. The objective is to cover the cost of capital and other program costs and avoid financially debilitating continual subsidies.

- In addition to financial policies that help protect the institution from inflation and other initiatives taken by CORFEC to begin to generate income on the basis of program-owned assets, long-term program sustainability is also enhanced by strong management capacity, strong support from the business community, and the institutional ability to attract national and international resources.

- Continued contact with Acción International/AITEC ensures high quality assistance for institution strengthening and sustained high quality program implementation.

- CORFEC's direct lending mechanism gives it the potential to run an efficient and cost-effective credit assistance program for micro-enterprises that could reach many more beneficiaries than currently is the case.

- Credit delivery and follow-up systems are efficient, as evidenced by a 98 percent repayment rate and a low cost per sucre lent (S/.0.05).

- The program has been able to diversify its funding sources, thus avoiding dependency on a single source.

- Direct lending keeps the institution more in control of its primary income source and makes the credit process more responsive to the entrepreneurs.

Weaknesses

- Although CORFEC has done well with the resources it has at its disposal, credit program outreach has been limited due to the relatively small credit fund operated by CORFEC.

- Administrative courses are too long; the 40-42 hours could be cut back or done in phases before and during the term of the loan, as is done in the FEE program.

Financial Analysis

Accounting

CORFEC provided two unaudited annual financial statements for the years 1988 and 1989, but did not provide income and loss statements. However, CORFEC did provide a financial statement and an income and loss statement as of June 1990. This last statement however, reflected only financial transactions during 1990. Thus, the extent of the analysis that could be done was limited.

Until this year, accounting information has been sparse, a not uncommon situation in most of the NGOs that were visited. However,, CORFEC hired a new financial officer in May 1990 and is currently introducing improved accounting and financial management procedures. Complete financial statements will now be produced once a year.

To date, the Corporation's manual accounting does not allow for analysis of income, costs and expenses by funds, programs or profit centers. The information is also late in being prepared. The most important financial tool used by CORFEC is a budget by which cash income and costs are controlled.

Financial Analysis

With the limited information provided, common-sized statements were prepared and a ratio analysis was performed. An attempt was also made to measure the impact of inflation on the balance statements, taking 1985 sucres as the base to be consistent with the analysis made under the Financial Markets Study (credit unions).

Assets, Liabilities, and Net Worth: Current assets grew in real terms during the period under analysis by 118 percent. The increase was financed mainly by an increase in current liabilities (loans and accounts payable) of 83 percent and 100 percent, respectively. The net worth of the Corporation decreased in real terms by 61 percent.

CORFEC has started to channel credit funds to its micro-enterprise clients through the Banco Consolidado supported by a $50,000 guarantee deposited in the same bank that is used to leverage twice that amount in local currency lending. The guarantee deposit, which is a US dollar-denominated liability, not only backs up increased lending, but is also a hedge against inflation.

Loans under this system are being given at 60 percent annual interest, which is above the market rate established by the Central Bank, but still not at a self-sufficiency level that will maintain the real value of the assets and cover costs (including the cost of capital) and loan fund increases.

Most of CORFEC's present operating income, 98 percent, derives from interest on loans made. As of June 1990, the gross margin on financial operations was 23 percent. The net profit margin was 7.7 percent. Current and the self-sufficiency liquidity ratios have decreased from 67 to 1.6 and from 6.5 to .4, respectively, as of June 1990, revealing the increased in bank loans to finance its credit operations. Sixty-three percent of assets are being financed by creditors. Total liabilities represent 177 percent of net worth.

Addressing Inflation: The $50,000 deposited with the Consolidado Bank in U.S. currency, to leverage twice that amount in local currency loans to MSEs, is a clear indication of the institution's recognition of the need to protect itself from inflation and devaluation.

It should be careful, though, to accompany its new financial policies with improved accounting and administration practices and increased capitalization.

As a recommendation to CORFEC, inflation should be dealt with in an integrated manner. Financial policies should reflect the ability and capacity of the institution to recover all the costs associated with providing services including the loss of value, the build up of reserves, and capitalization. Accounting policies and procedures should reflect these imperatives. CORFEC should, therefore, correct, adjust, or index its financial statements consistently and regularly.

Prognosis for Economic and/or Financial Viability: CORFEC is moving from a donation-dependent organization toward a more economically viable institution with an orientation toward increased reliance on internally generated income. In order to achieve the goal of economic viability, CORFEC will have to utilize its low-cost financial resources carefully in order to maintain them as a basis for future income, much as endowments would be used.

CORFEC has demonstrated the ability to secure enough funds through continuing donations to finance its operations and to be financially viable. It has signed contracts with UNEPROM, the United Nations and Acción/AITEC. It is now in the process of securing an IDB loan that will provide soft financing for the years to come.

Pricing and Costing of Services

CORFEC is following the Acción/AITEC methodology of providing credit and other services to micro- and small-scale entrepreneurs and aspires to a high level of recurrent cost recovery and assets protection under inflationary conditions. CORFEC's program is functioning on a long range self-sustainability, self-financing basis. CORFEC believes that credit users can pay a considerable portion of the training and technical assistance received and it has estimated actual costs and prices that need to be charged for these services.

However, CORFEC is also working with the UNEPROM and CONAUPE credit rediscounting and training systems which pay for training services on a contract-type basis with the participating organizations and additional charges to beneficiaries for training are not made to cover real costs.

In the case of CONAUPE, there has been a good-faith effort to do what they can to try to standardize the format for calculating training costs and then relate this to the up-to-4 percent spread on the subsidized interest that can be charged through the rediscounting system. A proposal was presented in December 1989 to NGOs during the second national workshop in a document entitled "Propuesta de Procedimientos para el Calculo de Costos." Under the system, covering real training and loan follow-up costs will be difficult, if not impossible, in large part because payments are made on the basis of the loan amounts actually rediscounted through the participating commercial banks. In many cases, this system is simply not functioning (depending on the relationship of the NGO with the participating banks at the local level). If the cost of training reaches, say 3.1 percent, of the projected total loan amount, and this is what will be paid per loan over time in varying percentages up to loan repayment and, in the final analysis, only 40 percent of the projected loan portfolio is disbursed, income for the NGO will be reduced significantly. But the NGO will continue to have certain fixed costs that will not be covered.

In the case of UNEPROM, the participating NGO is essentially concentrated on a job-by-job basis to a certain level of training and other services. Again, many entrepreneurs have been "trained" but credit has not flowed through the rediscount system. In this case, at least the NGO will still get paid for its efforts, but if the money does not flow through the rediscount system, then UNEPROM will not be able to contract the NGO on an on-going basis. Under these systems, entrepreneurs expect credit once training has been completed.

These situations apply generally to all NGOs working with CONAUPE and UNEPROM.

BALANCE SHEET - NOMINAL VALUES - (000 SUCRES)
CORPORACION FEMENINA ECUATORIANA "CORFEC"

ASSETS	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990
CURRENT ASSETS	$7,398	$8,046	$30,289
Cash and Banks	$66	$865	$640
Investments	$5,000	$5,000	$1,233
Accounts Receivable	$2,333	$2,106	$18,494
Deposits from Clients	$0	$0	$9,802
Interests	$0	$75	$0
Other Current Assets	$0	$0	$119
FIXED ASSETS	$7,779	$9,859	$0
Property	$7,572	$9,652	$0
Plant and Equipment			
Vehicles			
Office Equipment	$216	$216	$0
Other Fixed Assets	$31	$31	$0
Less Acc. Depreciation	$40	$40	
TOTAL ASSETS	$15,178	$17,905	$30,289
LIABILITIES			
CURRENT LIABILITIES	$110	$2,785	$19,274
Accounts Payable	$110	$1,148	$377
Loans Payable	$0	$0	$17,200
Notes Payable	$0	$1,637	$0
Interests Payable	$0	$0	$1,389
Other Acc. Payable	$0	$0	$308
LONG TERM LIABILITIES	$0	$92	$0
Debts Payable			
Other	$0	$92	$0
TOTAL LIABILITIES	$110	$2,877	$19,274
NET WORTH AND RESERVES	$15,068	$15,029	$11,015
Social Fund	$14,865	$14,865	$10,846
Reserves			
Retained Surplus	$233	$306	$0
Current Yr. Surplus	($30)	($141)	$169
Inflation Readjustment			
TOTAL LIABILITIES AND NET WORTH	$15,178	$17,905	$30,289

COMMON SIZE BALANCE SHEET
CORPORACION FEMENINA ECUATORIANA - CORFEC

ASSETS	DEC 31, 1988	DEC 31, 1989	JUNE 30,* 1990
CURRENT ASSETS	49%	45%	100%
Cash and Banks	0%	5%	2%
Investments	33%	28%	4%
Accounts Receivable	15%	12%	61%
Loans Receivable	0%	0%	32%
Interests	0%	0%	0%
Other Current Assets	0%	0%	0%
FIXED ASSETS	51%	55%	0%
Property	50%	54%	0%
Plant and Equipment			
Vehicles			
Office Equipment	1%	1%	0%
Other Fixed Assets	0%	0%	0%
Less Acc. Depreciation	0%	0%	
TOTAL ASSETS	100%	100%	100%
LIABILITIES			
CURRENT LIABILITIES	1%	16%	64%
Accounts Payable	1%	6%	1%
Loans Payable	0%	0%	57%
Notes Payable	0%	9%	0%
Interests Payable	0%	0%	5%
Other Acc. Payable	0%	0%	1%
LONG TERM LIABILITIES	0%	1%	0%
Debts Payable			
Other	0%	1%	0%
TOTAL LIABILITIES	1%	16%	64%
NET WORTH AND RESERVES	99%	84%	36%
Social Fund	98%	83%	36%
Reserves			
Retained Surplus	2%	2%	0%
Current Yr. Surplus	0%	-1%	1%
Inflation Readjustment			
TOTAL LIABILITIES AND NET WORTH	100%	100%	100%

INCOME AND LOSS STATEMENT - CORFEC
NOMINAL VALUES

INCOME	$0	$0	$2,185
International Donors			
Local Donors			
Donations from Clients			
Interests on Loans			$2,134
Service Charges			
Other Income			$50
EXPENSES			$2,016
Administrative Expenses			$369
Financial Expenses			$1,647
Other Expenses			
SURPLUS OR LOSS			$169

INCOME AND LOSS STATEMENT - CORFEC

INCOME			100%
International Donors			
Local Donors			
Donations from Clients			
Interests on Loans			98%
Service Charges			
Other Income			2%
EXPENSES			92%
Administrative Expense			17%
Financial Expenses			75%
Other Expenses			
SURPLUS OR LOSS			8%

* June 90 statements do not include accumulated fixed assets and net worth, they only reflect financial 1990 cash operations.

BALANCE SHEET ADJUSTED BY INFLATION TO 1985 SUCRES (000 SUCRES)
CORPORACION FEMENINA ECUATORIANA - CORFEC

ASSETS	DEC 31, 1988	DEC 31, 1989	JUNE 30, 1990	% CHG 88-89	% CHG 89-90	% CHG 89-90	88-89	% CHG 88-90
CURRENT ASSETS	$2,362	$1,666	$5,153	-29%	209%		$2,791	118%
Cash and Banks	$21	$179	$109	755%	-39%		$88	420%
Investments	$1,596	$1,035	$210	-35%	-80%		($1,387)	-87%
Accounts Receivable	$745	$436	$3,146	-41%	622%		$2,402	322%
Loans Receivable	$0	$0	$1,668	0%	100%		$1,668	100%
Inventory	$0	$16	$0	100%	-100%		$0	0%
Other Current Assets	$0	$0	$20	0%	100%		$20	100%
FIXED ASSETS	$2,484	$2,041	$0	-18%	-100%		($2,484)	-100%
Property	$2,418	$1,998	$0	-17%	-100%		($2,418)	-100%
Plant and Equipment				0%	0%		$0	0%
Vehicles				0%	0%		$0	0%
Office Equipment	$69	$45	$0	-35%	-100%		($69)	-100%
Other Fixed Assets	$10	$6	$0	-35%	-100%		($10)	-100%
Less Acc. Depreciation	$13			0%	0%		$0	0%
TOTAL ASSETS	$4,846	$3,707	$5,153	-23%	39%		$307	6%
LIABILITIES								
CURRENT LIABILITIES	$35	$577	$3,279	1546%	469%		$3,244	9262%
Accounts Payable	$35	$238	$64	579%	-73%		$29	83%
Loans Payable	$0	$0	$2,926	0%	100%		$2,926	100%
Notes Payable	$0	$339	$0	100%	-100%		$0	0%
Interests Payable	$0	$0	$236	0%	100%		$236	100%
Other Acc. Payable	$0	$0	$52	0%	100%		$52	100%
LONG TERM LIABILITIES	$0	$19	$0	100%	-100%		$0	0%
Debts Payable								
Other	$0	$19	$0	100%	-100%		$0	0%
TOTAL LIABILITIES	$35	$596	$3,279	1601%	451%		$3,244	9262%
NET WORTH AND RESERVES	$4,811	$3,112	$1,874	-35%	-40%		($2,937)	-61%
Social Fund	$4,746	$3,078	$1,845	-35%	-40%		($2,900)	-61%
Reserves								
Retained Surplus	$75	$63	$0	-15%	-100%		($75)	-100%
Current Yr. Surplus	($10)	($29)	$29	206%	-198%		$38	-400%
Inflation Readjustment								
TOTAL LIABILITIES AND NET WORTH	$4,846	$3,707	$5,153	-23%	39%		$307	6%
INFLATION RATE	85.70%	54.20%	21.70%					
INFLATION FACTOR	3.13	4.83	5.88					

RATIO ANALYSIS
FUNDACION CORFEC

RATIOS	88	89	89
LIQUIDITY AND SHORT TERM SOLVENCY			
1.- Current Ratio	67.4	2.9	1.6
2.- Self-Sufficiency Liquidity Ratio	6.5	7.1	0.4
3.- Debt Ratio	0.7%	16.1%	63.6%
4.- Debt/Equity Ratio	0.7%	19.4%	177.7%
5.- Net Worth/Loans Ratio	646.0%	713.7%	38.9%
ACTIVITY (ASSET UTILIZATION)			
6.- Operating Sufficiency Ratio	6.5	7.1	0.4
PROFITABILITY			
7.- Net Profit Margin			7.7%
8.- Net Margin/Total Assets			0.6%
9.- Gross Margins of Financial Operations			77.2%
10.- Return on Capitalization Ratio			4648.1%
11.- Return on Total Assets			7.2%
12.- Return on Productive Assets Ratio			7.2%

FUNDACION GUAYAQUIL

General Background

The Fundación Guayaquil was established in 1985 as a private not-for-profit organization sponsored by the Ministry of Labor of Ecuador and the UNDP, ILO, and PREALC with the objective of promoting the development of MSEs in Guayaquil. Presently, it operates one of the longer-standing MSE-assistance programs in Ecuador.

The Fundación Guayaquil provides training, technical assistance and credit to prospective credit recipients. The program is designed to assist entrepreneurs for a period of up to 10 years thereby making it possible for the entrepreneurs to make the required investments and advantageous changes in their businesses, slowly and over time, knowing that there would be access to continued support for the process support for the process.

The Fundación has secured international donor support for its operations from the IDB, the IAF, and CIDA. The Fundación projects that the increased lending operations resulting from this assistance should push it toward full self-sufficiency during the next year by 1991.

Program Description

Credit

The Fundación operates a two-stage direct lending mechanism. The first stage is essentially a credit line up to S/.85,000 ($100) that is based on a system of graduated installments in which beneficiaries start with S/.15,000 ($17.50). The second installment is for S/.30,000 ($35) and the third and last is for S/.40,000 ($47). Once the line is approved, the second and third disbursements are automatic with no additional approval process. This kind of system is similar to "educational credit" programs, such as the Fundación Ecuatoriana de Desarrollo, Fundación Eugenio Espejo, and the Banco del Pacifico in which the initial objective is as much to get beneficiaries used to the responsibility and credit as to have any real business impact.
In the second stage, the process becomes somewhat more rigorous as the loan amounts increase. The loan maximum is S/.1.5 million ($1,750) In this stage, the average working capital loan is S/.400,000 ($470) and the average fixed assets loan is S/.800,000 ($950).

Prior to stage two a special introductory course on project preparation is given to about 15 entrepreneurs in the same line of activity. With the help of a program instructor, the beneficiaries themselves prepare their own projects for the stage two loan.

The Fundación Guayaquil charges below-market rates of 48 percent on its loans. Terms are set according to the projected cash flow of the enterprise not to exceed 24 months for fixed assets, and six months for working capital. All fixed assets loans require collateral and one cosigner; working capital loans require one cosigner and an IOU.

The loan review and approval/denial period is 15-20 days for stage one loans. Stage two loans take from 20-30 days upon receipt of the application. Credit beneficiaries must open a checking account in the bank through which the loan is disbursed. Repayment is done in fixed biweekly installments at the program offices.

Training and Technical Assistance

Initially, the training component used the Fundación Carvajal's full-scale training model. However, based on accumulated experience, the Fundación adjusted its approach and developed a 15-hour general business course (three hours per session in the evenings for one week). Completion of this course is obligatory in order to obtain stage one credit. Fees are not charged to the beneficiary; the Fundación assumes all costs involved.

As mentioned in the previous section on credit, a short-course on investment project preparation is provided in anticipation of stage two credit.

Frequent technical assistance visits are made by program promoters to beneficiaries after loan disbursement; every 10 days approximately.

Beneficiary profile

The Fundación Guayaquil serves micro-enterprises in Guayaquil and surrounding areas. It has chosen consciously to concentrate its efforts in Guayaquil. The target businesses are manufacturing enterprises that have growth potential, that already have an incipient enterprise structure, and that have demonstrated profitability. Target enterprises must also have been in business for at least one year, must maintain a fixed location, generally have 3-4 employees, and have a capital investment of up to S/.3.0 million, or approximately $3,500 in current sucres at S/.850 to $1.00.

Program Coverage

As of August 1990, the Fundación had provided training to 1,571 small entrepreneurs in the past five years. Of these, 941 had received credit. Only about 2 percent of the program beneficiaries are women, implying that the type and sizes of the businesses targeted by the Fundación are not ones that are generally women owned and operated.

The program has disbursed S/.180.3 million ($210,000) with an average loan of S/.225,630 ($265). The outstanding portfolio amounts to S/.60.0 million ($70,000). The repayment rate is 98 percent. The Fundación currently covers about 43 percent of its costs from internally generated income.

Funding Sources

Funding has been secured from various international sources; the IDB Small Projects Unit for loan fund development and technical cooperation, CIDA, and IAF.

Program Strengths and Weaknesses

Strengths

- Training courses, sequence, subject matter, and amount of time spent have been adapted to the needs of the small entrepreneur as the program gained experience.

- Assistance to the small entrepreneur is available for up to 10 years, giving him/her sense of stability and a longer range horizon of assistance to make planning for growth a more sensible option than under situations where assistance is tenuous and probably a one-time intervention.

- Capable management with a clear mandate has led to program credibility and the ability of the Fundación to attract national and international financial resources. This, in turn, contributes to a higher level of financial viability and program sustainability.

- As with programs that have/are receiving IDB and other international assistance, the Fundación Guayaquil has well established and maintained monitoring, data-collection, and reporting systems.

- The credit component has developed an efficient follow-up mechanism as evidenced by 98 percent repayment rate on loans

- The graduated lending and the stage one and stage two breakdown combined with the educational focus is an interesting approach.

Program weaknesses

- Subsidization mentality to servicing the micro-entrepreneur, including subsidized interest rates and fully subsidized training and technical assistance services.

- Although the program is well managed, and is providing a relatively high level of services compared to other less experienced, single income source foundations, unless it comes to grips with the erosion of assets and net worth due to inflation, it will always be dependent on outside subsidies to make up the difference or risk withering away altogether as an institution.

- Low current self-sufficiency rates (43 percent) could jeopardize long-term program sustainability.

- Women participation and benefit from both training and credit services has been very low (2 percent).

- The drop-out rate is high. Out of 1,571 trainees, 900 received credit and only 500 remain active.

- Program coverage has been low; 1,571 beneficiaries in five years and an average of 314 per year. Only 60 percent of the trainees have also received credit.

- Increasing coverage (massification) does not appear to be an issue for the Fundación Guayaquil.

- Loan terms are too long and interest rates are too low to counter inflation. These factors could contribute to rapid loan fund decapitalization and loss of real value.

Financial Analysis

Accounting

The Fundación Guayaquil provided audited financial and income and loss statements as of December 1988 and 1989. As in the case with other IDB-financed foundations, the information is sufficient to comprehend the economic and financial situation of the institution. Even though the statements provided are presented in a consolidated form, we were informed during our interviews that the accounting system is capable of providing information by sources of funds or programs. The Foundation is not correcting its financial statements for inflation. From the information received during the interviews, the Foundation does not seem to have polices and procedures to counter-balance the impact of inflation, nor does it have accounting policies to reflect and adjust financial data to inflation rates.

Financial statements are produced once a year and are therefore not used for on-going managerial purposes. The financial tool used to plan and control operations is a budget of income and expenses. Generally, the budget is prepared annually or for the life a project to be financed by a donor and controlled periodically. The Foundation has separate budgets for each donor. Income and expenses are only consolidated at the end of each fiscal year.

Financial Analysis

Using the financial information provided to the team, common-size financial statements were prepared for 1988 and 1989. An attempt to adjust them for inflation and ratio analyses were also completed.

Assets, Liabilities, and Net Worth: As of December, 1989, 83 percent of total assets were held as current assets. Of this amount, 46 percent was kept in cash and in banks, 23 percent was deposited in fixed-term deposits, and 29 percent was invested in accounts receivable (loans). The large percentage of cash was due to a recent disbursement made by the IAF to cover operational costs of the year. Accounts receivable increased from 14 percent of total assets to 24 percent in 1989 reflecting the expanded utilization of IDB resources. Debts payable (IDB loan) increased by 32 percent in nominal value even though this increase represented only 34 percent of total liabilities in 1989. The Social Fund increased by 36 percent representing 41 percent of net worth. The surplus represents 34 percent of the Social Fund in nominal value. It is apparent that the Foundation was financially in a sounder position in 1989 than in 1988. The principal reasons for this being, first, the cash inflows from the IDB loan and second, the IAF program.

As in the case of the Fundación Ecuatoriana de Desarrollo, the Guayaquil Foundation is becoming less dependent on direct donations from international sources to cover on-going operating costs. The relative contribution of international donors to cover administrative and operational expenses was reduced from 76 percent 1988 to 69 percent in 1990, whereas, the relative importance of interest income generated from loans increased from 24 percent to 31 percent.

While the Foundation's reliance on direct budget support by international contributions to cover on-going operating expenses is being reduced, it should be remembered that the income generating assets that are causing this are from international sources to a large degree. The difference, and a positive one, is that there is a focus and philosophy that the internationally donated resources should be productive and should be invested in income-generating assets rather than simply spent to cover short-term obligations. The international resources are increasingly being seen as kinds of endowments.

The current and self-sufficiency liquidity ratios (8 and 2.3) are decreasing revealing the increased use of the IDB loan, but still sound.

Liabilities are financing 44.2 percent of assets and they were larger than equity by only 6 percent in 1988 and 1989. The net profit margin and the margin on total assets have considerably increased from 3.8 percent in 1988 to 14.4 percent again reflecting the utilization of the IDB loan. The return on capitalization, total assets and on productive assets ratios are also showing improvements. As the Foundation increases its profit margin as a result of its enlarged credit operations, these ratios will continue to improve. It is doing well with subsidized funds, but it could do even better if it charged real interest rates (48 percent annually at present) to ME clients.

The Impact of Inflation Since 1985: In spite of the favorable short-term financial situation of the Guayaquil Foundation, the effect of inflation is devastating. The IDB disbursed S/.47.489.000 in 1988/1989. This fund, as of 1990 in terms of 1988 sucres is only worth S/.21,750,000 a 55 percent erosion during the time period.

Prognosis for Economic and/or Financial Viability: The economic viability and sustainability of the foundation is only jeopardized by the impact of inflation on its resources. Financial viability on the medium term is greatly assisted by the IDB loan and the IAF funding for the next few years.

Pricing and Costing of Services

The Fundación Guayaquil claims to be working on a long-term policy of becoming self-sustaining. However, their actual actions do not closely follow the stated policy. Their present rate of interest is subsidized (48 percent) and training and technical assistance costs are paid for partially by the IAF.

Its social goals and objectives are clearly stated and reaffirmed by the Foundation in the implementation of its programs. It believes in subsidies and that the poor should receive assistance even if fees are well below real costs. Under these circumstances, decisions will have to be taken by the institution as well as supporting donors as to the importance and desirability of providing at least break-even services to the target beneficiaries and ensuring long-term program viability and increased coverage versus short-term assistance to a limited target population with finite income and limited resources.

BALANCE SHEET - NOMINAL VALUES - (000 SUCRES)
FUNDACION "GUAYAQUIL"

ASSETS	DEC 31, 1988	DEC 31, 1989
CURRENT ASSETS	$63,342	$116,063
Cash and Banks	$52,521	$54,598
Investments	$148	$27,148
Accounts Receivable	$10,555	$34,203
Loans Receivable		
Inventory		
Other Current Assets	$119	$114
FIXED ASSETS	$12,078	$24,284
Property	$0	$12,500
Plant and Equipment	$2,578	$4,771
Vehicles	$4,761	$3,550
Office Equipment	$9,251	$9,405
Other Fixed Assets		
Less Acc. Depreciation	$4,512	$5,942
TOTAL ASSETS	$75,420	$140,347
LIABILITIES		
CURRENT LIABILITIES	$2,961	$14,482
Accounts Payable	$1,476	$12,788
Loans Payable		
Notes Payable		
Interests Payable		
Other Acc. Payable	$1,485	$1,694
LONG TERM LIABILITIES	$32,145	$47,489
Debts Payable	$32,145	$47,489
Other		
TOTAL LIABILITIES	$35,106	$61,971
NET WORTH AND RESERVES	$40,314	$78,376
Social Fund	$37,455	$58,133
Reserves		
Retained Surplus		
Current Yr. Surplus	$2,859	$20,242
Inflation Readjustment		
TOTAL LIABILITIES AND NET WORTH	$75,420	$140,347

COMMON SIZE BALANCE SHEET
FUNDACION "GUAYAQUIL"

ASSETS	DEC 31, 1988
CURRENT ASSETS	84%
Cash and Banks	70%
Investments	0%
Accounts Receivable	14%
Loans Receivable	
Inventory	
Other Current Assets	0%
FIXED ASSETS	16%
Property	0%
Plant and Equipment	3%
Vehicles	6%
Office Equipment	12%
Other Fixed Assets	
Less Acc. Depreciation	6%
TOTAL ASSETS	100%
LIABILITIES	
CURRENT LIABILITIES	4%
Accounts Payable	2%
Loans Payable	
Notes Payable	
Interests Payable	
Other Acc. Payable	2%
LONG TERM LIABILITIES	43%
Debts Payable	43%
Other	
TOTAL LIABILITIES	47%
NET WORTH AND RESERVES	53%
Social Fund	50%
Reserves	
Retained Surplus	
Current Yr. Surplus	4%
Inflation Readjustment	
TOTAL LIABILITIES AND NET WORTH	100%

INCOME AND LOSS STATEMENT
NOMINAL VALUES
INCOME

	$38,335	$68,453
International Donors	$29,463	$47,563
Local Donors		
Donations from Clients		
Interests on Loans	$9,072	$20,891
Service Charges		
Other Income		
EXPENSES	$35,676	$48,211
Administrative Expenses	$25,409	$41,795
Promotion and Training	$9,071	$3,349
Other Expenses	$1,195	$3,066
SURPLUS OR LOSS	$2,859	$20,242

INCOME AND LOSS STATEMENT

INCOME	100%	100%
International Donors	76%	69%
Local Donors		
Donations from Clients		
Interests on Loans	24%	31%
Service Charges		
Other Income		
EXPENSES	93%	70%
Administrative Expenses	66%	61%
Promotion and Training	24%	5%
Other Expenses	3%	4%
SURPLUS OR LOSS	7%	30%

BALANCE SHEET ADJUSTED BY INFLATION TO 1985 SUCRES (000 SUCRES)
FUNDACION "GUAYAQUIL"

ASSETS	DEC 31, 1988	DEC 31, 1989		88-89	% CHG 88-89
CURRENT ASSETS	$20,223	$24,030		$3,807	19%
Cash and Banks	$16,768	$11,304		($5,464)	-33%
Investments	$47	$5,621		$5,574	11796%
Accounts Receivable	$3,370	$7,081		$3,712	110%
Loans Receivable					
Inventory					
Other Current Assets	$38	$24		($14)	-38%
FIXED ASSETS	$3,856	$5,028		$1,172	30%
Property	$0	$2,588		$2,588	100%
Plant and Equipment	$823	$988		$165	20%
Vehicles	$1,520	$735		($785)	-52%
Office Equipment	$2,954	$1,947		($1,006)	-34%
Other Fixed Assets					
Less Acc. Depreciation	$1,440	$1,230		($210)	-15%
TOTAL ASSETS	$24,079	$29,058		$4,979	21%
LIABILITIES					
CURRENT LIABILITIES	$945	$2,998		$2,053	217%
Accounts Payable	$471	$2,648		$2,177	462%
Loans Payable					
Notes Payable					
Interests Payable					
Other Acc. Payable	$474	$351		($123)	-26%
LONG TERM LIABILITIES	$10,263	$9,832		($430)	-4%
Debts Payable	$10,263	$9,832		($430)	-4%
Other					
TOTAL LIABILITIES	$11,208	$12,831		$1,623	14%
NET WORTH AND RESERVES	$12,871	$16,227		$3,356	26%
Social Fund	$11,958	$12,036		$78	1%
Reserves					
Retained Surplus					
Current Yr. Surplus	$913	$4,191		$3,278	359%
Inflation Readjustment					
TOTAL LIABILITIES AND NET WORTH	$24,079	$29,058		$4,979	21%
INFLATION RATE	85.70%	54.20%			
INFLATION FACTOR	3.13	4.83			

RATIO ANALYSIS
FUNDACION "GUAYAQUIL"

RATIOS	88	89
LIQUIDITY AND SHORT TERM SOLVENCY		
1.- Current Ratio	21.4	8.0
2.- Self-Sufficiency Liquidity Ratio	3.8	2.3
3.- Debt Ratio	46.5%	44.2%
4.- Debt/Equity Ratio	93.7%	106.6%
5.- Net Worth/Loans Ratio	381.9%	229.2%
ACTIVITY (ASSET UTILIZATION)		
6.- Operating Sufficiency Ratio	3.8	2.3
PROFITABILITY		
7.- Net Profit Margin	3.8%	14.4%
8.- Net Margin/Total Assets	3.8%	14.4%
9.- Gross Margins of Financial Operations	N/A	N/A
10.- Return on Capitalization Ratio	-43.5%	-30.6%
11.- Return on Total Assets	-23.2%	-17.1%
12.- Return on Productive Assets Ratio	-27.7%	-20.7%

FUNDACION BANCO POPULAR

General Background

The Fundación Banco Popular is a private not-for-profit organization created in November 1989 as an effort of the Banco Popular to reach micro-entrepreneurs. Program operations began in January 1990. The Fundación Carvajal, of Colombia, was instrumental in convincing the Banco Popular to create the Foundation and provided program design support. As a result, the Foundation's training program is a direct replica of the Fundación Carvajal program.

Under this system, making loans to large numbers of beneficiaries is not the objective. There is the strong belief that credit for "micro-entrepreneurs" is not necessarily the major problem. Rather it is a management problem of how existing assets are being used that is the key. In the Carvajal system programs, the relationship between beneficiaries trained and those who have received credit is low.

Program Description

Credit

The credit component operates through Banco Popular. Once approved by the Foundation, applications go to a Bank loan committee for final approval and disbursement into a checking account in the name of the credit recipient.

Loan amounts range from S/.300,000 ($350) to a maximum of S/.3.5 million ($4,100) for both working capital and fixed asset investments. The Fundación Popular charges the market interest rate of 56 percent annually. An up-front 2.5 percent tax is deducted from the loan. Loans are made for a maximum of 24 months; the average is 12 months. All loans require collateral for fixed assets loans and a co-signer for working capital loans. The guarantee rate is 2 to 1. By Ecuadorian law, the signatures of the spouses of both the borrower and the co-signer are required.

Under the credit component, the program has made loans to 29 entrepreneurs for a total of S/.50.0 million ($58,800) and an average of S/.1.7 million ($2,000) per loan. The outstanding portfolio amounts to S/.33.0 million ($38,800). Although the program is new and does not have much of a history of repayments coming due, it is off to a good start with 100 percent repayment rate. The cost per sucre loaned is S/.0.03.

The loan review and approval period is 15 - 20 days. Credit is disbursed into a savings or checking account, opened by the Bank in the name of the beneficiary, for this purpose. Loan payments are made in fixed monthly installments deposited in beneficiaries' bank account.

Training and Technical Assistance

The training component is intensive in keeping with the Carvajal methodology. Initial pre-loan training consists of six modules in business administration, accounting, cost accounting, marketing and sales, financial analysis, and investment project development. Beneficiaries are charged S/.5,000 ($5.90) for each of the six modules or S/.30,000 ($35) for the pre-loan training.

Post-credit technical assistance is provided on individual basis by 10 promoters. The program beneficiary receives a two-hour visit every three months. The beneficiary pays S/.5,000 ($6.00) additional for this part of the training/technical assistance package.

Together, the promotion, training, technical assistance, and loan application preparation costs the Foundation S/.109,000 ($128) per beneficiary; the beneficiaries currently pay S/.35,000 ($41). The difference is currently being covered by the Foundation.

While the Foundation will increase its charges for various technical assistance and training services in the future and believes in nonsubsidized credit operations, it also states that it does not expect training and technical assistance to be self-financing.

Additional optional courses of one week duration are offered in quality control, production and personnel administration. This package costs the participant S/.8,000 ($9.50) per course.

Other Services

The Fundación Popular's program is all business. It is a credit program first and foremost with significant levels of training that the Foundation has determined are appropriate for the level of enterprise and entrepreneur reached by the program. Unlike the more socially oriented programs, the Fundación Popular does not offer medical services, generic drugs, or life insurance or other interventions that are very important to the lowest income informal sector beneficiaries of the marginal urban areas.

Beneficiary Profile

The businesses assisted by the Fundación Banco Popular are relatively larger and have a substantially different nature (level of business structure, educational level and outlook of business owners) than those of other microenterprise programs. Since programs define their target businesses with definitions that they consider appropriate, this means that the use of the term "microenterprise" or "small enterprise" can mean different things in different programs.

The Fundación Banco Popular considers its beneficiaries as micro-entrepreneurs. Their profile is the following: the businesses have fixed locations, they employ up to 12 employees, their monthly sales average around S/.500,000 ($600), and they have capital investments of up to S/.16.0 million ($18,500). This is a different level of business than in other microenterprise assistance programs.

About 57 percent of the beneficiaries are in manufacturing, 27 percent are in commerce and 14 percent are in services; 87 percent have high school or university undergraduate education. Twenty one (21 percent) of the beneficiaries are women.

Program Coverage

As of June 1990 (after six months of operations), the Fundación Banco Popular had provided 585 entrepreneurs with training and technical assistance services of which 29 have received credit.

Operations and Management

The Fundación Banco Popular is fully supported by the Banco Popular and, thus, has access to the means to generate and use information for management and decision-making. It has access to computerized accounting and general information systems. There is a clearly businesslike atmosphere and a market orientation in the way this program is projecting its activities and their costing and pricing.

The Foundation has manuals to direct operations and procedures in various organizational areas including personnel and administration. The credit system is fully described in the Reglamento de Credito and a manual on business advisory services also has been prepared.

The accounting system is complete with the necessary monthly reports and monthly balance sheets being generated.

Personnel receive specific training to improve their effectiveness and the program's business advisors are receiving training to prepare them to be instructors in the training program.

Program Strengths and Weaknesses

Strengths

- The program believes in a totally self-financing, economically viable credit component.
- Personnel is well-trained and understands the banking/credit function.
- Efficiency is reflected in the low cost per sucre lent of S/.0.03.
- The Foundation has well established data collection and reporting systems and general management is fully backstopped by the Banco Popular.
- On-going support from the Banco Popular gives the program a high probability of financial viability.

- Because of its management capacity and backstopping and its financial underpinnings, the Foundation has a high potential for reaching large numbers of beneficiaries.

- The programs high repayment rate, bodes well for a program that is starting out on the right foot, eg. showing that it requires payment and is serious about selecting credit recipients that have the capacity to repay.

- Market interest rates for credit are charged.

- The program's systems, costs of services, and type/level of training are commensurate with the level of enterprise being attended. There appears to be a market for the services it provides at the prices being charged.

Weaknesses

- The loan guarantee requirements, particularly the problem with presenting co-signers acceptable to the program, has caused rejection of 21 loans to date.

- The 2 to 1 guarantee requirement is precisely one of the central problems that has plagued all small and microenterprise programs that work with commercial bank funds.

- Low participation of women in both training and credit (21 percent). This is probably due to the fact that the size and type of business are not generally women owned. Also, it may be more difficult for women than men to meet the guarantee requirements established by this program. It would be interesting to know how many of the 21 applications rejected by the program for lack of acceptable co-signers were applications from women.

- Such heavy concentration on training has a high cost that will probably continue to be subsidized. Will getting continuous financing for this be possible year after year?

- Even though the program is very new, its credit coverage for 10 months of operation (29 loans made) is very low. Only 5 percent of those who received training also received credit.

Financial Analysis

Accounting

Although this Foundation only started its operations in early 1990, the Executive Director was able to provide the team with financial statements as of June 30, 1990 and statistical information regarding the implementation of the program. The statements and complementary reports furnish sufficient information for managerial decision making.

The accounting system is implemented and maintained through the Popular Bank's computerized system. The Foundation has access to the bank accounting information system regarding its operation. The Foundation has only one source of funds at this moment (Banco Popular), but the accounting system has the capability of producing reports by sources of funds or programs if the need arises.

Financial Analysis

With the June 30, 1990 financial statements provided, common-size statements were prepared and a limited ratio analysis.

Assets, Liabilities, and Net Worth: The Foundation is not providing loans directly, but rather prepares clients for receiving loans through its parent, the Popular Bank. Of total assets, 46 percent are current assets (of which 34 percent are invested in inventories — books, course materials, and others), The largest share of fixed assets, 54 percent, was invested in office equipment. For a new institution this level of investment in supplies and equipment is considered normal.

The Popular Bank is financing the operations of the Foundation and almost 91 percent of current assets are owed to the Bank. So far, the Foundation has a negative net worth of approximately 100 percent of total assets.

Of total income (The Foundation has received no donations) 94 percent comes from charges for training. All financial ratios currently are very poor.

Addressing Inflation: As is the case with other NGOs in Ecuador, the Foundation does not have policies and procedures to protect its resources from erosion by inflation, nor does it have accounting procedures to show the impact of inflation on financial statements.

Prognosis for Economic and/or Financial Viability: It is clear that the Foundation, at this time, is not economically viable. Its long range strategic planning, professional, bank-type administration, and its approved policies directing the foundation towards self-financing and sustainability with the support of the Popular Bank, provides, however, a strong indication that it will be in the future. Financial viability, the capacity to secure sufficient funding to carry on indefinitely with the program is assured by the bank's resources and commitment to support the Foundation. (also see III. Pricing and Costing of Services)

Pricing and Costing of Services

The Foundation's credit policy is based on the precept that credit operations must be self-financing. The Bank is presently charging 56 percent to cover the cost of capital and general operating expenses. Additionally, the Foundation is planning on charging 100 percent of the costs of training and technical assistance and of other services that would be provided by the Foundation. The system of calculating costs is well designed and is taking into account the need to raise charges in accordance with inflationary pressures.

In pricing training and technical assistance, the competition is not considered a threat since the Fundación Banco Popular believes that the adjustments they have made in their training program fit their clientele's needs and ability to pay. In other words, there is a nonsubsidized, true market for the services provided at the level of entrepreneur being reached.

BALANCE SHEET - NOMINAL VALUES - (000 SUCRES)
FUNDACION BANCO POPULAR

ASSETS	JUN. 30, 1990		
CURRENT ASSETS	$8,454		
Cash and Banks	$1,958		
Investments			
Accounts Receivable	$15		
Loans Receivable			
Inventory	$6,123		
Other Current Assets	$358		
FIXED ASSETS	$9,780		
Property			
Plant and Equipment			
Vehicles			
Office Equipment	$9,780		
Less Acc. Depreciation			
Other Fixed Assets			
TOTAL ASSETS	$18,234		
LIABILITIES			
CURRENT LIABILITIES	$36,545		
Accounts Payable	$26,206		
Loans Payable			
Notes Payable			
Foreign Currency)	$7,881		
Interests Payable			
Other Acc. Payable	$2,457		
LONG TERM LIABILITIES	$0		
Debts Payable			
Other			
TOTAL LIABILITIES	$36,545		
NET WORTH AND RESERVES	($18,311)		
Social Fund			
Reserves			
Retained Surplus			
Current Yr. Surplus	($18,311)		
Inflation Readjustment			
TOTAL LIABILITIES AND NET WORTH	$18,234		

COMMON SIZE BALANCE SHEET
FUNDACION BANCO POPULAR

ASSETS	JUN. 30, 1990		
CURRENT ASSETS	46%		
Cash and Banks	11%		
Investments			
Accounts Receivable			
Loans Receivable			
Inventory	34%		
Other Current Assets	2%		
FIXED ASSETS	54%		
Property			
Plant and Equipment			
Vehicles			
Office Equipment	54%		
Less Acc. Depreciation			
Other Fixed Assets			
TOTAL ASSETS	100%		
LIABILITIES			
CURRENT LIABILITIES	100%		
Accounts Payable	72%		
Loans Payable			
Notes Payable	22%		
Interests Payable			
Other Acc. Payable	7%		
LONG TERM LIABILITIES	0%		
Debts Payable			
Other			
TOTAL LIABILITIES	100%		
NET WORTH AND RESERVES	-100%		
Social Fund			
Reserves			
Retained Surplus			
Current Yr. Surplus	-100%		
Inflation Readjustment			
TOTAL LIABILITIES AND NET WORTH	-100%		

INCOME AND LOSS STATEMENT - BANCO POPULAR
NOMINAL VALUES

INCOME	$10,474		
International Donors			
Local Donors			
Donations from Clients			
Interests on Loans			
Service Charges	$9,822		
Other Income	$653		
EXPENSES	$28,785		
Administrative Expenses	$16,176		
Financial Expenses			
Other Operational Expenses	$12,610		
SURPLUS OR LOSS	($18,311)		

COMMON SIZE
INCOME AND LOSS STATEMENT - BANCO POPULAR

INCOME	100%		
International Donors			
Local Donors			
Donations from Clients			
Interests on Loans			
Service Charges	94%		
Other Income	6%		
EXPENSES	275%		
Administrative Expenses	154%		
Financial Expenses			
Other Expenses	120%		
SURPLUS OR LOSS	-175%		

RATIO ANALYSIS
FUNDACION BANCO POPULAR

RATIOS	June 90
LIQUIDITY AND SHORT TERM SOLVENCY	
1.- Current Ratio	0.2
2.- Self-Sufficiency Liquidity Ratio	-1220.8
ACTIVITY (ASSET UTILIZATION)	
2.- Operating Sufficiency Ratio	-1220.8
PROFITABILITY	
3.- Net Profit Margin	-100.4%
4.- Net Margin/Total Assets	-100.4%
5.- Gross Margins of Financial Operations	NA
6.- Return on Capitalization Ratio	103.6%
7.- Return on Total Assets	-104.0%
8.- Return on Productive Assets Ratio	-224.3%

FUNDACION DE INVESTIGACION Y DESARROLLO EMPRESARIAL (FUNDIEMPRESA)

General Background

FUNDIEMPRESA is a not-for-profit organization started by eight private sector professionals in 1987 specifically to provide logistical support for the implementation of the National Program for Microenterprises, Artisans, and Small Business. Although the national program is an enterprise development effort, the Foundation's founders envisioned an instiiution that would focus on social development according to the current manager. It would carry out projects that would improve the social conditions of low income people in the Ambato/Central Ecuador region. This would be accomplished through a wide-ranging program of free services to low income people including money for business start-ups and strengthening and growth in established enterprises.

Program Description

Credit

The program is affiliated, through contractual arrangements, with the UNEPROM and CONAUPE rediscount systems that operate through the commercial banking system. As is the case for all participating NGOs (Foundations), FUNDIEMPRESA is essentially a channel of microenterprises or Unidades Populares Economicos, depending on who you are talking with at the time, to the banks. Program promotion is carried out by FUNDIEMPRESA promoters, business projects for new or established enterprises are developed, and they are delivered to the banks that have also signed participation agreements with UNEPROM and/or CONAUPE.

For all intents and purposes, FUNDIEMPRESA is a contractor to UNEPROM and CONAUPE whose objective is to channel microenterprise credit applications to the commercial bank credit source, that, in turn would approve and disburse the loans and then get reimbursed for a portion of the loan capital (CONAUPE 50 percent) and for its trouble through a percentage of the interest spread. In turn, FUNDIEMPRESA would be paid, either a flat sum (UNEPROM) or a percentage of the interest spread on disbursed loans (CONAUPE), for the promotional, training, application preparation, and follow-up services that it provides according to the standardized systems that have been established by UNEPROM and CONAUPE.

The system is meant to reduce the banks' transaction costs of lending to microenterprises by having the NGOs (in this case a foundation) carry out these functions at an ostensibly lower cost, thereby providing an incentive for the banks to begin to lend to this entrepreneurial sector. The practical flaw in the system is that it presumes that the banks will give up functions that are essentially the lifeblood of banks, that is, the loan application, review, and approval process, particularly when the banks still are required to first, take the full credit risk and, second, when they must put up their own capital for the projects. The interest spreads in the GOE systems are simply not much of an inducement for the banks to make a concerted effort to make the program a success.

Furthermore, without a very high level of confidence on the part of a bank in the Foundation (ONG) it is working in partnership with, the system will not function well. It would, even in theory, without considering practice, take a substantial amount of time to develop the institutional capacities required of the NGOs to gain credibility with the banks, even in the best of circumstances. To develop the institutional base at the national level to implement the rediscount systems is a medium-term proposition that could not to be accomplished in a two or three year period.

The situation described above applies to all of the organizations that work through the commercial bank rediscount systems.

In terms of the FUNDIEMPRESA program specifically, three banks participated initially. They are: Banco de Pichincha, Banco La Previsora, and Banco de Tungurahua. The Banco La Previsora made a total of 126 loans through UNEPROM and 10 through CONAUPE before stopping its collaboration with FUNDIEMPRESA in May 1990 due to high arrearages of 31 percent and 50 percent respectively in the two programs. The Banco de Pichincha terminated its collaboration in June after making 9 loans of which 7 were vencidas at the time of the termination of further lending. The Banco de Tungurahua followed suit in July, terminating further participation in the FUNDIEMPRESA loans. (We did not get information on the number of loans, if any, made by the latter bank.

General consensus among the banks was that the Foundation simply was not doing a good job of loan preparation and follow-up. There was not the required level of confidence in FUNDIEMPRESA on the part of the banks to continue to lend to their clients. One bank commented that 30 percent of the applications presented did not demonstrate repayment capability. Therefore, it had to re-review all applications. This was time consuming and, furthermore the bank does not really like lending to clients it does not know. In fact, working to make microenterprise loans through the Foundation did not reduce either the work load or the transaction costs to the bank.

In response to this situation, FUNDIEMPRESA has, with very reduced amounts of its own funds, started a small fund with the Banco de Guayaquil that is used as collateral to leverage loan money at a rate of two sucres to every sucre deposited in the bank. A few loans have been made through the system.

It appears that this is not only one of the only solutions that is available under the circumstances, but also, with a larger fund, it could be a very good solution, not only for FUNDIEMPRESA, but also for other institutions in the same bind. Control over the lending process is increased, and so is the risk. With risk, more care will be taken with the loans granted and the information systems to keep track of the program. It is an excellent stimulus for the program to break away from its "employee" status with UNEPROM and CONAUPE and become more entrepreneurial in its own right.

This kind of response is becoming more prevalent and is being financed in various forms by the Inter-American Foundation through INSOTEC in Ambato and Acción/AITEC in the FED, FEE, and CORFEC through dollar denominated letters of credit drawn up in favor of participating Ecuadorian banks..

But the "solutions" ultimately will be dependent on the development of the institutional capacity to implement the programs effectively, independently of whether the NGO is working with the GOE programs or through its own credit systems. Business development, credit analysis, technical assistance, and monitoring expertise must be developed in either case.

Training and Technical Assistance

Training is done in accordance with either the UNEPROM or CONAUPE training methodology. The UNEPROM system consists of 40 hours of training in accounting (10 hours), administration (8 hours), sales (8 hours), human relations (4 hours), and credit use (what are interest rates, legal aspects of loans and the documentation, the payment schedule, etc. — 10 hours). The CONAUPE system is 18 hours of a similar array of modules. The cost of the training per beneficiary is about S/.2,500 ($3.00) of which the beneficiary actually pays only S/.500 ($0.60).

UNEPROM calculates how much of a subsidy it will give to the Foundation for training independently of the costing done by FUNDIEMPRESA. Thus, FUNDIEMPRESA has put in S/.3.9 million ($4,600) of its own funds toward the "UNEPROM" program.

Other Services

In keeping with its highly social objectives, FUNDIEMPRESA has established several other services to benefit low income people. They are:

- Life insurance policy for S/.300,000 through cooperatives;
- Free medical attention for people over 15 years old;
- Free medical attention and medicines for children up to 14 years old; (it is not clear what services are provided between the ages of 14 and 15!)
- Discount drug store;
- Discount food store (commissary);
- Dental services; and,
- A buying club type service whereby beneficiaries are referred to other businesses by the Foundation and are able to get discounts.

Beneficiary profile

Individual micro-entrepreneurs; groups, and associations of micro-entrepreneurs; professionals; students: university, technical, high school; and, people who are "truly interested" creating or improving their business and who have a high level of "entrepreneurial spirit."

Program Coverage

FUNDIEMPRESA has trained 3,119 beneficiaries according to statistics developed during our interview. According to the participating banks, loans have been made to a total of 143 beneficiaries. With the banks closing FUNDIEMPRESA out of the system, this means that there are literally hundreds of completed applications for credit that have no source of financing.

Funding Sources

FUNDIEMPRESA relies on donations from individual supporters and payments for services from UNEPROM and CONAUPE.

Operations and Management

The program lacks a management information system that would enable the managers to know exactly where the program stands in terms of accounting and other important statistical information. The information is there in some form, but our experience was that it was hard to get at concrete figures about numbers of beneficiaries and costs. There was a great deal of calculating on the spot.

While FUNDIEMPRESA was willing to collaborate with the team, and made accounting and financial information available to us, the level of these records was very rudimentary, essentially journal entries and a very nondetailed balance sheet.

It is the team's sense that the personnel of the Foundation, while very well-meaning and socially conscious, are not well-versed in business and credit. This is probably part of an explanation for the problems with the banks, not to mention a clear impression of a confrontational attitude that had formed between the manager of FUNDIEMPRESA and the banks over the banks' obligation to lend to microenterprises in accordance with the government position on their obligation to pay the "social debt."

There does not seem to be an institutional planning effort to determine goals, objectives, program directions and new ways of funding selected activities. Planning is done on the basis of the specific agreements that it has with current funding sources and seems to more of a reactive rather than proactive exercise.

Program Strengths and Weaknesses

Strengths

- The program personnel seems to be highly committed to their institution and to what it is doing with low income people.

- A fairly intensive training effort on the basis of the UNEPROM and CONAUPE agreements is being carried out and fairly substantial numbers of micro-entrepreneurs (over 3,100) have gone through the prescribed training modules.

- In addition to the business training services and channeling credit applications to the commercial banks for financing, FUNDIEMPRESA also provides a number of very important services including medical attention and discounts on breadbasket items, medicines, and other services. (This has its downside; see Program Weaknesses, #5.)

Weaknesses

- FUNDIEMPRESA is, for all intents and purposes totally reliant on other institutions and their decisions for its own economic survival. It has very little autonomy, in reality, when it comes to how to generate its own income since its has virtually no endowment to invest. A step in the right direction has been taken, however, with the small bank deposit that is collateralizing a very low level of lending activity.

- The management information systems of FUNDIEMPRESA are very weak and planning is not done, except on the very near-term and in response to already existing contractual frameworks. Using planning to begin to gain control over future activities and financing (often termed strategic planning) is not being done.

- Although the team did not meet or go on field visits with promoters or training program instructors, the banks say that the work is not adequate. Thus, FUNDIEMPRESA's credibility with the commercial banks, in terms of its function in the rediscounting systems, has deteriorated completely. (There also appear to be conflicting political viewpoints intervening in the relationship.)

- The institution is primarily socially oriented and may see its credit role as more of an advocacy function than an enterprise/business development function. Under these circumstances, one might expect less rigorous credit analysis on the one hand and credit collection efforts, on the other. This appears to be the case in this instance. If FUNDIEMPRESA really believes that the banks' obligations are to pay the "social debt", this attitude would lead one to expect high arrearages. The agenda of the Foundation is not the same as the bank's.

- FUNDIEMPRESA is trying to be more things to more people than it really has the capacity to be. Mixing highly socially motivated objectives and services, particularly if they are free, with business development objectives and credit, which should not be subsidized may not only be confusing to the beneficiaries, but also to the program staff. The question easily becomes, what is our function? Subsidized social or nonsubsidized business?

Financial Analysis

Accounting

The Foundation provided two very sparse unaudited balance sheets as of March and June, 1990, an income and loss statement as of December 1989, and copies of bank books containing income and expense records of the UNEPROM agreement.

Balance sheets are produced quarterly, but they do not appear to be used for decision making purposes. Instead they seem to be most useful for presenting credit and grant applications to potential donors.

FUNDIEMPRESA does not have policies to counter-balance the impact of inflation on its resources nor does it have accounting procedures to reflect the effect of inflation on its balance sheets. Indications suggest also that the Foundation's accounting is not able to produce financial reports by sources of funds, programs or profit centers.

The most widely used financial tool is a budget prepared and controlled for each donor, for example one for UNEPROM and another for CONAUPE. They are only integrated into one consolidated financial report once a year.

Financial Analysis

With the limited financial information received, a common-size balance sheet as of August 31, 1990 was prepared and an analysis of income and expenses as of December 31, 1989 was done. No financial ratios were prepared because they would not be reliable.

General Information (very sparce data): Most of the Foundation assets (97 percent) are invested in fixed assets in an account called long term investment which coincides with the amount reflected in an account called public net worth under Net Worth and Reserves.

In the 1989 income and loss statement, 64 percent of income was received from UNEPROM and 34 percent was self generated from charges to trainees and fund raising campaigns with the general public. About 50 percent of the UNEPROM payment was reported as surplus.

Reducing Dependency on the GOE Rediscounting Systems: Pressed by its inability to disburse UNEPROM and CONAUPE funds through the commercial bank rediscounting system, the foundation raised about S/.2.5 million from its members. This fund was deposited in a bank which agreed to lend twice that amount at commercial rates of interest to micro-entrepreneurs recommended by FUNDIEMPRESA. This approach shifts away from traditional subsidized lending and allows the foundation to control its own lending resources and program giving it improved income generating potential. It provides the foundation with new ways to fulfill its social objectives more pragmatically and reduces its dependency on third parties to make decisions that directly affect its financial and economic viability.

With the information provided we could not assert the impact of inflation on their financial statements.

Prognosis for Economic and/or Financial Viability: The foundation is not financially or economically viable. The new approach being followed with the guarantee fund and leveraged local currency loans assists FUNDIEMPRESA towards financial viability even though it is still far from achieving that goal.

Pricing and Costing of Services

FUNDIEMPRESA is heavily reliant on the UNEPROM and CONAUPE systems for funding its microenterprise program. On the basis of UNEPROM and CONAUPE programs, however, the Foundation will not be able to cover the real costs to the institution of providing the training, credit follow-up, and other ancillary services. Furthermore, there seems to be a general assistentialist attitude that micro entrepreneurs are not able to pay for the services that they receive and that FUNDIEMPRESA is principally a social service organization whose philosophy is to help the poor through subsidized services.

The foundation has agreed, however, for the bank to charge commercial rates of interest on its new line of credit (that it operates with its own funds) showing, possibly, a shift toward a more "entrepreneurial" attitude. Even so, based on the information obtained, the foundation could not continue to operate currently without continual subsidized assistance.

BALANCE SHEET - NOMINAL VALUES - (000 SUCRES)
FUNDACION FUNDIEMPRESA

ASSETS	AUG. 31, 1990		
CURRENT ASSETS	$9,927		
Cash and Banks	$500		
Investments	$5,502		
Accounts Receivable	$2,325		
Loans Receivable			
Inventory	$1,500		
Other Current Assets	$100		
FIXED ASSETS	$456,060		
Property			
Plant and Equipment			
Vehicles			
Office Equipment	$5,560		
Other Fixed Assets	$450,500		
Less Acc. Depreciation			
TOTAL ASSETS	$465,987		
LIABILITIES			
CURRENT LIABILITIES	$2,719		
Accounts Payable	$2,719		
Loans Payable			
Notes Payable			
Interests Payable			
Other Acc. Payable			
LONG TERM LIABILITIES			
Debts Payable			
Other			
TOTAL LIABILITIES	$2,719		
NET WORTH AND RESERVES	$463,268		
Social Fund	$13,268		
Public Property	$450,000		
Retained Surplus			
Current Yr. Surplus			
Inflation Readjustment			
TOTAL LIABILITIES AND NET WORTH	$465,987		

COMMON SIZE BALANCE SHEET
FUNDACION FUNDIEMPRESA

ASSETS	AUG. 31, 1990		
CURRENT ASSETS	2.13%		
Cash and Banks	0.11%		
Investments	1.18%		
Accounts Receivable	0.50%		
Loans Receivable			
Inventory	0.32%		
Other Current Assets	0.02%		
FIXED ASSETS	97.87%		
Property			
Plant and Equipment			
Vehicles			
Office Equipment	1.19%		
Other Fixed Assets	98.78%		
Less Acc. Depreciation			
TOTAL ASSETS	100.00%		
LIABILITIES			
CURRENT LIABILITIES	0.58%		
Accounts Payable	0.58%		
Loans Payable			
Notes Payable			
Interests Payable			
Other Acc. Payable			
LONG TERM LIABILITIES			
Debts Payable			
Other			
TOTAL LIABILITIES	0.58%		
NET WORTH AND RESERVES	99.42%		
Social Fund	2.85%		
Public Property	96.57%		
Retained Surplus			
Current Yr. Surplus			
Inflation Readjustment			
TOTAL LIABILITIES AND NET WORTH	100.00%		

INCOME AND LOSS STATEMENT
NOMINAL VALUES

INCOME AND LOSS STATEMENT NOMINAL VALUES	DEC. 31, 1989		
INCOME	$9,950		
International Donors			
Local Donors	$6,400		
Donations from Clients			
Interests on Loans			
Service Charges	$900		
Other Income	$2,650		
EXPENSES	$6,455		
Administrative Expenses	$6,455		
Financial Expenses			
Other Expenses			
SURPLUS OR LOSS	$3,495		

COMMON SIZE
INCOME AND LOSS STATEMENT

INCOME	100.00%		
International DonorS			
Local Donors	64.32%		
Donations from Clients			
Interests on Loans			
Service Charges	9.05%		
Other Income	26.63%		
EXPENSES	64.87%		
Administrative Expenses	64.87%		
Financial Expenses			
Other Expenses			
SURPLUS OR LOSS	35.13%		

CAMARA DE LA PEQUENA INDUSTRIA DE TUNGURAHUA
CHAMBER OF SMALL INDUSTRY

General Background

The Chamber of Small Industry in the city of Ambato was started in 1969 as a local nonprofit Association of small entrepreneurs that saw the importance and advantages of coming together in a group to help each other out and provide a firmer voice in matters of small scale business development. By 1984 the group had become sufficiently large and well established that it converted into a Chamber, giving it more influence with the government and access to government funds and other programs.

As one of the affiliates in the National Federation of Small Industry (FENAPI), it plays an advocacy role in educating the government about small enterprise and the kinds of policies that are needed to foster increased development of the sector as well as providing training through short courses and seminars and financial assistance to its members.

The 500 members are small business owners, 70 percent of whom are from Ambato, representing the following business sectors; textiles, metalworking, leather tanning, construction materials, food products, wood products, communications, and plastic products. The Board of Directors is composed of representatives of each of the sectors giving the Chamber a broad vision of the business community and climate.

Program Description

The Chamber in Ambato has several recently established programs that it operates in support of small business development.

Savings and Loan Cooperative

The newly formed Cooperativa de Ahorro y Credito is a savings and loan association that functions like any other. It has been in existence for about eight months now and has accumulated some S/.14 million ($16,500) in savings from members and a S7.5 ($8,800) million soft loan at 16 percent the first year from Swiss Contact. The National Guarantee System (Corporación de Retrogarantias) has also lent S/.10 million ($11,800) to the Cooperative to capitalize the fund at 38 percent interest which it, in turn, lends out at 45 percent. Forty loans have been made for S/.500,000 ($600) each to Cooperative members primarily for working capital. To date there is no arrearage. The service is good and the Cooperative is a help, but it is restricted in what it can do because of the very limited size of its funds.

Credit Guarantee Corporation

In order to continue to service its members as best it can, the Chamber started another independent organization in 1988 to assist members in obtaining loans. The new Corporación de Garantias is part of the National Guarantee System and made its first guarantee in September 1989. The guarantee fund has been financed by the 259 stockholders of the Corporación who each put in S/.15,000 ($17.60) initially and makes a monthly payment of S/.200 ($0.25) Each stockholder must also be an active member of the Small Business Chamber. Additionally, the fund's capital has come from the Konrad Adenauer Foundation and Swiss Contact that believe in increasing the capital base available to small enterprises as an important way to generate income and employment.

The system is a financial operation primarily that uses the funds of the Corporación to guarantee bank loans. The Corporación de Retrogarantia at the national level covers 65 percent of the credit risk of the banks, the local Corporación de Garantia 15 percent, and the local participating bank 20 percent. As of August 1990, 44 loans had been guaranteed fluctuating between S/.800,000 ($940) and S/.1.0 million ($1,175).

The process, which is just like a loan application, begins with an application for the guarantee by the member to the Corporación. The paperwork and review is what a loan officer at a bank would do. The staff of the Corporación visits the applicant and inspects the general nature and aspects of the business. A review of the proposed investment is then done at the offices and the paperwork is delivered to the Comite de Calificación (Qualifying Committee), that is composed of one member from each productive sector represented in the Chamber of Small Industry, for approval.

The Chamber recognizes that microenterprises, despite various programs such as CONAUPE, still have serious problems with access to credit. According to the Board of Directors of the Chamber, microenterprises fall within the parameters of the Guarantee Corporation's mandate and would be able to work through this system to gain more ready access to CONAUPE funds because of the arrangements with the Banco de Pichincha and the Banco de Tungurahua. Of course, the problem would be for microenterprises to come up with the S/.15,000 initial investment. There was no mention of this requirement being waived.

Proyecto de Fomento de la Pequeña Empresa Metalmecánica (PROFOPEM)

This is an interesting sector-specific effort that has received grant financing from Swiss Contact for improving the technical level of metalworking businesses in Ambato. Its offices are in the Chamber of Small Industries in Ambato. A Swiss advisor works with the staff to implement the program and provides direct technical assistance in production systems and product design. The program concentrates on improving and standardizing production systems and introducing new products to the marketplace. The Chamber of Small Industries oversees the project in order to be sure that the project is addressing specific needs of the sector. New products that are introduced are ones that are based on appropriate technologies, that adapt known systems to new uses, and that will be affordable by low income people.

An example observed, that illustrates the thrust of the program, is the design of a ox-drawn plow with interchangeable parts. Although interchangeable parts has been a keystone of production line manufacturing systems, plows in Ambato have traditionally, and right up to the present time, been produced as a single unit, custom built, if you will. Therefore, if the share broke or simply wore out, a new one generally had to be custom made. Why? Simply because the bolt holes were not placed in such a way as to be able to mount another replacement share properly.

In response, PROFOPEM has designed a very rudimentary kind of "machine tool" that simply guides the metalworker to always make the bolt holes at the same place on a standard size and shape of plow share. This kind of program has been done in Honduras (USAID Rural Technologies Project - 1981 to 1984) in conjunction with Appropriate Technologies International (ATI) and in many other places. It is not a particularly new idea, but, none-the-less, it is still a valid approach to appropriate technical change and low level manufacturing up-grading.

Other Training

The Chamber does not provide training directly and does not have its own training staff. However, it conducts periodic surveys among the membership to determine areas of specific need and then coordinates either with the National Federation of Savings and Loan Cooperatives (FECOAC) or with the National Training Service (SECAP) to implement training programs that are carried out at the Chamber offices. Courses are generally 60 hours in duration. Ten hours are focussed on the use of credit.

Although the training is not obligatory in the true sense for members to be eligible for receiving credit, there is a certain moral obligation to take the courses, because the training, in and of itself, is useful.

Periodic seminars on a variety of topics are also held and are financed by SWISSCONTACT (S/.1.5 million for 28 seminars). The Konrad Adenauer Foundation is also collaborating with grant funding for hiring instructors for lectures.

It was stated in our meeting with the Board of Directors that the short-courses that are provided are not exclusively for members. They are open to the public as a form of promotion for the Chamber in hopes that some of the nonmember participants would join as a result of their contact with the program.

Beneficiary Profile

This was an area that was difficult to pin down in terms of numbers or a definition of size, but the Board describes its membership as being very small scale businesses, but not microenterprises, although the Chamber is apparently starting to promote membership from the microenterprise sector. They are mostly involved in individually owned urban manufacturing enterprises.

Program Coverage

The Chamber has 500 members and, in this respect, influences to a certain degree this number of small enterprises. But until recently, there has not been much emphasis on direct services and the Chambers were not very functional. They were, and still are, politically oriented as advocacy groups, but currently there is a much greater emphasis on services to members as well as the broader business constituency in the Ambato Chamber. In conversations with the National Federation of Chambers of Small Industry (FENAPI), converting the image and reality of the Chambers into a functioning business support network with good strategic and operational planning and execution for the development of small and microenterprise in Ecuador was said to be the principal priority of the Executive Director of FENAPI.

In terms of the Chamber's specific programs mentioned in Section II, the principal problem is the lack of coverage due to the lack of funds in both the Savings and Loan Cooperative and the Guarantee Corporation. The Chamber made a big point of the need for subsidized financing through donations or very soft loans to increase the base of operations to expand coverage while permitting the program to continue to provide heavily subsidized financial assistance to members. This is a key point: as a matter of policy, it seems, the National Federation (FENAPI) and the individual Chambers have decided to continue to push for heavy levels of subsidy so as to be able to provide services to members below market cost. Should AID or other donors decide to channel assistance to enterprises through the Chambers, there will have to be a meeting of the minds on this issue.

One possible way to approach the problem of acceptable levels of subsidy is to look at the issue from the perspective of whether it is a loan or training/technical assistance program that we are talking about. It is proposed that credit funds should be self-sustaining and charge market rates of interest, but that training may require certain very justifiable levels of subsidy.

Operations and Management

With regard to this area, we looked specifically at the Guarantee Corporation (Corporación de Garantias) project. We found that it is a very focussed project that acts much like a loan program would that has control over and responsibility for its own funds. It has plans and projections, strong management, and very good accounting and monitoring systems. The program is not very large due to limitations on it financial base, but is financially solid. See Annex AF7 for more on the financial area. With regard to its accounting, the Corporación de Garantias de Tungurahua has been selected as a possible model by the Superintendencia de Bancos and other Credit Guarantee Corporation directors have visited Ambato to see how it operates.

Program Strengths and Weaknesses

Strengths

- It is an organization by and for small businesses in Ambato and is in continual touch with entrepreneurs and has the ability to know what business needs are. This gives the Chambers a distinct potential advantage over other NGOs, that might not have such a good feel for business problems and solutions, in designing and implementing programs that could have significant impact on business production and productivity.

- Since the Chamber represents a wide range of different manufacturing businesses in distinct industrial sectors, the Ambato Chamber would be a logical place for the continuation of sector-based approaches to small enterprise development (a notch above micro-enterprises, depending on the definitions one wishes to employ). The experiences and lessons learned from the Swiss-financed PROFOPEM pilot project in sector-specific interventions would be valuable inputs into future programming in this area.

- The Chamber in Ambato since 1988 has been very active in taking the initiative to create various financial services under its umbrella, such as the Credit Guarantee Corporation and the Savings and Loan Cooperative, in recognition that these two systems alone or in combination with each other could assist many small entrepreneurs to gain access to credit, particularly small amounts of working capital, when they need it; not six months after the crunch, which is what typically happens in credit programs.

Weaknesses

- One problem is the low volume of financial operations permitted by the small size of the funds available to either guarantee or finance credit. Thus the coverage is low.

- The apparent insistence at the Chamber and National levels in subsidies for credit that would be passed through to the members of the Chamber in the form of far below-market rates of interest on loans. This is the advocacy role of the Chamber translating itself into benefits for its constituency through subsidization. Under these circumstances, credit funds will decapitalize rapidly in terms of the real value of the assets and, ultimately will bee able to serve fewer and fewer people. Subsidized funds also lend themselves to political maneuvering given their relative scarcity relative to the demand.

Financial Analysis of the Corporación de Garantía Crediticia — Tungurahua

Accounting

The Corporation provided financial statements and related annexes, as of August, 1990. The Corporation also provided an income and expense budget for the first semester of 1990. The financial statements are detailed and their break-down of accounts seem to contain the necessary information for adequate managerial and financial decision-making purposes.

Financial Analysis

With the accounting and financial information provided by the Corporación, common-size balance and income and loss statements and financial ratios were prepared. The impact of inflation was not estimated since the Corporation has only been operating for a few months and an opening statement was not available.

Assets, Liabilities, and Net Worth: Seventy-two percent of current assets are invested in fixed term interest earning deposits. The Corporation has activated 24 percent of fixed assets which are probably the result of organizational expenses. The social fund represents 69 percent and retained surplus

24 percent of net worth and reserves. Actually, retained surpluses could be used to offset the accumulated organizational losses.

Eighty-one percent of income was generated from investments in bank deposits and 10 percent from service charges. Fifty three percent (53 percent) of total expenses were for administration.

The net profit margin as of August, 1990 was 28 percent of the net margin and represents 6.58 percent of total assets. Other profitability ratios are all positive but still very low if inflation is taken into account.

Current and self-sufficiency liquidity ratios are strong (12.9 and 10.8 respectively). The corporation is self-financed and in a sound financial position.

Addressing Inflation: It is not apparent that the Corporation has strategic policies and procedures to counter-balance the highly erosive effect of inflation on its resources. Nor does it have accounting procedures to reflect the impact of inflation on its financial statements.

Prognosis for Economic and/or Financial Viability: Economic viability and sustainability appear to be secured without considering inflation. Its financial viability will be determined by the ability of the Corporation to raise money through the sale of stock, capitalize profits and provide guarantees to sound and credit-worthy micro and small entrepreneurs. These are pre-conditions for the success of a partially self-guarantee scheme.

Usually, a bank or an insurance company provides guarantees for a fee plus inventory or real estate pledged or mortgaged to them "to guarantee" the guarantee. In this system, however, the Corporation is required to constitute its own guarantee fund from member contributions, or other outside donations, as part of the mechanism that will assume 20 percent of the risk. Under the scheme, the Corporation must put up its own resources and those direct membership contributions (that together form the Corporation's guarantee fund) as partial guarantee on any loan approved by the credit committee. Importantly, the credit committee making the decisions are members of the Corporation. It has a direct stake in loan repayment, therefore it is probable that more care will be placed on determining the quality of the loans that will be guaranteed through the system.

Guarantee mechanisms are often abused because someone other that the borrowers take the full risk of the guarantee. In this mechanism the borrowers peers - co-members of the Corporation - are all at some level of risk since they put up part of the funds for the guarantees diminishing the likelihood of abuse. Heavy drawdowns on the fund would adversely affect the accessibility of credit to the other Corporation members, possibly creating peer pressures on borrowers to repay, similar to "solidarity group" pressures for loan repayment.

The mechanism is a pragmatic one that is based on investments, calculated risk-taking, and internal income generation for the administration and growth of the fund to provide access to a guarantee mechanism to ever-increasing numbers of small/micro-entrepreneurs.

BALANCE SHEET - NOMINAL VALUES - (000 SUCRES)
CORPORACION DE GARANTIA CREDITICIA -
TUNGURAGUA

ASSETS	AUG. 31, 1990
CURRENT ASSETS	$17,453
Cash and Banks	$951
Investments	$16,500
Accounts Receivable	$2
Loans Receivable	
Inventory	
Other Current Assets	
FIXED ASSETS	$5,521
Property	
Plant and Equipment	
Vehicles	
Office Equipment	$1,072
Other Fixed Assets	$582
Acc. Losses	$3,947
Acc. Depreciation	$80
TOTAL ASSETS	$22,974
LIABILITIES	
CURRENT LIABILITIES	$1,352
Accounts Payable	$1,298
Loans Payable	
Notes Payable	
Interests Payable	
Other Acc. Payable	$54
LONG TERM LIABILITIES	
Debts Payable	
Other	
TOTAL LIABILITIES	$1,352
NET WORTH AND RESERVES	$21,622
Social Fund	$15,835
Reserves	$33
Retained Surplus	$5,459
Current Yr. Surplus	$295
TOTAL LIABILITIES AND NET WORHT	$22,974

COMMON SIZE BALANCE SHEET

TUNGURAHUA

ASSETS	AUG. 31, 1990
CURRENT ASSETS	76%
Cash and Banks	4%
Investments	72%
Accounts Receivable	0%
Loans Receivable	
Inventory	
Other Current Assets	
FIXED ASSETS	24%
Property	
Plant and Equipment	
Vehicles	
Office Equipment	5%
Other Fixed Assets	3%
Acc. Losses	17%
Acc. Depreciation	
TOTAL ASSETS	100%
LIABILITIES	
CURRENT LIABILITIES	6%
Accounts Payable	6%
Loans Payable	
Notes Payable	
Interests Payable	
Other Acc. Payable	
LONG TERM LIABILITIES	
Debts Payable	
Other	
TOTAL LIABILITIES	6%
NET WORTH AND RESERVES	94%
Social Fund	69%
Reserves	
Retained Surplus	24%
Current Yr. Surplus	1%
TOTAL LIABILITIES AND NET WORHT	100%

CORPORACION DE GARANTIA CREDITICIA - TUNGURAHUA

INCOME AND LOSS STATEMENT NOMINAL VALUES		INCOME AND LOSS STATEMENT COMMON SIZE	
INCOME	$5,459	INCOME	100%
International Donors		International Donors	
Local Donors		Local Donors	
Donations from Clients		Donations from Clients	
Interests on Savings	$4,402	Interests on Savings	81%
Service Charges	$538	Service Charges	10%
Other Income	$518	Other Income	9%
EXPENSES	$3,947	EXPENSES	72%
Administrative Expenses	$2,906	Administrative Expenses	53%
Taxes	$353	Taxes	6%
Other Expenses	$688	Other Expenses	13%
SURPLUS OR LOSS	$1,512	SURPLUS OR LOSS	28%

RATIO ANALYSIS
CORPORACION DE GARANTIA CREDITICIA - TUNGURAHUA

RATIOS	AUG.90
LIQUIDITY AND SHORT TERM SOLVENCY	
1.- Current Ratio	12.909
2.- Self-Sufficiency Liquidity Ratio	10.8
3.- Debt Ratio	5.88%
4.- Debt/Equity Ratio	8.54%
5.- Net Worth/Loans Ratio	NA
ACTIVITY (ASSET UTILIZATION)	
6.- Operating Sufficiency Ratio	10.8
PROFITABILITY	
7.- Net Profit Margin	27.69%
8.- Net Margin/Total Assets	6.58%
9.- Gross Margins of Financial Operations	8.02%
10.- Return on Capitalization Ratio	6.23%
11.- Return on Total Assets	5.86%
12.- Return on Productive Assets Ratio	7.71%

INSTITUTO DE INVESTIGACIONES SOCIO-ECONOMICAS Y TECNOLOGICAS DEL ECUADOR (APOYO AL DESARROLLO DE LA MICROEMPRESA ECUATORIANA (INSOTEC/ADEMEC)

General Background

INSOTEC was established in 1981 by private sector professionals, technicians, and researchers to address the perceived need for an organization that would serve as the technical information and research base for the small enterprise sector. INSOTEC would later concentrate on carrying out technical studies of various manufacturing/product areas in order to detect the technological and marketing requirements of the different sectors to be competitive — to increase productivity and product quality — and, perhaps most importantly, to identify business segments in which clear comparative advantages had been identified through INSOTEC's research.

Over the past several years, INSOTEC has begun to expand its activities to include, in addition to its initial research functions, direct business development interventions including credit and on-the-premises technical assistance. During the course of the Institutional Assessment, the team visited INSOTEC zone offices in Manta, Santo Domingo de los Colorados, and Ambato. The Ambato program was selected for one of the profiles due to its use of the Inter-American Foundation's credit guarantee system and its direct involvement in credit operations. The financial analysis section of this profile includes ADEMEC, but looks generally at the INSOTEC organization as a whole.

Program Description

The ADEMEC program was established in the city of Ambato in August 1988 carry on INSOTEC's general mission of supporting the socio-economic, technological, and cultural development of Ecuador. On January 19, 1989, after several months of organizing the office and training personnel, the program was officially launched.

While the program does not have a Board of Directors per se, it has what it calls a "business advisory council" that assumes many of the same functions. It is composed of 5 distinguished members of the local business community and has the mandate to be the go-between between the program and the community, in addition to its general policy functions. The Council has the responsibility to explain INSOTEC and its program to the community at large and to provide INSOTEC/Ambato with advice on new program initiatives and directions as they are identified by the Ambato business community.

The Council also has a major promotional role and will become more involved in the near future in generating increased local business support for the program through a new initiative called "empresas padrinos".

ADEMEC was established to generate income and employment and to improve the business capabilities of assisted enterprises. This would be accomplished by providing direct credit and technical assistance to very small manufacturing enterprises that demonstrate that they have the potential for growth.

Credit

The Inter-American Foundation (IAF) has been instrumental in financing ADEMEC with a donation of $333,300 that would cover operational expenses as well as a total of $100,000 for a guarantee fund. Initially, S/.20 million ($23,500 at S/.850 to $1.00) were deposited in a 120 day Certificate of Deposit (Poliza de Acumulación) in the Banco La Previsora, which was then used to leverage S/.40 million of the bank's capital to begin a special credit fund for INSOTEC borrowers. As of the end of September 1990, the ADEMEC/IAF line had grown since 1989 to S/.57.38 million. Including other external credit lines totaling S/.40.2 million, the total fund, in September, was at S/.97.58 million. Because the CD is earning interest and since the credit under the system is composed of rapid turn-over working capital loans (4 months maximum), the fund remains liquid and is growing. Additionally, ADEMEC has create a $30,000 (dollar denominated) fund earning 7.5 percent interest which has the double advantage of earning interest and is a good way to address the problem of assets erosion through inflation.

The bank has set the interest rate to the final borrower at 55 percent. In addition to this, the borrower pays 2.5 percent in taxes and a 1 percent commission on the total amount that goes to INSOTEC to help defray the costs of loan application preparation and other technical assistance and training. The minimum loan for working capital is S/.100,000, the maximum being for S/.1.0 million. To date only one loan for fixed assets of S/.800,000 has been granted. A co-signer is required and a back-up I.O.U. is also signed by the borrower. The signatures of the spouses of both the borrower and the co-signer are required on the loan documentation. The arrearage rate is 3.4 percent including those loans that have been called in due to late payments.

The loan preparation, review, and approval process for first loans takes about 45 days. Once the credit application has been completed, it is then delivered to the Credit Committee that is composed of a representative of the Provincial Camara Artesanal, a credit officer of the bank, a representative of the business community affiliated to INSOTEC/ADEMEC, and a representative of the ADEMEC staff. Once the application is approved by this committee the process ends and the loan is made. There are no further approvals at the bank level.

The loan is deposited in a savings account that must be established in the Banco La Previsora, the lender in this case. A payment schedule is given personally to the borrower and an agreement (carta de compromiso) is signed by the loan recipient.

Post-disbursement monitoring is carried out 2 to 3 times a month on average by either the Training or Credit Departments that coordinate their efforts in this area. A reminder letter is sent toward the end of the payment period. Should a loan be overdue, ADEMEC staff checks to find out why. After an office visit to discuss the matter, either the loan is brought current or, if the beneficiary cannot pay, a deferment is made if it is justifiable. A fine is assessed if the deferment is not justified and the borrower still does not pay.

ADEMEC is not limited to working with the guarantee arrangement through Banco La Previsora and has worked through the CFN/World Bank line for larger small businesses established in FOPINAR (Fondo para la Pequeña Industria y Artesania), FONADIA (Fondo Nacional para la Artesania) which is on of the Central Bank rediscount lines, and the CAF (Corporacion Andina de Fomento). ADEMEC charges a percentage according to the individual business, just as a consultant or consulting firm would, for its assistance in preparing the project profile and credit plan.

ADEMEC plans to utilize the CONAUPE system as well as another option for income generation (S/.21,000 per loan channelled and disbursed through the private commercial banks). Although the program had not started as of late September 1990, ADEMEC was projecting S/.2.0 million in income from the program by December. A the time the interview took place in late September, 40 loan applications were supposedly ready to present. In contrast to the higher rates charged through its IAF-leveraged guarantee fund, this program will adhere to the CONAUPE system eg. 39 percent interest and subsidized training.

Training and Technical Assistance

Fifteen (15) hours of training is required in order to receive a loan through any of the lines that ADEMEC employs. They are carried out in 5 three hour session during the course of a week in the evenings. Training areas covered are basic bookkeeping, administration, how to control the business, and preparation of investment projects. Once the training is provided, ADEMEC then provides follow-up that principally consists of assistance to the entrepreneur in the preparation of his/her own business profile and loan application that is presented to the Credit Committee which was described earlier.

ADEMEC also provides both direct on-premises management and technical assistance and technical short-courses at the ADEMEC offices in a number of areas including garment manufacturing, food processing and preparation, wood products, metalworking, and machinery maintenance. Direct on-premises technical assistance is provided by ADEMEC personnel in industrial engineering principally in plant distribution and production control. Management assistance is also provided by ADEMEC personnel in basic accounting, costing and pricing, business assessment, and preparation of business profiles.

Plans are drawn up for each direct technical assistance intervention and a full dosage of assistance is provided according to needs detected by ADEMEC staff and the entrepreneurs.

In cases where ADEMEC cannot provide technical orientation and training with its own staff, it has entered into agreements with organizations or individual technical experts to provide these services. For example, ADEMEC has a contract with the Facultad de Ingenieria de Alimentos of the Universidad Tecnologica de Ambato to provide training in various areas of food processing. If a beneficiary needs to have a specific machine designed and build, ADEMEC contracts with a technical expert for this work.

Beneficiary Profile

The INSOTEC Zone Chief (who is Manager of the ADEMEC Program) could not give a very precise description of their target beneficiaries other than to say that they were not micro-enterprises, which are considered by him to be subsistence level businesses. They are small, viable businesses with low levels of fixed assets and up to 10 employees, although ADEMEC's clients can have as few as 1 or 2 employees and a machine or two.

All beneficiaries are in some form of production. Ninety five percent (95 percent) are located in urban areas. The rest are rural, but involved in transformation businesses. Seventy percent (70 percent) of the beneficiaries have individually owned businesses. Seventy percent of the beneficiaries are men.

Very few beneficiaries have a university education or have a professional background. It was guessed that the average beneficiary might have a sixth grade education.

The eligibility criteria include being a card-carrying member of the Chamber of Artisans, owning your own business, and having been in business for at least one year.

Program Coverage

During the 14 month period between July 1989 and August 1990, ADEMEC had made 144 loans under the IAF program totaling S/.45.63 million or slightly over S/.300,000 ($350) on average. Forty eight (48) of the total number were second loans, thus there had been 96 beneficiaries under the program as of August.

In terms of training, 344 beneficiaries have received training and during 1990 28 businesses had received on-premises technical assistance.

Funding Sources

Of a total budget for ADEMEC of $501,680 the Inter-American Foundation has provided grant funding of $333,300, $100,000 of which is being used for a credit guarantee fund. The balance of $168,380 is being financed by INSOTEC. (See Section III of ANNEX F-VIII for more on this topic.) Additional income is generated by charging fees for services, but at the present time, these fees do not come close to covering the actual costs. In the investment plans describing the use of loan proceeds, ADEMEC is currently including the full cost of technical assistance as a part of the loan application. Thus, the beneficiaries will eventually be covering 100 percent of this cost, according to the INSOTEC Zone Chief.

Operations and Management

The ADEMEC Program is well managed and is very conscious of the need for and is doing planning for all facets of its work. It is striving to improve its level of self-sufficiency by knowing its costs of operation and then seeking financing to cover those costs either through fees and other charges or grants. INSOTEC as an institution seeks financial viability, which allows for achieving this through grants.

ADEMEC has been required by the IAF to spell out clearly its goals and objectives in the grant agreement and is currently doing one-year action plans that are well defined with projections out to three years hence. Detailed monthly and quarterly plans are also done.

Program Strengths and Weaknesses

Strengths

- ADEMEC is in control of its own credit system through the IAF guarantee and is simultaneously able to generate program income from the funds deposited with a local bank.
- It is seeking additional financing from the CONAUPE rediscounting system, but is not relying on this as its sole income source.
- ADEMEC appears to have strong, dedicated management that is professionally attuned to the administrative and financial requirements for establishing a strong, on-going program.
- The Program has linked in to the local business community through its Business Advisory Council that should help it receive legitimacy and other technical and financial support in the future.
- The Zone Chief and the program generally has developed a good reputation with the banks and should be able to operate the rediscount lines with less trouble than other NGOs in Ambato have had.

Weaknesses

- During the 14 month period from July 1989 through August 1990, its actual coverage has been quite low at 96 different credit beneficiaries and 344 entrepreneurs trained.
- The impression is that at this low volume of services given relatively high priced interventions, either the program will have to be fairly substantially subsidized or clients will have to be well-heeled enough to pay the price. If these are indeed the clients, then it stands to reason that they will be the larger small enterprises in Ambato that would be serviced and the program would experience a shift upward in the level of beneficiary base, certainly getting away from the level that the IAF would presumably wish to see as beneficiaries of its financing. (Note: This really should be classified more as a problem or concern rather than a weakness.)

Financial Analysis

Accounting

INSOTEC furnished audited financial statements for the years 1987, 1988 and 1989. INSOTEC also provided budgets for the Inter-American Foundation (IAF) Ambato (ADEMEC) and AID (PRODEPEM) projects. Also included was an Ambato progress report with statistical information.

Financial statements are prepared once a year and the level of detail and the break-down of accounts is adequate for decision making purposes, although financial reports by sources of funds, programs or profit centers are not generated. In a few months, monthly financial statements will be produced.

As is the situation in other foundations, INSOTEC's major financial, planning and control tools are separate budgets and progress reports for each project financed by external donors. At the end of the year they are consolidated into one financial report. During the year, budgets are controlled frequently.

INSOTEC has made a partial attempt to counter-balance the effect of inflation on its financial statements. In 1987 fixed assets were readjusted for inflation and the increase in value was credited to net worth.

In a not very common measure, income and losses were also adjusted for inflation. The procedure of adjusting income and losses for inflation is not common, since the resulting profit or loss is transferred to the balance sheet where it is treated accordingly. Cash assets, liabilities and net worth, on the other hand, were not adjusted and thus, the report did not reflect the real financial position of the foundation. In 1988 and 1989 the auditors made a note pointing out the deterioration of the Sucre, but made no attempt to adjust the statements. Other than this partial attempt in 1987 to adjust for inflation, and the maintenance of foreign currency denominated deposits, INSOTEC does not have accounting procedures to reflect the impact of inflation on its financial statements.

Financial Analysis

Assets, Liabilities, and Net Worth: Current liabilities increased in nominal value from 60 percent of total assets to 76 percent or from S/.33 millions to S/.165 millions. The amounts were registered as accounts payable awaiting the submission of expense vouchers to donors. Fixed assets also increased substantially in nominal terms (78 percent) over the three years under analysis. Most of the increase went to vehicles, office equipment and property. The increases came mainly from donations made by AID and the Konrad Adenauer Foundation. The social fund also increased significantly as a result of capitalizing surpluses, which in turn were mostly generated by donations.

Income provided from international donations generated between 83 percent and 88 percent of total income during the time period. Service charges increased by 68 percent in nominal terms, even though this additional income represented only 5 percent of total income in 1989. This last piece of information is significant. INSOTEC has been highly subsidized through donations to cover operating costs and has not placed high priority on generation of local resources through either fees for services rendered or local donations to support its efforts. As a whole, the organization is not shifting away from external donors as its prime source of on-going income as are other foundations, nor is doing so one of its priorities. However, its ADEMEC and PRODEPEM programs are taking shape as more full fledged consulting and credit operations. Costs and revenues are being calculated from various technical assistance and credit operations and higher levels of cost recovery are being sought.

Liquidity and short term solvency ratios are not meaningful because of the practice of registering donations as accounts payable until the expenses are made and vouchers are presented to external donors for approval.

The operating self-sufficiency ratio deteriorated from 1.9 in 1987 to 1.2 in 1989 indicating a trend towards increased international donations. Profitability ratios (net profit margin, and the net margin to total assets) are also deteriorating for the same reason.

Estimated Impact of Inflation since 1985: Because of the dollar-denominated accounts and the partial balance sheet adjustments made in 1987, it was not possible to determine the precise impact of inflation on INSOTEC resources. However, a rough approximation of the erosion of net worth and reserves ranges from 65 percent to 80 percent in three years (S/.41 million is only worth S/.8.5 millions in 1989) in 1985 Sucres or S/.26.6 millions in 1987 Sucres. The central question, and a major issue for all donors and NGOs, is how this erosion, which is common to all institutions, will be offset and what will be the impact on financial viability and the level of services that can be provided.

Prognosis for Economic and/or Financial Viability: While INSOTEC is not pursuing financial self-sufficiency as an independent goal (and it is clear on this point) if it uses the donated resources that it has at its disposal properly through intelligent investments, leveraging of local currency denominated loan funds, maintenance of value schemes for its assets and interest policies on loans made, its overall position could be very strong in terms of long-term cost recovery and income generation.

Financial viability is assured with agreements signed not only with AID and the Konrad Adenauer Foundations, but also the Inter-American Foundation, Swiss Contact, the International Center for Development Research and local public and private donors. With all these external donations, INSOTEC is sustainable at the present level of operations for at least the medium term, 3 to 5 years, and is currently developing a full scale strategic plan for the decade of the 1990s.

ADEMEC-Ambato

In early 1989 INSOTEC signed an agreement with the Inter-American Foundation to implement a $501.680 project to finance micro and small entrepreneurs. Of this amount, $333.300 is provided by the Inter-American Foundation and $168.380 by INSOTEC. Of the total, $246,300 is financing operational expenses and fixed assets and $87,000 is being used for a line of credit to finance micro and small entrepreneurs. As of July 1990, INSOTEC reported that $181,168 had been used from the IAF donation, including $70.054 for the line of credit or S/.40,405,310.

The INSOTEC/Ambato office was set up to implement this project, which is now extending to Latacunga and Cotopaxi. The office does not maintain complete financial statements on its own and the IAF agreement does not require it. It manages the resources utilizing as tools the original budget approved by IAF, periodic income and expense reports and progress statistics. These reports are sent to INSOTEC/Quito where they are consolidated once a year. Part of the last report as of September 30, 1990 was made available to us.

INSOTEC is charging for technical assistance and training at an agreed upon rate. It is also obtaining income from other donors including La Previsora for promotional purposes. In 18 months it generated S/.2.513,968 (59 percent from training, 7.5 percent from technical assistance, 23 percent from local donors for promotion and propaganda, and the remaining 10.5 percent from the sale of copies, educational material and others) and expended S/.720,775, leaving a surplus of S/.1,793,193. This surplus has been possible mainly because of the IAF donation that subsidizes program operating costs.

This office is not economically viable at present. It currently depends largely on the IAF donation. A few changes in policies like the decision to partially charge for training and technical assistance to credit users which is taking place not only at Ambato but in other INSOTEC offices as well, will eventually put INSOTEC on the black. Financial viability (not considering the impact of inflation on its credit fund) is partially being provided by the remainder of the IAF donation for credit and the commitment of the INSOTEC central office to also contribute $100,000 to increase the fund. Funds to cover operational expenses will have to be obtained either from an extension of the FIA agreement or from other sources.

PRODEPEM

AID has been subsidizing this project for a few years to INSOTEC directly to cover the difference between operating costs and charges to beneficiaries for services and through the CFN/AID Microenterprise Credit Rediscount Line. The project, which combines credit, training and technical assistance, is being implemented by INSOTEC and The Pichincha and La Previsora Banks in Santo Domingo de los Colorados, Quevedo, Manta, Portoviejo and Esmeraldas.

AID does not require INSOTEC's regional offices to have complete financial statements. It only requires audited annual income, expense and progress reports specifically pertaining to the project. Thus, like in Ambato, implementing offices periodically prepare and submit to INSOTEC/Quito the required reports where they are consolidated once a year into complete financial statements. The INSOTEC/Quito office provided us with a budget as of July, 1990 and a schedule of expenses made in July, 1990.

The total budget for the project is $2,475,000 of which $603,673 has been expended as of July, 1990 or 24 percent, most of it for operational expenses and technical assistance. As of July, the credit line had not been used.

INSOTEC is partially charging training and technical assistance based on hours of services provided to credit users. Micro and small entrepreneurs could pay these charges directly or through the operating bank where costs are added to the amounts of the loans and then transferred to INSOTEC.[1] We could not obtain income information from this program, but regional offices report that AID is financing about 90 percent of total expenses and that local generated income is deposited in savings accounts which cannot be used by the regional offices, but rather will be used when the grant funds from AID run out. In the case of ADEMEC - Ambato these funds would carry the program a month or two.

We could not ascertain the impact of inflation with the information at our disposal. However, it is always worth the effort to investigate ways by which project funds could be converted to long-term income generating assets for the project that would be protected from inflation. Converting funds into

[1] In this case, commercial interests rates are charged to credit users which will become physically available to the bank and INSOTEC when the loan is paid. Actually, what is happening is that the Bank is financing this income and the cost is transferred to micro and small credit users.

foreign currency and depositing them in an interest earning dollar denominated account might be an option. Some donor regulations permit this kind of transaction. These funds could, and are currently being used in some cases as leverage to obtain local currency from banks for the loans under the project.

It seems that this particular INSOTEC program will not achieve economic or financial viability. By the end of the project INSOTEC will have to negotiate with AID an expansion and an extension of the project or look for additional resources from other donors.

BALANCE SHEET - NOMINAL VALUES - (000 SUCRES)
INSTITUTO DE INVESTIGACIONES SOCIO-ECONOMICAS Y TECNOLOGICAS - INSOTEC

ASSETS	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989
CURRENT ASSETS	$33,369	$54,723	$165,775
Cash and Banks	$16,163	$34,123	$131,184
Investments			
Accounts Receivable	$10,755	$6,228	$14,309
Loans Receivable		$14,372	$20,282
Inventory			
Other Current Assets	$6,451		
FIXED ASSETS	$21,864	$24,219	$53,509
Property	$8,204	$8,712	$14,668
Plant and Equipment			
Vehicles	$6,158	$6,158	$22,220
Office Equipment	$10,844	$17,406	$24,375
Other Fixed Assets	$503	$1,242	$1,242
Less Acc. Depreciation	$3,845	$9,299	$8,996
TOTAL ASSETS	$55,233	$78,942	$219,284
LIABILITIES			
CURRENT LIABILITIES	$34,354	$51,531	$178,064
Accounts Payable	$28,871	$33,947	$135,387
Loans Payable	$931	$340	
Notes Payable	$4,552	$864	$8,325
Interests Payable			
Other Acc. Payable		$16,380	$34,352
LONG TERM LIABILITIES	$0	$0	$0
Debts Payable			
Other			
TOTAL LIABILITIES	$34,354	$51,531	$178,064
NET WORTH AND RESERVES	$20,879	$27,411	$41,220
Social Fund	$10,478	$14,074	$26,185
Reserves			
Retained Surplus	$10,401	$13,337	$15,035
Current Yr. Surplus			
Inflation Readjustment			
TOTAL LIABILITIES AND NET WORHT	$55,233	$78,942	$219,284

COMMON SIZE BALANCE SHEET
INSOTEC

ASSETS	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989
CURRENT ASSETS	60%	69%	76%
Cash and Banks	29%	43%	60%
Investments			
Accounts Receivable	19%	8%	7%
Loans Receivable	0%	18%	9%
Inventory			
Other Current Assets	12%	0%	0%
FIXED ASSETS	40%	31%	24%
Property	15%	11%	7%
Plant and Equipment	0%	0%	0%
Vehicles	11%	8%	10%
Office Equipment	20%	22%	11%
Other Fixed Assets	1%	2%	1%
Less Acc. Depreciation	7%	12%	4%
TOTAL ASSETS	100%	100%	100%
LIABILITIES			
CURRENT LIABILITIES	62%	65%	81%
Accounts Payable	52%	43%	62%
Loans Payable	2%	0%	0%
Notes Payable	8%	1%	4%
Interests Payable			
Other Acc. Payable	0%	21%	16%
LONG TERM LIABILITIES	0%	0%	0%
Debts Payable			
Other			
TOTAL LIABILITIES	62%	65%	81%
NET WORTH AND RESERVES	38%	35%	19%
Social Fund	19%	18%	12%
Reserves			
Retained Surplus	19%	17%	7%
Current Yr. Surplus			
Inflation Readjustment			
TOTAL LIABILITIES AND NET WORHT	100%	100%	100%

INCOME AND LOSS STATEMENT - INSOTEC
NOMINAL VALUES

INCOME	$95,975	$215,922	$397,157
International Donors	$80,120	$189,104	$348,793
Local Donors	$7,765	$18,614	$20,931
Donations from Clients		$2,502	$7,221
Interests on Loans			
Service Charges	$1,606		
Other Income	$6,484	$5,702	$20,212
EXPENSES	$91,877	$212,387	$395,459
Administrative Expenses	$5,255	$7,315	$45,229
Financial Expenses	$442	$521	$2,924
Other Expenses	$204	$16,170	$5,513
Project Expenses	$85,976	$188,381	$341,793
SURPLUS OR LOSS	$4,098	$3,535	$1,698

INCOME AND LOSS STATEMENT - INSOTEC

INCOME	100%	100%	100%
International Donors	83%	88%	88%
Local Donors	8%	9%	5%
Donations from Clients	0%	1%	2%
Interests on Loans			
Service Charges	2%	0%	0%
Other Income	7%	3%	5%
EXPENSES	96%	98%	100%
Administrative Expenses	5%	3%	11%
Financial Expenses	0%	0%	1%
Other Expenses	0%	7%	1%
SURPLUS OR LOSS	4%	2%	0%

BALANCE SHEET ADJUSTED BY INFLATION TO 1985 SUCRES (000 SUCRES)
INSOTEC

ASSETS	DEC 31, 1987	DEC 31, 1988	DEC 31, 1989	% CHG 87-88	% CHG 88-89	% CHG 89-90	87-89	% CHG 87-89
CURRENT ASSETS	$19,783	$17,471	$34,322	-12%	96%		$14,539	73%
Cash and Banks	$9,582	$10,894	$27,161	14%	149%		$17,578	183%
Investments								
Accounts Receivable	$6,376	$1,988	$2,963	-69%	49%		($3,414)	-54%
Loans Receivable		$4,588	$4,199	100%	-8%		$4,199	
Inventory								
Other Current Assets	$3,825			-100%	0%		($3,825)	-100%
FIXED ASSETS	$12,962	$7,732	$11,079	-40%	43%		($1,884)	-15%
Property	$4,864	$2,781	$3,037	-43%	9%		($1,827)	-38%
Plant and Equipment								
Vehicles	$3,651	$1,966	$4,600	-46%	134%		$950	26%
Office Equipment	$6,429	$5,557	$5,047	-14%	-9%		($1,382)	-22%
Other Fixed Assets	$298	$397	$257	33%	-35%		($41)	-14%
Less Acc. Depreciation	$2,280	$2,969	$1,863	30%	-37%		($417)	-18%
TOTAL ASSETS	$32,746	$25,203	$45,401	-23%	80%		$12,655	39%
LIABILITIES								
CURRENT LIABILITIES	$20,367	$16,452	$36,867	-19%	124%		$16,500	81%
Accounts Payable	$17,117	$10,838	$28,031	-37%	159%		$10,914	64%
Loans Payable	$552	$109		-80%	-100%		($552)	-100%
Notes Payable	$2,699	$276	$1,724	-90%	525%		($975)	-36%
Interests Payable								
Other Acc. Payable		$5,229	$7,112	100%	36%		$7,112	100%
LONG TERM LIABILITIES	$0	$0	$0	0%	0%		$0	0%
Debts Payable								
Other								
TOTAL LIABILITIES	$20,367	$16,452	$36,867	-19%	124%		$16,500	81%
NET WORTH AND RESERVES	$12,378	$8,751	$8,534	-29%	-2%		($3,844)	-31%
Social Fund	$6,212	$4,493	$5,421	-28%	21%		($791)	-13%
Reserves								
Retained Surplus	$6,166	$4,258	$3,113	-31%	-27%		($3,054)	-50%
Current Yr. Surplus								
Inflation Readjustment								
TOTAL LIABILITIES AND NET WORHT	$32,746	$25,203	$45,401	-23%	80%		$12,655	39%
INFLATION RATE	32.50%	85.70%	54.20%					
INFLATION FACTOR	1.69	3.13	4.83					

RATIO ANALYSIS
INSOTEC

RATIOS	87	88	89
LIQUIDITY AND SHORT TERM SOLVENCY			
1.- Current Ratio	1.0	1.1	0.9
2.- Self-Sufficiency Liquidity Ratio	1.9	1.3	1.2
3.- Debt Ratio	0.0%	0.0%	0.0%
4.- Debt/Equity Ratio	327.9%	366.1%	680.0%
5.- Net Worth/Loans Ratio	194.1%	133.1%	119.2%
ACTIVITY (ASSET UTILIZATION)			
6.- Operating Sufficiency Ratio	1.9	1.3	1.2
PROFITABILITY			
7.- Net Profit Margin	50.7%	62.0%	8.4%
8.- Net Margin/Total Assets	7.4%	4.5%	0.8%
9.- Gross Margins of Financial Operations	NA	NA	NA
10.- Return on Capitalization Ratio	12.6%	-64.9%	-74.1%
11.- Return on Total Assets	13.9%	-33.7%	4.2%
12.- Return on Productive Assets Ratio	7.9%	-32.5%	-18.4%

CENTRO DE INVESTIGACION, PROMOCION
Y EDUCACION POPULAR (CIPEP)

General Background

CIPEP was founded in 1982 by a group of old school friends who had known each other for many years. During the course of their friendship, they decided that there were things that could be done by their group that were important for the society at large. CIPEP was formed initially as a civic group with particular interest in adult and informal education. In 1982 the group began carrying out small locally based community education projects. In 1984 CIPEP obtained its legal status (personeria juridica) as a nongovernmental organization. In 1988, it was approached by the USAID sponsored Small Enterprise Development Program through its contractors, CARE and Fundacion Carvajal, with the opportunity to provide training and technical assistance to micro-entrepreneurs in the Manta/Portoviejo areas.

CIPEP accepted the proposition and affiliated with the Fundacion Carvajal under the MICROS Program receiving assistance in the specific development of the training program using Carvajal's materials and methodology.

Program Description

Credit

Although the Carvajal approach de-emphasizes credit as the most important input for entrepreneurs particularly considering the rather larger micro-entrepreneurs the program appears to reach, there has been, nonetheless, an important credit component in the AID Small Enterprise Development Program that has been channeled to CIPEP through CFN/FOPINAR. Despite the de-emphasis put on credit, many entrepreneurs, apparently, have been under the impression that credit access would naturally be a result of having taken the training, and paid what for them were substantial amounts up-front for the training program. When it became apparent that credit was not flowing as hoped and expected by the entrepreneurs, this began to create misunderstandings.

Although CIPEP has a small direct credit line with a savings and loan cooperative in Portoviejo collateralized by a S/.1.5 million deposit ($1.800), it is primarily a training organization that channels credit applications from selected clients to commercial bank rediscounters and used the AID/CFN/FOPINAR line primarily.

As is the case in all of the programs working through the AID-financed MICROS Program and GOE credit rediscounting systems, UNEPROM and CONAUPE, relatively few CIPEP trainees have received credit. One hundred and ninety seven (197) loans to beneficiaries have been made through CIPEP while 1,327 beneficiaries had received training. (Some data had to be reconstructed during the interview as CIPEP's monitoring and accounting data was lost due to a computer operator's error several weeks prior to our interview.) According to CIPEP, the arrearage rate is 17 percent, but the Banco Previsora in Manta was very negative and put the arrearage at 80 percent for that sucursal.

CIPEP does not currently work with CONAUPE, but is planning to start soon. The Previsora's attitude in Manta is that these loans are too small, not profitable, and does not appear to want to work with CIPEP in moving this line

Training

CIPEP was introduced to the Carvajal system and received extensive orientation and training in carrying out the methodology for training micro-entrepreneurs. Having joined the system, it would receive a subsidy from USAID/ Ecuador through CARE to cover part of the costs of the training and technical assistance to be provided. The course initially cost S/.50,000 of which S/.24,000 were covered by the beneficiary. The balance of S/.26,000 has been picked up by AID through the CARE umbrella.

Under the current system, 60 hours of training is provided in a "cycle" of two-hour sessions, although the amount of training is being reduced, in response to the costs and the lack of entrepreneurs who want to spend the money on training, especially now that the word is out that only very few will receive credit anyhow. Modules are in accounting, costs, marketing, financial analysis, and the formulation of investment projects. In the case where a beneficiary receives credit, which is slightly more than one out of 10, the training is a prerequisite.

Other Services

At the moment, the MICROS Program is CIPEP's only initiative. No other services — such as buying groups or health insurance — are provided.

Beneficiary Profile

The CIPEP Program has worked with enterprises with up to 10 employees and no more than S/.4.25 million ($5,000) in "patrimonio" in accord with the AID/FOPINAR eligibility requirements. Thirty-five percent (35 percent) of the beneficiaries are women.

Program Coverage

During the past two years, 1,327 beneficiaries have been trained, of which 35 percent were women. Of the total beneficiaries trained, 197 loans have been made through the commercial bank microenterprise rediscounting system, presumably all to different entrepreneurs.

Funding Sources

As indicated before, AID is CIPEP's benefactor currently under the MICRO's Program. A total subsidy of S/.27 million ($32,000) is projected for 1990. CIPEP is attempting to reduce the cost of its training to reflect more realistically the market for its services in order to achieve a higher level of self-sufficiency. It is beginning to show signs of entrepreneurial motivations.

Operations and Management

CIPEP, since its initiation in 1982, had never been very concerned about its future financing or survivability as an institution. However with the AID Program the big questions of self-sufficiency have taken greater importance as a larger effort and program coverage have implied greater costs and more managerial requirements. CIPEP, it appears, viewed itself as an organization that would take on small informal education projects and finance them on a project by project basis.

However, as it has gotten involved in the MICROS Program, there has been pressure to view the Small and Microenterprise training effort as an on-going program that would continue to finance itself after USAID support stopped.

The implications of this according to CIPEP management have been disquieting and the about-face in mentality has been troublesome for the institution. They are having to keep much more detailed financial and accounting records now in order to know what their costs of operation are and the question of whether there is really a market for the service they are providing at the price being charged is very important, especially in view of the lack of subsidies from AID to continue the program.

CIPEP now has a basic accounting system, an administrative manual and accounting manuals. Plans are now being prepared yearly. Procedures for credit, training and technical assistance are being developed.

CIPEP has, apparently, made progress in its own institutional development over the past year, but thinks that two years of assistance in building a viable institution is too little given the very low level from which they began. They see the importance of institution strengthening, but the process of institutional consolidation and gaining self-sufficiency is substantially longer than the two years allotted in the AID Program.

Program Strengths and Weaknesses

Strengths

- CIPEP has become aware of the importance of strong, on-going institutions to carry out development works on more than a sporadic basis. Because of its involvement with the MICROS Program, it has matured in its own perception of itself as being an entity that may not necessarily have to live off the dole forever, operating projects on a piecemeal basis, as has been the case in CIPEP's background.

- CIPEP has gained an appreciation of the difficulties and challenges of true institutional development and with more time would probably blossom into a viable institution, judging form the personal qualities and dedication of the General Coordinator. But, good intentions and charisma alone do not make strong institutions. Much more pragmatic inputs are required.

- CIPEP has a strong vocation for education and training and could develop into a good training organization in the business field.

- CIPEP has found on its own that the amount and cost of the training that it was providing had a very limited market that was quickly saturated, even with the heavy AID subsidy.

Program Weaknesses

- CIPEP has never been involved in business development programs before this one and its founders are trainers first and foremost. Instructors are selected primarily on the basis of their experience as trainers and specifically in adult education. They must be familiar with the field they will teach, but it seemed from the explanation that training as trainers was most important; at least it was first on the list of criteria for the selection of instructors.

- CIPEP is very heavily dependent on the AID subsidy to provide its services and, while it is making adjustments in its training design and costs to reflect more realistically the market for training, it does not currently have enough alternative financing to make the Program financially viable. CIPEP hopes to link into the CONAUPE rediscount system, but this has been so problematic for so many NGOs that it would be dangerous to put much stake in this as a solution. It should be viewed by CIPEP as only another alternative source of financing.

BANCO DEL PACIFICO: THE COMMUNITY DEVELOPMENT PROGRAM

General Background

The Community Development Program was implemented in 1977 as an effort of the Banco Pacifico to reach microenterprises in Guayaquil. The Bank, itself was very new at the time, and its directors and Executive President built into the By-Laws "developmentalist" provisions that implemented the philosophy that the bank should be the instrument by which some of the society's savings were returned to the lower income sectors of the community. The Community Development Program was established as an "educational credit" operation that would make loan funds available to "artisans" - before the invention of the term "microenterprise." The idea was, from the outset to have a bonafide credit program in which payback was expected. This was not to be a glorified grant program. Pragmatically, the Bank saw this as an opportunity to build a new market niche of small savers and borrowers for the bank, some of whom would become regular, profitable clients.

Program Description

Credit

The program concentrates on the provision of credit under the supposition that the principal constraint to informal sector microenterprises is access to credit at a reasonable cost. The credit component consists of two different lines that micro and small scale entrepreneurs have access to. The first level of credit, the educational credit phase, is provided to new clients under the Community Development Credit Line. Loans are provided in amounts ranging from S/.300,000 up to S/.1.5 maximum for working capital loans, and S/.500,000 to S/.1.5 million for fixed assets loans. This line charges a below-market annual interest rate of 39 percent plus a one-time S/.500 service charge for "reconocimiento de firmas" and 2 percent income tax charge that are discounted up front on concession of the loan. Loan terms range from 6 to 24 months for working capital loans and 24 to 48 months for fixed assets. Loans are not automatically renewable, but a client can receive several loans through this line.

Once a beneficiary has worked with the Bank for some time, becomes known to the Bank, and maintains a reasonable account balance, the option is then open to move to one of the Bank's formal lines, FOPINAR particularly. Although the interest is higher (47 percent) it is still below market; the amounts available are also greater and allow for business expansion. Moving into this next level (without calling the process graduation), it would appear, is a very important aspect of the "educational credit" phase.

All loans require collateral for fixed assets loans, and a co-signer, for working capital loans. By law the signatures of the spouses of the borrower and co-signer are a required in addition to those of the borrower and co-signer themselves.

The loan review and approval period is 8 days for initial and subsequent loans. Credit is disbursed through a savings or current account opened by the Bank for this purpose. The beneficiary must keep a minimum savings balance in the bank account in order to be eligible for loans. Loans are repaid in fixed quarterly installments (interest plus principal) deposited in the bank account.

Post-disbursement follow-up is provided on an individual basis to monitor the use of the loan, the status of the business, and to provide low-level technical assistance and business advise as detected during these visits. The program beneficiary receives at least one visit every three months.

Training and Technical Assistance

Training is considered a complementary service. While the beneficiaries are required to attend a mandatory four-hour orientation program (one complete morning) before a loan may be granted, the bank consciously limits the amount of time and resources expended on these activities in the recognition that much more time at this stage will probably not have any particular positive effect on the business in terms of improved management, growth potential, or its ability to pay back the loan. The training program could best be described as a general orientation to the Banco del Pacifico, the use of credit, and some of the most basic business concepts.

There are four modules in the presentation. The first deals with the philosophy and objectives of the Bank in this program and its modus operandi. The second covers the issue how business owners ought to deal with clients. The third covers basic income and expense bookkeeping and the fourth illustrates how to go about pricing a product or service.

Beneficiary Profile

Over the years, from its initial base in the poor neighborhoods of Guayaquil, the program has expanded to serve urban-based micro-entrepreneurs of Ambato, Cuenca, Machala, Manta, Guayaquil, Quito y Santo Domingo. The target entrepreneurs generally form part of the informal sector, operate businesses that have a fixed location, up 10 employees, and capital investment up to S/.1.0 million ($1,200 in current sucres) per employee. About 69 percent of the program beneficiaries are involved in manufacturing, 18 percent in commerce and 13 percent in service; 57 percent have only primary education.

Program Coverage

In 13 years of operations, the Community Development Program of Banco del Pacifico has provided credit to 4,670 micro and small entrepreneurs, of which 34 percent are women. The program has disbursed S/.2,395 million in loans that average S/.390,000 per beneficiary. Pacifico's outstanding portfolio amounts S/.1,035 million and has a repayment rate of 97 percent.

Funding Sources

The Banco del Pacifico funds this program in its entirety and makes a point of not getting into any of the GOE-operated rediscounting lines due to the hassles and red tape. It has always done the program alone and will continue to do so.

Operations and Management

The Community Development Program has access to all of the internal infrastructure of the bank to help with the management of the program. It uses the bank's accounting system and staff for the record-keeping work and uses the bank's credit information department to get references on proposed co-signers on loans.

The Community Development Program essentially has the function of promoting the program, helping with loan applications, providing small amounts of training and technical assistance, and doing loan follow-up. The Bank sees this program as another department in the Bank and appears to treat the program as it would any other area. It appears to be a well managed program that knows its systems thoroughly and carries out the work effectively. Personnel have incentives to do well in the sense that this department is considered to be a springboard into other departments and promotions within the bank.

Each office has access to information from the other offices through the bank's interconnected computer network enabling each office to know what the status of the program is in another.

Program Strengths and Weaknesses

Strengths

- The Bank has very good potential for reaching a very large number of the smallest businesses in Ecuador, certainly a greater number than currently, as demonstrated by having reached some 2,500 beneficiaries last year alone. The loan funds exist and are, to a large extent, under the control of the bank, and the administrative and managerial capacity to run a large scale program are already in place.

- The Bank has well established monitoring and reporting systems and controls. These kinds of tools are part of the very nature of banks. They need to keep track of money and other resources as a matter of course, therefore, the efficient accounting required to operate well-run business development projects is no mystery to the Bank.

- The Bank has a long-standing commitment to lending its own resources to informal sector micro-entrepreneurs and since its inception, the Community Development Program has had strong support from the Bank's Executive President.

- Although the indications are (we were not given access to program cost information) that the Community Development Program itself is not covering its costs from program generated revenues and is being subsidized internally by the Bank - the institution that houses the program is. This assures the sustainability of the program and its financial viability.

- The program methodology is efficient: promotion procedures are clear, the kinds of beneficiaries sought are understood by the promoters, loan review and approval procedures are clear and efficient, and effective follow-up is done as evidenced, in part, by a 98 percent repayment rate.

Weaknesses

- Since the Bank lends its own funds in the Community Development Line it is not clear what the real cost of this money is, that is, the opportunity cost - what they could be making by investing in other instruments or assets. However, generally below-market rates of interest are an indication of a losing business proposition. If this is the case for the Bank, it will surely limit the amount of funds available for the program which, no matter how dedicated it is to the proposition of assisting informal sector micro-enterprises, in turn, assures that the program will not be done on a massive scale.

- As a current indication of the above point #1, all one has to do is to look at the coverage of less than 5,000 beneficiaries in 13 years and the fact that the Bank has, according to our information, limited loan applications to 50 per month.

- Given the large numbers of women who own and operate informal sector businesses, the fact that women beneficiaries represent only 34 percent of the total could be construed as a weakness by some donors.

CENTRO DE PROMOCION Y EMPLEO PARA EL SECTOR INFORMAL URBANO (CEPESIU)

Origin and Nature

The Centro de Promoción y Empleo para el Sector Informal Urbano (CEPESIU) was created in 1983 in Guayaquil as a private non for profit institution. CEPESIU initially started with a research program and gradually moved into directly servicing the entrepreneur working in the informal sector. To that end, the institution implemented the Programa de Apoyo a la Microempresa (PAME), a program oriented to employment generation.

Program Characteristics

PAME provides credit, training and technical assistance to micro-entrepreneurs involved in production, service and commerce, within in the informal sector of the economy. In addition, health care services are also provided. The program operates in the urban areas of Quito, Guayaquil, and Esmeraldas.

Credit

CEPESIU operates two credit lines. The first one works with CONAUPE resources and conditions through Banco La Previsora. Loans are provided, individually or through Solidarity groups, to those entrepreneurs who meet CONAUPE's eligibility criteria.

The second credit line operates with resources from the Inter-American Foundation, and has distinct characteristics. This line only operates with artisan unions. Under this mechanism, CEPESIU and the Union create a guarantee fund with the IAF funds in the Banco Amazonas, to which the union contributes up to 80 percent of the total fund depending on its financial capacity. The fund is additionally financed with the savings of the union membership. The bank matches the fund with S/.2.5 per sucre deposited. Union members can apply for loans in amounts ranging from S/.150,000 to S/.500,000 at a below-market interest rate of 45 percent annually. Terms range from 3 to 24 months with an average of 12 months.

The loan is paid at the bank in monthly installments (principal plus interest). A co-signer is required for individual loans. The signature of the spouse, for both the co-signer and borrower is mandatory. Reloans are automatic. Loan approval and credit follow-up is done directly by the Union through a special committee created to this end.

Once the Union is able to efficiently manage the guarantee fund, CEPESIU terminates its financial assistance and stays as an advisor.

Training

Training is mandatory for all credit applicants. CONAUPE's beneficiaries follow the pre-established CONAUPE training methodology: 20 hours of training in five basic administrative courses, including business administration, accounting, and marketing.

Union members, operating under the IAF guarantee system must attend a 10 hour basic training course on motivation, basic accounting, and use of credit. Courses are imparted in five 2 hour-sessions. An additional, more intensive training course which follows CONAUPE's methodology is required in the case of second loans.

Program promotion is done directly through the Unions.

Beneficiary Profile

PAME works with the small and micro entrepreneur affiliated with unions. The target micro-entrepreneur owns a business that operates with less than 10 employees, savingS/.current accounts with less than S/.2.0 million ($2,350) and capital investments of less than S/.1.5 million or $1,750 per employee. About 23 percent of program beneficiaries are involved in manufacturing activities, and 77 percent are involved in commerce and services. Women constitute 57 percent of the total beneficiaries.

Program Coverage

As of August 1990, CEPESIU was working with 7 unions composed by 1,070 members. The programs have provided loans to 749 micro-entrepreneurs, out of which 57 percent are women. Total loans disbursed to date total S/.297.2 million ($349,647), with an average loan size of S/.297,163 ($349). The loan portfolio amounts S/.166.7 million and has a repayment rate of 98 percent. The cost per sucre loaned average S/.0.03.

Funding Sources

CEPESIU main sources of funding are the Inter-American Foundation (IAF), CONAUPE (financing for training and a credit rediscounting program through the commercial banks), and UNEPROM (financing for training and technical assistance).

Program Strengths and Weaknesses

Strengths

- The work through Unions facilitates program outreach, reduces promotion, credit delivery, and follow-up costs while at the same time promoting self-reliance.

- The loan repayment rate is 97.5 percent.
- Strong leadership and administration contributes to program sustainability.
- Strong administrative capacity, efficient credit delivery and follow-up mechanisms give the program good potential for substantial growth in coverage.
- The guarantee fund mechanism has enhanced CEPESIU's ability to multiply credit financial resources through the matching fund.
- CEPESIU provides continuous access to credit (automatic reloans) which facilitates business growth and allows the possibility for the micro-entrepreneur to engage in long-term planning.
- Credit delivery and follow-up systems are effective as shown by the good repayment rate.
- Women participation in the program is high (57 percent)

Weaknesses

- Self-sufficiency rate of the program is very low. Currently income from interest and other services can only cover 7 percent of CEPESIU's operational expenses.
- Program coverage is low, mainly due to limited resources. The program has reached 749 micro-entrepreneurs.
- CEPESIU is highly dependent on external subsidies to finance its programs.
- When there are staff changes at the bank the program outreach slows down until a new person is appointed.

FUNDACION AUSTRAL DE MICROMPRESAS (FADEMI)

General Background

The Fundacion Austral de Microempresas (FADEMI) was established in 1988 as a private non for profit organization in Cuenca to provide credit to micro-entrepreneurs. In addition, social and legal services were to be provided through the Social Assistance and Land Titling programs. Fundacion Austral is affiliated to Acción International/AITEC.

Program Characteristics

The microenterprise program has three components credit, training, and technical assistance.

Credit

FADEMI has two lending mechanisms to provide credit to solidarity groups and individuals:

- Indirect lending through a commercial bank, with resources from CONAUPE and AID. Loans under CONAUPE can only be given to microenterprises involved in production.

- Direct lending for those micro-entrepreneurs with good credit history.

Under indirect lending, FADEMI provides loans in amounts ranging from S/.200,000 to S/.3.2 million for both working capital and fixed assets loans. The interest rate paid on loans varies according to the funding source. While CONAUPE's loans are charged a below-market interest rate of 41 percent annually, AID's loans are charged at a market rate of 56 percent.

Under direct lending, loan amounts range from S/.100,000 to S/.2.0 million; interest charges are set at 57 percent annually. Working capital loans have a maximum term of 24 months and require cosignature of two co-signers; fixed assets loans have a maximum term of 36 months and require collateral. The signatures of the spouses are mandatory for both the borrower and co-signers.

The loan review and approval process takes about 21 days for the first loan and two days for reloans. Credit is disbursed and repaid through a mandatory savings or current account opened by the beneficiary at the participating bank. Loans are repaid in fixed quarterly installments, in the case of CONAUPE loans, and monthly installments in the case of AID and direct loans. Post-credit technical assistance is provided on individual basis every three months.

Training

Training in business administration is provided in 10 two-hours sessions which cover topics such as human relations, group dynamic, accounting, and legal issues. Vocational training is also provided through SECAP (Servicio de Entrenamiento y Capacitación Profesional). Training costs are covered by the beneficiary through the interest rate paid on loans.

Beneficiary Profile

FADEMI serves small and micro entrepreneurs of the urban and rural areas of Azuay, Cuenca, Cañar, Loja, Morona, Santiago, y Zamora. In order to be eligible, the entrepreneur must meet three main criteria: (a) the enterprise is the main source of income; (2) it operates with less than 20 employees; (3) it has less than S/.9.0 million ($10,600) in fixed assets.

Program Coverage

As of August 1990, FADEMI had reached 221 micro and small entrepreneurs, out of which 34 percent are women. The credit program has disbursed 334 loans for a total amount of S/.252.9 million ($298,000) with an average of S/.757,000 ($900) per loan. The program has a 93 percent repayment rate, and is 100 percent self-sufficient.

Program Strengths and Weaknesses

Strengths

- FADEMI has adopted a nonpaternalistic approach to service the small and micro entrepreneur based on charges for the provision of services.
- Long-term program sustainability is probable due to strong management capacity, strong support from the local business community, and the institutional ability to attract national and international resources.
- Affiliation to AITEC ensures on-going technical assistance in institution building and program implementation.
- FADEMI has a high potential for reaching large numbers of beneficiaries given its approach and administrative and financial capacity.
- Its systems appear to be high effective as evidenced by the high repayment rate of 93 percent.
- The program uses market interest rates on loans whenever the terms permit, CONAUPE being the exception.
- The program has been able to diversify its funding sources, thus avoiding dependency from a single source.

- A direct lending mechanism facilitates the entrepreneur a quick access to credit. The loan review, approval, and disbursement period for the first loan is long (21 days). Rapid disbursement is a key factor in servicing the small and micro entrepreneur, and in reaching large numbers of them.

Weaknesses

- Credit coverage is low. While FADEMI claims to have administrative and financial capacity to reach 2,000 entrepreneurs a year, it is reaching only 221 (about 10 percent of its capacity).

- Female participation in the program is only 34 percent while their participation in the informal economy is higher than 40 percent.

- Working capital loan terms are too long (up to 24 months), which is negatively affecting capitalization and program capacity to reach large numbers of beneficiaries.

REDISCOUNT PROGRAM SUMMARIES

Programa de Microempresas (UNEPROM)

This program was established in 1986 by the previous government to provide informal microenterprise owners with access to training and credit through a special fund denominated FODEME. The program continues to exist along side the more recent CONAUPE system. UNEPROM requires pre-credit training for potential credit recipients. The foundations are qualified by UNEPROM to provide the training and assist with the preparation of loan applications and are required to do follow-up. Unlike CONAUPE, however, UNEPROM contracts an organization for a fixed fee, much like a consulting firm, to do a specific job independently of the loan portfolio generated by the NGO. Under a new system devised by UNEPROM, payments will be staggered to link payments to contract compliance. Twenty percent is paid up front, 20 percent at 4 months, another 30 percent at 8 months, and the final 30 percent will be paid upon completion of the contracted work and review of what was accomplished.

Credit applications are presented by the intermediary NGO to the participating banks which make the decision on whether the loan is made or not. As in any of the other lines in the Fondos Financieros system (Ecuador has 21 different lines) the current spread for the participating banks under the FODEME program is 5 percent, and the banks assume 100 percent of the credit risk. Furthermore, the banks are required to put up 50 percent of the loan from their own resources. Interest to the final beneficiaries is highly subsidized at 39 percent. The incentives for commercial bank participation are not great.

At present only one commercial bank is participating and a recent agreement with the Banco Nacional de Fomento (BNF) will go into effect soon. This latest agreement, it is hoped by UNEPROM management will allow the FODEME to move much better due to the philosophy of the BNF being more in tuned with what UNEPROM is attempting to accomplish than the commercial banks.

Corporacion Nacional de Apoyo a las Unidades Populares Economicos (CONAUPE)

This system was formally initiated by the current government on August 21, 1989, in response to its desire to create a parallel system of informal sector/microenterprise assistance to the UNEPROM program that was started in 1986 by the previous government in power. A special microenterprise credit fund of some $4.7 million was established by the Central Bank in CONAUPE that would be channelled to the final borrowers through the commercial banks. This operation is set up as a typical rediscounting system.

Approximately twelve hours of business orientation and training are given to micro-entrepreneurs over a week-long period by various NGOs or so-called Entidades de Apoyo (foundations) that have been pre-qualified by CONAUPE to provide this service as a precondition to receiving credit through the system. The foundations also provide assistance to entrepreneurs in the preparation of credit applications and follow-up once the credit is provided.

The costs of training and follow-on assistance are negotiated between CONAUPE and the foundations on the basis of a cost analysis format that CONAUPE has set up and are capped at 4 percent of the amount of the projected loan portfolio to be generated by the foundations. (This is in contrast to the flat fee arrangement of UNEPROM with the intermediary foundations.) Payments to the foundations are staggered with 45 percent of the total projected budget paid up front, 35 percent of the cost of each beneficiary paid upon disbursement of the loans, and 20 percent paid on repayment of the loans.

As in any of the other lines in the Fondos Financieros system (Ecuador has 21 different lines) loan funds are provided to the banks at 34 percent (a change was imminent as of late September to lower this rate). The nominal rate of interest charged the final beneficiary is 39 percent flat calculated up front giving an effective rate of 44 percent. Two percent goes to CONAUPE that is put into a fund to provide additional financial assistance to the Foundations and 3 percent goes into a special guarantee fund (Corporacion de Garantias) that will be Affiliated to the Sistema Nacional de Garantias (National Guarantee System).

The current spread for the participating banks under the CONAUPE program is 5 percent, and the banks assume 100 percent of the credit risk. Furthermore, the banks are required to put up 50 percent of the loan from their own resources. As was the case with the UNEPROM system, there are few incentives for the participating banks given the perceived risk rate of return involved.

Corporacion Financiera Nacional (CFN)

This credit program is an extension of USAID's Small Enterprise Development Program that has supported the development of training and technical assistance NGOs in Manta, Portoviejo, Esmeraldas, Quevedo and Santo Domingo. It was started in 1989 to complement the small and microenterprise training activities carried out under the auspices of CARE/Fundacion Carvajal in NGOs in the above mentioned cities. The line is managed by FOPINAR, an institution that has a very good reputation for professional handling of these kinds of lines.

Loans are also channelled through the commercial banking system and training is a prerequisite to receiving credit through the system. However, there are some major differences from the UNEPROM and CONAUPE systems in terms of the incentives for banks to participate. First, the interest rate that can be charged by the banks is the maximum allowable by law - 52 percent to 54 percent, and is not restricted to 48 percent. And, since this is an AID donation through INSOTEC, and FOPINAR, the administrator of the line, gets only 6 percent, this means that the banks receive a larger spread. While the banks will have to assume 100 percent of the credit risk in the up-coming second tranche, they will only need to put up 10 percent of the loans from their own capital. The first tranche was even more attractive to the banks. No credit risk and none of their own capital in the loan. Unfortunately, while the line has moved quite well, it did not get started until long after originally thought and the second tranche of $600,000 has also been delayed in its implementation as well. Thus, many potential borrowers have been put on hold, and resentment has been developing due to the lack of credit, despite the fact that the MICROs program apparently has made an attempt to downplay credit and the role of MICROs affiliates in the application process. They have tried to stay away from the credit function.

CHAPTER FOUR

TRAINING AND TECHNICAL ASSISTANCE FOR MICRO- AND SMALL-SCALE ENTERPRISES IN ECUADOR

by
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OVERVIEW

Micro- and small-scale enterprises (MSEs) in Ecuador face enormous challenges in the next 10 years (1990-2000). Given the fact that Ecuador has just completed a dismal economic decade (1980-1989) in which the economic growth declined, MSEs will meet mounting issues in the near future.

Training and technical assistance are factors to consider in designing any strategy to assist this subsector in Ecuador. This section of the report provides an introduction to and the conceptual framework for this study.

Introduction

Evidence indicates that training and technical assistance can have a favorable impact on the success of MSE programs. Many experts believe, and some international donor agencies require, that training and technical assistance be a component in MSE programs because of its value added.

Other experts maintain that technical assistance and training need to be clearly defined and targeted to the level of the entrepreneur. At the lowest level, very basic, inexpensive, mind-openness are most appropriate. As firms get larger, the "felt needs" for various kinds of training and technical assistance are greater and absorption a higher probability. This minority opinion reflects a concern that training and technical assistance not be related to the provision of financial assistance. There is equal concern regarding the costs and benefits related to training and technical assistance.

There is some debate by experts concerning the relationship and treatment of training and technical assistance/advisory services. Some analysts believe that the two interventions should be considered together and that there is little difference in practical terms between the two interventions. Other specialists maintain that the two interventions should be treated separately because there are enough significant differences to warrant separate treatment. In this study the two interventions are treated separately for a number of reasons:

1. Some Ecuadorian institutions provide MSE training but not technical assistance/advisory services; several Ecuadorian institutions provide technical assistance/advisory services but not training.

2. Some Ecuadorian institutions treat training and technical assistance differently in conceptual terms. These institutions treat training as a sustained effort over a period of time with a well-defined course content, fixed setting, and with a regular training agenda. Technical assistance, on the other hand, is treated as an informal one-on-one activity and is often a requirement to obtain financial assistance.

3. MSE training is conducted on at least two levels: for the resource institutions of MSEs and for the beneficiaries. Technical assistance is also provided by the international donor agencies and the NGOs provide technical assistance to the beneficiaries.

This study uses the conventional distinction between training and technical assistance. Training refers to a predetermined sequence of classroom instruction provided to a group of people away from their place of business. Technical assistance refers to one-on-one counseling of an individual or business, usually at his or her place of business. Often in integrated micro-enterprise support programs the two elements go hand-in-hand or training is followed by technical assistance.

CONCEPTUAL FRAMEWORK

The conceptual framework for this study takes into account the principal factors or variables that go into either a training or technical assistance program. There is widespread belief among MSE practitioners that a combination of financial assistance + technical assistance + training is an acceptable approach for providing services and support to MSEs. The central questions of this study therefore center on the following critical issues:

- Should training and technical assistance be part of a comprehensive MSE affirmative action program?

- How are these activities being implemented in Ecuador at the present time?

- What are the principal opportunities and barriers for carrying out effective training and technical assistance programs?

In *Seeking Solutions* (1989),[1] the authors identified seven widespread tendencies of micro- and small-scale entrepreneurs:

- Multiple organizations;

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[1]Charles K. Mann, et al., *Seeking Solutions*.

- Closeness of business and family;
- Concern about risk;
- Invisibility and elusiveness for institutions;
- Territory and territoriality;
- Patron/client ties; and
- Multifunctional local institutions.

These authors recommend an integrated approach to development assistance, recognizing that training, alone, can have only limited success.

Michael Farbman[2] has developed a useful matrix demonstrating micro- and small-scale enterprises at three different levels of development and the appropriate development assistance at these different stages of development. Using this model as a starting place, Table 1 outlines these levels to demonstrate the so-called "graduation" factor.

TABLE 1

LEVEL OF MICRO- AND SMALL-SCALE ENTERPRISES AND APPROPRIATE DEVELOPMENT ASSISTANCE

LEVEL I	* Extremely marginal * Community-based programs and social welfare are most appropriate
LEVEL II	* Micro-enterprises that generate enough income to allow the owner to meet basic family needs * Programs organized around small informal groups of similar size entrepreneurs are most appropriate
LEVEL III	* Very small enterprises that have the capacity to grow and to enter the formal sector * Programs offering assistance to individuals are most appropriate
LEVEL IV	* Small to medium enterprises in the formal sector * Graduation to commercial bank financial assistance, advanced training, and technical assistance with user fees
LEVEL V	* Medium-scale enterprises * Commercial bank financial assistance, advanced training, and technical assistance

[2]Michael Farbman (ed.), *The Pisces Studies: Assisting the Smallest Economic Activities of the Urban Poor.* Contribution relates to Levels I-III. Levels IV and V added by author.

The setting is more complex due to certain economic and social considerations in Ecuador. Should MSE training be for economic or social reasons? As sources for this study pointed out, MSE service organizations combine and at times confuse their agendas. As will be analyzed, the principal focus of the training agenda will affect considerably the training strategies used.

Table 2 outlines the strategic considerations that decision makers must make in considering these options.

The authors of *Seeking Solutions* also have identified four major components that are most frequently found in an enterprise assistance program. They are 1) financial assistance, 2) technical assistance/extension, 3) training, and 4) social promotion. According to the authors, these four components are combined in several ways and sequences by resource institutions:

TABLE 2

ENTERPRISE DEVELOPMENT STRATEGIES

LEVELS	ECONOMIC	SOCIAL
LEVEL I Marginal	Subsistence	Assistance
LEVEL II Basic	Viability	Cohesion
LEVEL III Growth Capacity	Accumulation	Job Creation
LEVEL IV Growing	Sustainability	Integration
LEVEL V Sustained	Export Potential	Well-Being

"Particular combinations and sequences of service delivery are instructive as alternative forms of assistance. Moreover, when combined into particular models, they may differ in how appropriate they are for meeting the needs of particular types of clients."

The same authors outline six principal models that are used by most resource institutions worldwide in working with micro-enterprises:

- Individual Financial Assistance;
- Integrated Financial Assistance and Technical Assistance/Social Promotion;
- Integrated and Sequenced Financial Assistance, Technical Assistance, and Training for Individuals;
- Integrated and Sequenced Training, Technical Assistance, and Financial Assistance for Individuals;
- Group-oriented Social Promotion, Financial Assistance, and Technical Assistance; and
- Training.

As will be seen below, four of these models are used predominantly in Ecuador.

Study Objective

The study purpose is to determine the efficacy of training and technical assistance in general, and of the different training and technical assistance approaches used by the various NGOs and make recommendations to USAID/Ecuador on the approach it should follow in future training and technical assistance support activities.

The specific issues to be covered include: the need, effective demand for, and constraints to obtaining training, technical assistance, and advisory services among MSEs; the effectiveness and impact of alternative approaches to training and technical assistance, the marginal benefit of providing training and technical assistance to MSEs through NGO-type programs, the desirability of combining credit with training and technical assistance or administering these as separate activities, and the ability to develop financially self-sustaining training and technical assistance activities.

Product

The study produces findings, conclusions, and recommendations on: the quality and relevance of different training and technical assistance activities; the desirability of standardizing course contents; the desirability of standardizing training manuals; the desirability of designing different training programs for different MSE sectors and subsectors; and the appropriate role of the GOE in financing and supporting training, technical assistance, and advisory services.

Methodology

The methodology used was the following:

- Review and document the salient characteristics of the various approaches to providing training, technical assistance and advisory services by the institutions;
- Review and analyze performance statistics and problems and constraints encountered;
- Assess the financial sustainability of the training, technical assistance and advisory services offered by the various institutions;
- Survey beneficiaries in the DAI beneficiary survey to assess need and demand for the training and technical assistance by beneficiaries.

The institutions providing training and/or technical assistance are listed in Annex A. The questionnaire in Annex B was designed and implemented for some institutions. This study draws heavily on empirical data from three recent studies made of MSE beneficiaries in 1990:

- The CARE/Valinmer Study conducted in 1990 for several MICRO program institutions. A summary of some study results is presented in Annex C;

- A survey of UNEPROM institutions and beneficiaries also conducted in 1990 under USAID/Ecuador auspices. Summary of results is found in Annex D; and
- The Development Alternatives (DAI) Beneficiary Survey conducted in August 1990 as a database for this and other micro-studies. The survey results are integrated into this study.

DESCRIPTION AND ASSESSMENT OF TRAINING FOR MICRO- AND SMALL-SCALE ENTERPRISES

Training Context

Training in the Ecuadorian MSE context is quite complex. A prominent Ecuadorian MSE expert with extensive experience training MSE clients summed up it up as follows:

> "You have to realize that a large majority of micro businesses started as rural families moved into the marginal barrios of Quito and Guayaquil fleeing from rural poverty. They set up these small shops in the marginal barrios of Mapasingue and the Guasmo in Guayaquil and also in Comité del Pueblo and the barrios in south of Quito. Many could barely read and few had skills. A second group has lived in the cities but have merely eked out subsistence living with small carpenter shops, shoe stores, and other such stores. Only a few businesses have a chance for long-term growth and development. Training? These people need the basic skills first just to produce something worth buying. Second, they don't know how to sell their products and they compete with each other for the same clients. The training effort should be made but it is very difficult."

César Alarcón of the Fundación Ecuatoriana de Desarrollo (FED) adds to this analysis by identifying 10 constraints and obstacles that MSEs face, as follows[3]:

1. Lack of capital and credit;
2. Access and levels of credit;
3. Repayment capacity;
4. Quality control;
5. Administrative capacity;
6. Cost determination;
7. Confusion of ledgers;
8. Investments;
9. Marketing; and
10. Repression and Persecution.

[3]César Alarcón Costta. *Sector Informal: Problema o Solución?*

Taking the 10 constraints as a.whole, it is clear that the informal sector has some serious problems that can not be resolved with training. Alarcón's conclusion is that any development assistance program needs to take into account these constraints and obstacles if any improvements are to be made in the informal sector in Ecuador.

Reach and Access

The emphasis on affirmative action to provide credit, training, and technical assistance for some 300,000 MSEs in Ecuador began in the late 1970s and early 1980s. Some observers point out that there were earlier support programs to rural MSEs in the 1950s by the Misión Andina. The pioneer work started most likely with the Banco del Pacífico in Guayaquil, followed by the FED in Quito and the Fundación Eugenio Espejo (FEE) in Guayaquil. The first was an independent endeavor while the latter two were both supported with Acción/AITEC technical assistance and both USAID/Ecuador and Inter-American Development Bank financing. They began their efforts in the marginal barrios of Quito and Guayaquil respectively.

The Corporación Financiera Nacional (CFN) created FOPINAR in 1982 to promote financial assistance for small and medium-sized businesses. Another major impulse began in 1984 with the Ministry of Labor's UNEPROM program started under the Febres Cordero Administration. That program was designed to coordinate Ecuadorian NGOs to provide training and technical assistance to MSE enterprises and for them to make referrals for financial assistance. This effort was complemented by USAID/Ecuador's Small Enterprise Development Program that began in 1983 with support to FEE and FED and then continued with a larger program of working in secondary cities. In 1988, the Ministry of Social Welfare created CONAUPE to play another active role in MSE development through the Borja Administration by coordinating training with NGOs and through financial institutions.

The combination of efforts by international donor institutions such as USAID/Ecuador, IDB, and the World Bank to support MSE in Ecuador has turned a major chapter in the development of MSEs in the country. There has been a so-called "growth industry" of both public sector and private sector NGOs created and sustained to provide financial assistance, training, and technical assistance to the MSE sector. Several other commercial banks have also begun to provide financial assistance to MSE businesses. Today there are about 40-50 different institutions that play an active role in MSE development in the country.

SECAP, a semi-autonomous government agency, has provided training to roughly 20,000 MSE individuals who may be salaried employees or managers and 5,322 individuals who are in their so-called "popular training" program over the past five years. Their training has not necessarily been related to financial assistance. Their general objective is to provide broad-scale "popular training" for MSE participants in the areas of administration, production, marketing, and specific technical areas.

CENAPIA, another semi-autonomous government agency, has also provided training to roughly 10,000 MSE participants over the past 10 years. Its training is more focused and targeted toward MSE artisan clients.

The Instituto de Capacitación para la Pequeña Empresas Industrial (INCAPI) is a new organization started with AID funding to increase the quality of skilled labor capabilities in the Guayaquil area.

INCAPI is also supposed to broker training services for Guayas Province. The Instituto de Capacitación de la Cámara de la Pequeña Industria de Pichincha (ICAPI) does similar work in Pichincha Province. Both institutions reach clients normally at higher levels than micro-enterprises.

The other Ecuadorian institutions, all private, have provided training for about 42,000 MSE participants in the past five years.

Table 3 provides a summary of the magnitude of training for micro- and small-scale entrepreneurs during the past five years.

TABLE 3
MAGNITUDE TRAINING FOR MSE ENTREPRENEURS

SECAP Regular Program	20,000
SECAP Popular Training Program	5,322
CENAPIA	10,000
UNEPROM Program	16,000
CONAUPE Program	5,400
Acción/AITEC Affiliates	9,000
Carvajal Affiliates	3,500
Others	10,500
Total	79,722

Note: There is some unknown duplication of this data.

Approximately 80,000 MSE participants have received some kind of training in the past five years from the MSE affiliated institutions. Because this 80,000 includes many salaried employees, family members, nonmanagers, as well as those taking several different training courses, the real number of MSE managers is probably closer to 30,000. Taking out SECAP and CENAPIA, the NGO institutions report training 42,000 MSE participants (of 300,000 total or 14 percent) over the past five years. Annex E provides a more detailed summary of the institutions that provide training to MSE clients.

Phases of Training Activities

The training approaches used in Ecuador follow six steps:

1. Promotion with MSE Clients;

2. Inscription in a Basic Course;

3. Implementation of Basic Course;

4. Follow-up;

5. Implementation of Advanced Courses; and

6. Technical Assistance.

This outline of the phases in training is a complex process in common in most training programs in Ecuador. The knowledgeable reader will recognize immediately from their own experience how different organizations, international donor agencies, technical assistance institutions, and other MSE service institutions approach differently each of these six different components of the training program. This outline combined with financial assistance and other services becomes even more complex.

Table 4 provides the four models of training and technical assistance that are offered in Ecuador.

TABLE 4
TRAINING AND TECHNICAL ASSISTANCE MODELS IN ECUADOR

Model 1.	Group Orientation, Social Promotion, Financial Assistance, Training, and Technical Assistance
Model 2.	Integrated and Sequenced Training, Technical Assistance, and Financial Assistance Referral
Model 3.	Financial Assistance
Model 4.	Training Alone

There are operational differences related to the different kinds of training based on the six steps of training and the four training and technical assistance models. Table 5 outlines this phenomenon.

TABLE 5
TRAINING APPROACHES AND RESOURCE INSTITUTION SERVICE MODELS

TRAINING APPROACH	MODEL NO 1	MODEL 2	MODEL 3	MODEL 4
Promotion	High	High	NA	Low
Inscription	High	High	NA	High
Implementation	High	High	NA	High
Follow-Up	Medium	Medium	NA	Low
Advanced Course	Low	Low	NA	Low
Technical Assistance	Medium	Medium	NA	NA

Resource Institution Service Models

Following **Model 1** above, several institutions combine training, technical assistance and financial assistance in an integrated approach to provide services to MSE clients. This group of institutions follows an integrated program that provides training before receiving credit and has training as a prerequisite for receiving financial assistance. The principal institutions with this approach are:

Fundación Guayaquil
Fundación Ecuatoriano Desarrollo
Fundación Eugenio Espejo
INSOTEC
Banco del Pacífico
Fundación Banco Popular

While practices vary among these institutions the following similarities place them in the same category.

1. **Promotion.** Institutions undertake considerable promotion interest MSE clients in their programs. Trained promoters normally hold informal meetings with five to ten potential MSE clients at the same time. The program is explained in detail. Institutions do "targeting" at this stage since they are searching for the most progressive clients. In most cases, the institutions advise the potential clients of the possible credit available through their institutions.

2. **Inscription in Course.** MSE clients fill out a course registry that serves as a minimal diagnosis of their business.

3. **Implementation of Course.** Courses range from four hours (Banco del Pacífico) to 40 hours with the FED and FEE. All emphasize general administration and basic accounting.

4. **Follow-up.** Follow-up visits emphasize credit, management changes, and general problems facing the MSE businesses.

5. **Advanced Courses.** All organizations, except Banco del Pacífico, offer a more advanced course for MSE clients.

6. **Technical Assistance.** All organizations, except Banco del Pacífico, have a systematic technical assistance program for the MSE clients.

The Fundación Guayaquil's systematic approach requires that carefully selected participants take a brief "conceptual" course prior to receiving a minimal level credit. Participants receive credit after the introductory course and "graduate" to higher levels of credit and more specific training. The introductory course is for 10 hours and the participants receive S/.85,000 credit.

Both the FED the FEE offer similar programs. MSE participants are required to take training programs before receiving credit. Both institutions provide an introductory 40-hour basic administration course that includes accounting, administration, finance, credit use, and human relations. They have developed their own materials and have their own instructors.

INSOTEC follows the same pattern as above with aggressive promotion of MSEs in its regional offices located in Quito, Santo Domingo, Manta/Portoviejo, Quevedo, Esmeraldas, and Ambato. MSE clients take a 20-hour introductory course with INSOTEC training materials and instructors.

Banco del Pacífico and Fundación Banco Popular have a similar 4-hour and 10-hour introductory course respectively before MSE clients receive credit from their respective banks.

In the past eight years over 30 NGO training and technical assistance institutions have been formed that provide training and credit referrals under **Model 2**. These institutions have support from AID funds or with the government UNEPROM and CONAUPE programs. The programs are as follows:

- Fundación Carvajal and Affiliates;
- UNEPROM and Affiliates; and
- CONAUPE and Affiliates.

Often, training and technical assistance organizations provide training but have relationships with financial institutions that provide the credit. This procedure is most common with some NGO institutions such as Fundación Carvajal Affiliates, UNEPROM Affiliates, and CONAUPE Affiliates. In the case of Fundación Carvajal and Affiliates, clients are identified, trained, and referred to the financial institution who provides financial assistance.

UNEPROM has 15 NGO affiliates through 1989 and another nine NGOs initiating work in late 1989 and early 1990 who promote with MSEs and engage them in training courses. The training courses include business administration, accounting, public relations, credit use, and legal aspects of setting up a MSE. The NGOs refer the client/beneficiaries to a commercial bank to receive financial assistance.

CONAUPE follows a similar procedure with 29 NGOs who promote, recruit, train, and refer clients to the Central Bank for financial assistance.

These three NGOs differ somewhat with respect to training. Similarities in their approaches include:

1. **Promotion.** NGO institutions promote aggressively MSE clients and attempt to enroll them in their training programs. A principal concern is training because the NGOs receive payment for the training courses.

2. **Inscription in Course.** They use different registration instruments, depending on the possibilities for financial assistance.

3. **Course Implementation.** Most organizations use a 20-hour training program of basic administration, accounting, marketing, and credit use.

4. **Follow-up.** Promoters use follow-up almost exclusively for credit supervision.

5. **Advanced Courses.** Several NGOs have an advanced course in specific areas of marketing/ sales and accounting.

6. **Technical Assistance.** Fundación Carvajal Affiliates perform credit supervision.

A number of institutions provide financial assistance but not training, under **Model 3**. These are normally the government lending institution as well as several commercial banks. In some cases, however, the commercial banks are also the recipients of MSE clients who were referred from the NGOs.

Banco Nacional de Fomento
Banco del Pichincha
Banco La Previsora
Banco Consolidado

Banco Nacional de Fomento provides financial assistance only and feels that there are simply too many MSE clients for them to set-up a training program. BNF views themselves as a strict credit-providing institution. BNF does not have even a coordinated plan with SECAP nor CENAPIA to combine credit with training. The other commercial banks provide financial assistance through their own promotion or with referrals from the foundations.

Two public sector institutions, SECAP and CENAPIA, provide training but not financial assistance, under **Model 4**.

SECAP is Ecuador's national mid-level training institution. It is the largest mid-level training institution in the country and has been supported with World Bank and ILO funding for many years. SECAP does not relate training with financial assistance. In fact, there is little coordination between SECAP and credit-providing institutions. SECAP provides training to over 20,000 small and medium entrepreneurs per year in a variety of courses.

In 1989, SECAP began a new program to provide training geared more toward MSE participants. They offer three courses in 1) basic formation of supervisors, 2) middle level industrial managers, and 3) business management and direction for the small and medium business. In the first year, the three courses were offered 154 times to 2,404 participants.

CENAPIA is a semi-autonomous government institution that provides some training and technical assistance to MSE participants. CENAPIA has traditionally worked with artisan groups and has for the last ten years been a minor actor in the MSE movement.

Alternative Approaches to Training

This study found that Ecuadorian institutions have adapted and adopted their training strategies from both the Fundación Carvajal and Acción/AITEC. Table 6 outlines these two development strategies.

TABLE 6
CARVAJAL FOUNDATION AND ACCION/AITEC DEVELOPMENT STRATEGIES

CARVAJAL APPROACH

1. Six-month training package that includes accounting, costs, marketing/sales, investment projects, administration, and financial analysis.

2. Clients are required to enroll in administrative courses designed to teach micro-entrepreneurs how to manage their business.

3. Each class is facilitated by a trainer and optimally has 15 to 20 participants engaged in active discussion about their own businesses as they work through the training books.

4. Participant pays for course. Participants are sometimes discouraged from obtaining credit.

5. Participants can make requests for credit at end of the course. MICROS program does not provide credit directly to the clients.

6. Technical assistance follow-up complements the courses and participants must agree to work with the technical advisors.

ACCION/AITEC APPROACH

1. Program offered to individuals who have displayed entrepreneurial talents and who have at least one years' business experience.

2. Gradual approach in which participant takes basic administration training course and then graduates to more advanced courses.

3. Brief course of one week duration given on administration of the MSE.

4. Initial training costs are free but participant pay once they get credit and paid along with credit. Typically those MSE participants who do not get credit do not pay for the course.

5. Participants are first eligible for small loans and gradually qualify for larger loans as they repay previous loans.

7. Clients are required to maintain savings accounts in commercial banks.

The institution review identified three alternative training approaches: Broad MSE Training, Management and Administration Training, and Technical Training.

Broad Overall MSE Training

The overall MSE training approach is best exemplified in the integrated training approach used by the Fundación Guayaquil. The institution is concerned with "consciousness raising" in which the training objective is to change attitudes and behaviors of MSE participants to become "entrepreneurs." The emphasis is on the whole person. This training is motivational in nature. The approach stresses micro-enterprise managers taking control of their lives. Basic skills training is secondary to the overall training strategy.

Management and Administration Training

This popular approach includes introductory and basic courses in accounting, legal procedures, marketing, human relations, and general administration of an MSE. This approach is practiced by 80-90 percent of all organizations in Ecuador.

The DAI Beneficiary Study questioned the MSE clients about the topics that they received in their introductory or basic training. This survey covered beneficiaries from 25 different institutions. Respondents stated that they received training in:

Bookkeeping	26%
Combination of Topics	20%
Marketing	17%
General Administration	14%
Production	8%
Sales	7%
Credit Use	2%
Other	6%

All of these beneficiaries refer to the basic training programs offered by the foundations.

Technical Training

Technical training is advanced training in areas such as production, marketing, and sales. This training normally occurs after the basic MSE training program. A few NGO training institutions as well as SECAP provide specialized training in leather works, metal mechanics, and other such technical fields. Participants must pay to attend. The good examples are FEE, FED, Fundación Guayaquil, and INSOTEC.

Training Participant Profile

Table 7 provides data from the DAI Beneficiary Survey about the MSE clients who take training programs.

TABLE 7
PROFILE OF TRAINING PARTICIPANTS

	Number	Percent
AGE		
28 Years or Less	50	15
28-35 Years Old	115	34
36-41 Years Old	79	23
42-50 Years Old	64	19
51 or Over	33	9
EDUCATIONAL LEVEL		
Primary School	115	34
Secondary School	171	50
Above Secondary	56	16
TOTAL ASSETS		
Up to S/. 750,000	62	18
S/. 751,000- 1,500,000	60	18
S/. 1,501,000- 3,000,000	86	25
S/. 3,001,000- 6,000,000	59	18
More than S/. 6,000,000	70	21

Source: DAI Beneficiary Survey

Beneficiaries' Needs

Almost all MSE entrepreneurs interviewed in the different surveys state a desire to have training. This finding is noted in both the CARE/Valinmer and DAI beneficiary studies. The perceived need for training is close to 100 percent. MSE entrepreneurs want training in business administration, sales and marketing, as well as financial control of their operations. The DAI Beneficiary Survey concludes that 84 percent of MSE beneficiaries and 74 percent of the control entrepreneurs have the need for training to improve their businesses. Table II-7 shows the ranking of perceived training needs by MSE entrepreneurs.

TABLE 8
PERCEIVED TRAINING NEEDS BY MSE ENTREPRENEURS

Type of Training	Beneficiary	Control
General Administration	23%	22%
Production Techniques	20%	23%
Marketing/Sales	20%	18%
Bookkeeping	19%	13%
Management	5%	4%
Credit Use	4%	4%
Laws and Regulations	1%	2%
Other	7%	15%

Source: DAI Beneficiary Survey

Demand Assessment

Demand for training is measured by the number of MSE entrepreneurs who actually seek out training from the different institutions. There is not a strong demand for voluntary enrollment programs. The CARE/Valinmer study revealed that only about 15 percent of the MSE entrepreneurs would take training programs if not related to credit.

In cases in which training is required to obtain credit, both studies reveal that over 85 percent of the MSE entrepreneurs will take the training program. There is the obvious carrot and stick interplay in force here.

Desertion levels are low when training is combined with credit. The CARE/Valinmer study revealed that only 10 percent of participants leave the training program once enrolled. Such a low rate is achieved by linking training to obtaining credit.

Constraints to Training

The major constraints to receiving training identified were availability, access, and time. The number of existing training programs is quite limited. Training programs are normally taken at specific locales that may be distant from the MSE managers place of work. In some cases MSE managers must travel by bus up to one hour to attend a two hour training program at night. MSE managers can generally afford to take courses at night. In many cases they find that training time cuts into their other free time activities.

The DAI Beneficiary Study asked its control groups why they had not received technical assistance, training, or financial assistance from one of the NGO or MSE resource institutions. They answered as follows:

Lack of knowledge of program	49%
Did not require assistance	9%
Lack of trust in institutions	7%
Lack of time	18%
Not worth the effort	2%
No opinion	6%
Other	9%

For MSE beneficiaries, in the same survey, 60 percent felt that lack of time was a major constraint; 9 percent were felt constrained by the location and general availability of training program in their area.

Training Costs

The surveys show that training costs do not appear to be a constraint for the MSE entrepreneurs. The CARE/Valinmer study shows that MSE entrepreneurs feel the training costs are about right. That study showed the following:

- The average training program cost in their survey was S/.4,400 ($4.89) for an average 20-hour basic course, or S/.220 per hour ($.24); and

- Some other NGOs have training charges of roughly S/.10,000 ($11.11) for 20-hour course, or about S/.500 per hour ($.56).

The concept that MSE participants pay for training is an accepted fact. Participants either pay up front before taking training or have the training costs applied as administrative costs upon receiving financial assistance. The latter is more advantageous to the client.

The three surveys document the MSE clients ability and willingness to pay for training. The CARE/Valinmer study demonstrated that clients felt training costs were about right and could be increased by as much as 20 percent. The UNEPROM survey revealed that training costs were not prohibitive for the clients.

The DAI Beneficiary Study showed definitively that MSE owners are willing to pay for training courses, as follows:

- 80 percent of all MSE managers stated that they would pay for their training;

- 10 percent were not willing to pay;

- 10 percent were undecided; and

- There were no significant differences between beneficiaries and control groups (80 percent vs 78 percent) who were willing to pay for training.

This means that there is a good reservoir and opportunity to expand training. This would seem to support the NGO directors affirmations also that MSE managers want and are willing to pay for training.

Training Duration

Training duration does not appear to be a constraint even though many participants in the Valinmer study stated that time constraint is a factor for not attending training courses. Clearly 85 percent of the participants stated that the training duration was about right.

The DAI Beneficiary Study showed the following results related to course duration:

- 37 percent of MSE owners preferred short term courses with members of the same subsector;

- 28 percent preferred short-term courses with mixed sector groups;

- 24 percent preferred longer courses over 80 hours duration;

- 4 percent preferred informal and sporadic seminars.

This survey generally supports what most NGO institutions now practice. They are providing short-term courses for both mixed subsectors and also by subsectors. The survey also indicates that MSE owners want and would attend longer-term training courses.

In that same survey, MSE beneficiaries took these courses with the following duration:

10 Hours or less	8%
11-20 Hours	17%
21-30 Hours	23%
31-50 Hours	28%
51-80 Hours	17%
More than 80 Hours	4%

Combination Credit with Training

There are both advantages and disadvantages of providing training combined with credit. This data is revealed in the surveys and in interviews with key informants.

There are advantages to providing training programs that are linked to credit. The MSE client prepare in advance to use the credit. The courses stress good management practices, accounting, marketing/sales, and practical uses of credit. A controlled environment allows the MSE client to demonstrate his or her credit skills. The more acceptable approaches are those used by FEE, FED, Fundación Guayaquil, Banco del Pacífico, Fundación Banco Popular and INSOTEC. The MSE client graduates to larger credits combined with more advanced credit. Other advantages include the technical information and backstopping roles that NGO technical advisors provide to MSE clients.

Of course, there are disadvantages as well. The failure of many NGOs to deliver and refer clients for credit. This creates poor relationships, poor credibility, and weak linkages in the system. Often, NGOs play a somewhat paternalistic role in their relationship with MSE clients.

Both the DAI survey and the Valinmer study reveal that MSE entrepreneurs want an integrated program of financial assistance, training, and technical assistance. Although both studies should be reviewed with some skepticism because the way the questions were posed, they do demonstrate a healthy environment for maintaining integrated development assistance programs.

There is resentment by the MSE clients who take training but then do not receive credit. Both the UNEPROM and CONAUPE programs have been criticized heavily by MSE clients for promising financial assistance and then not providing that financial assistance. All three surveys demonstrate that roughly one out of ten MSE clients in those two programs actually received credit. Many MSE clients felt that the NGO foundations were interested primarily in "required" training with no assurances to provide financial assistance.

The four credible organizations, and exceptions to this rule, are FED, FEE, the Fundación Guayaquil, and INSOTEC. In these cases over 90 percent of the MSE clients receive credit after taking training.

These same institutions have the best records for repayment of loans: Fundación Guayaquil (99 percent), Fundación Eugenio Espejo (99 percent), Fundación Ecuatoriano de Desarrollo (97 percent), and INSOTEC (98 percent).

Self-sustaining Training Activities

It appears that all NGO training institutions require some measure of subsidy. For those NGO institutions receiving a fee for training services, this can represent up to roughly 50 percent of their training costs. The principal reason stated is that the credit lines are of minimal amounts so that a 4-5 percent fee on the loan only represents about S/.10,000- S/.20,000 for the training course. Actual training costs per beneficiary range from S/.15,000- S/.30,000 for a 20-hour course.

International donor agencies such as the Inter-American Foundation realize that training self-sufficiency is virtually impossible and have specific line items for training clients. They have come to the conclusion that the credit lines are too small to cover training costs.

Other NGOs, such as the Fundación Guayaquil, take a gradualist approach in which the training costs are highly subsidized for their introductory course and then gradually less subsidized as the MSE client progresses in the program.

NGO sources believed that it was quite difficult to have self-sufficient training programs. Indeed, none felt that training should be self-sufficient. Many felt this training was a social good such as public education or the training that was offered by SECAP.

Training Methodology

Instructors

NGO training institutions use several types of instructors. Most NGO institutions use advanced university students, high school teachers, university professors, and other professionals including lawyers, accountants, and engineers. For the most part these are part-time instructors contracted for individual training programs. In some cases the NGO institutions use the same instructors as SECAP.

Veteran NGO institutions have a fairly sophisticated selection process for obtaining instructors. Instructors are screened for empathy with the MSE community. INSOTEC uses a scholarship system whereby instructors are tested as promoters before going into the classroom. Fundación Guayaquil obtains their instructors by word-of-mouth and by detailed references.

Instructor Training

Normally, NGOs their own training of trainers. Many veteran NGOs have had training workshops; some sponsored by the international donor agencies. These are normally one or two days workshops that provide the instructors background in the technical matter, review of the curriculum, and some emphasis on teaching methodology.

There are several goods examples of institutionalized training of trainers. The Carvajal Foundation has a very substantial training of trainers program using their well established program in other countries. Acción/AITEC provided considerable attention in this area in the early years of their technical assistance with FED and FEE. The Banco de Pacífico has its promoters complete a regular training program at its training centers in Quito and Guayaquil.

Generally, the estimated 400 instructors in the nationwide effort receive very little prior orientation before teaching classes. Almost all NGO managers interviewed stressed instructor training as a major barrier or constraint to program success.

Training Materials

Training materials used come from a variety of sources. The basic training materials have their roots in the training materials of the FEE, FED, and the Fundación Carvajal training materials. Even though some NGO organizations claim that their materials are original, upon reviewing many different NGO training materials by different organizations, it is fairly clear that there are common roots for much of the training material in Ecuador.

UNEPROM has published a series of "cartillas" for use in training with MSE clients. The FEE was contracted to write these notebooks with UNICEF funds. The notebooks are 10-12 pages each in length, have a photonovella format, and are easy to read. MSE clients can take the materials home to study.

INSOTEC has developed its own training materials borrowed from a variety of sources. They also follow a photonovella format. In addition, INSOTEC has developed an exercise book in which participants are required to work out solutions to problems during the classroom work.

Teaching Methodology

NGO managers state that almost all training is based on a straightforward stand-up approach. The method includes lectures, classroom instruction, and some problem solving techniques. In interviewing over 20 NGO managers, they stated that the information was so basic that it was necessary to simply "tell" the participants the kinds of information needed.

The Valinmer study showed that 74 percent of MICRO participants and 81 percent of FED/FEE clients thought the teaching methodology was adequate. Clearly 90 percent in both groups would participate in a similar program.

The UNEPROM study had similar results with 86 percent of MSE clients stating that the teaching methodologies were adequate.

Training Effectiveness and Impact

In assessing training effectiveness and impact, always a difficult area to study, a more common approach is to ascertain results on four levels: training satisfaction; new knowledge, skills, and information; attitude change and a predisposition to change and to put into action; practice and putting into operation concepts learned from the training program.

Table 9 shows the general results based on the assessment of the beneficiary surveys. Each survey concentrated on different effectiveness and impact factors. The results shown are rough averages and a summary of these findings.

TABLE 9
TRAINING EFFECTIVENESS AND IMPACT

Training Satisfaction	85%
New Information	75%
Disposition to Change	50%
Practice Change	15%

Source: DAI Beneficiary Survey

Training Satisfaction

At the first level, the surveys reveal that the MSE beneficiaries are generally satisfied with course content, teaching methodology, instructor competence, and training materials. This is normally a prerequisite for transferring information to the training participants.

The CARE/Valinmer survey, which focused in on this training aspect more than the other surveys, reveals acceptance rates by training participants higher than 85 percent for all of these four factors.

The DAI Beneficiary Survey showed that of the beneficiaries who had received training, 38 percent of the participants thought the training was very good; 56 percent thought the training was good; and 5 percent thought the training average. The DAI Beneficiary Survey also assessed training satisfaction in accordance with the institution providing the training. The study had 25 institutions who identified having provided training to the MSE clients. Table 10 shows the 21 institutions listed with the number of cases studied (sample) and the percentage of participants who rated the training of that institution either good or very good.

TABLE 10
PARTICIPANT TRAINING SATISFACTION BY INSTITUTION

INSTITUTION	NO. CASES	PERCENTAGE
INSOTEC	47	96%
CIPEP	28	93%
FUNDQUEDO	7	100%
CONAUPE NGOs	10	100%
UNEPROM NGOs	6	100%
FUNHABIT	19	100%
FUNDACION AUSTRAL	13	100%
Banco del Pacífico	23	96%
Fundación Guayaquil	3	100%
FUNDESCOL	10	90%
CEPESIU-CTE	12	92%
SECAP	44	98%
Fundación Banco Popular	17	100%
CORFEC	13	85%
Fundación Simón Bolívar	5	60%
Fundación Quitus	6	100%
Fundación Huancavalica	9	100%
Fundación Rocafuerte	16	100%
FUMICRO	3	100%
Universidad Católica Guayaquil	7	86%
Fundación Ecuatoriana de Desarrollo	44	91%

Source: DAI Beneficiary Survey

The participant training satisfaction levels are very high, with one exception, demonstrating that at this level participants are generally satisfied with training.

New Information

At the second level beneficiary participants report increased knowledge, skills, and awareness. For many MSE entrepreneurs the training courses are the first contact with an organized training program. The Valinmer/CARE survey revealed that over 85 percent of the beneficiaries obtained new information, such as accounting procedures, business management, and marketing/sales. Seventy-five percent of the DAI survey participants responded that most, if not all, of the course information was new to them. NGO sources agree that the training programs provide initial information that was not previously available to the MSE clients.

Attitude Change

Interviews with NGO directors revealed that training contributed to attitude changes such as moving MSE entrepreneurs from "objects" into "subjects". The Fundación Guayaquil approach emphasizes this "whole person" rather than content-specific approach. Both the Fundación Eugenio Espejo and the Fundación Ecuatoriana de Desarrollo place emphasis on this approach to some degree. This approach is less prevalent in the UNEPROM-sponsored training.

The DAI Beneficiary Study requested perceptions regarding the applicability of the information received:

- 35 percent of the participants felt that most information could be applied;
- 52 percent thought that some information could be applied to their businesses; and
- 8 percent of respondents stated that none of the training could be used at all.

Practice Change

At the fourth level, putting into practice training, there are some data that shows some levels of changes in operations. These survey results must be viewed with some skepticism as none of them probed deeply into identifying actual practice changes.

The Valinmer study of the six NGOs who provide training in the MICROS project revealed that:

- 35 percent of participants detailed changes in better administration; 27 percent in better sales; and 15 percent in better control of production; and
- 39 percent of participants had some perceived changes in business operations.

The Valinmer study also evaluated impact based on changes in the areas of 1) legal situation, 2) number of increased employees, 3) changes in machinery and tools, 4) purchase of property, 5) increased sales, and 6) general coverage of costs. They found the following changes:

- No significant changes in MSE firms in legal status based on training nor with financial assistance;
- In employment generation, clients receiving only training had an increase of .28 employees during the period January 1988- December 1989. This rises to .84 new employees with a combination of financial assistance and training;
- In the five foundations surveyed, there was an increase of 618 new jobs created during that two-year period; 490 new jobs created through the FEE and FED programs during the same period;
- Regarding machinery and tools, there was a 140 percent increase of micro-enterprises in re-investing during this period of those who received financial assistance and training combined; a 81 percent increase of those who received training alone. FED/FEE participants showed a 80 percent increase during the same period. The control group of the study had a 9 percent increase in re-investment in machinery and tools;
- There was virtually no changes made in purchase of properties during the period January 1989-February 1990. Only a 4 percent increase in the purchase of property; and
- In sales, MSE firms receiving both financial assistance and training had an increase in sales of 194 percent; 62 percent with training alone. The control group had a 25 percent increase during the

same period. The FED/FEE clients had an increase of 110 percent sales during the same period. The infla . rate was about 60 percent during this period. This means that training alone did not assist in increasing sales.

The UNEPROM study of nine NGOs in that program showed that only an average number of changes were taking place in their MSE client businesses, as follows:

- About 50 percent of the beneficiaries had made some accounting changes in their businesses because of the training program;

- There is much less impact for marketing and sales practices and almost no changes in the legalization of the businesses;

- The study concludes that there was not enough emphasis on practical application to induce the MSE entrepreneurs to change their practices;

The DAI Study was not able to assess a clear causal relationship between training and putting into practice certain administrative or operational procedures. Nevertheless, the survey asked each group if they were using certain accounting procedures; with the following results.

ACTIVITY	BENEFICIARIES	CONTROL
Maintains a General Ledger	21%	11%
Maintains Daily Ledger	59%	33%
Maintains Financial Statements	25%	12%
Maintains a Payroll	16%	7%

The DAI Beneficiary Study also collected data on participant training satisfaction, new information, and practical use of training according to age, educational level, and total assets of the participants. Table 11 shows the results of this assessment.

TABLE 11

PROFILE OF TRAINING PARTICIPANT USE OF TRAINING
BY AGE, EDUCATIONAL LEVEL, AND ASSETS

	TRAINING SATISFACTION	NEW INFORMATION	PRACTICAL USE
AGE			
28 Years or Less	96%	80%	40%
28-35 Years Old	92%	66%	39%
36-41 Years Old	94%	72%	43%
42-50 Years Old	98%	83%	47%
51 or Over	100%	85%	45%
EDUCATIONAL LEVEL			
Primary School	97%	86%	31%
Secondary School	95%	72%	47%
Above Secondary	91%	61%	45%
TOTAL ASSETS			
Up to S/. 750,000	95%	81%	31%
S/. 751,000-1,500,000	97%	82%	45%
S/. 1,501,000-3,000,000	98%	77%	41%
S/. 3,001,000-6,000,000	91%	66%	53%
More than S/. 6,000,000	96%	70%	43%

Source: DAI Beneficiary Survey

A couple of findings are worth noting. Training appears to be more useful when the educational levels are higher. This may indicate that the participants are able to take greater advantage of training at higher educational levels. At the same time, however, there is less new information imparted also at increased levels of education.

The DAI Beneficiary Study, in attempting to determine multiplier effects and spread effects of training, asked both MSE beneficiaries and control groups if they knew of other people who had received training lately and if that training had helped others in their businesses.

- 38 percent respondents knew of someone else trained while 55 percent did not; and 8 percent did not know; and

- 43 percent of MSE beneficiaries knew of others who had received training.

This means there is a medium level spread effect taking place and could be a positive sign if NGO managers could take advantage of having MSE beneficiaries become proponents of telling others to receive training.

The same study also questioned MSE managers concerning combining training and technical assistance. Here there is a significant positive statement that training and technical assistance should be viewed as an integrated package.

- Overall, 69 percent of the people interviewed would prefer training and technical assistance combined; 21 percent only training, and 3 percent who would prefer to have technical assistance alone; and

- MSE beneficiaries who have at least had training state a clear preference (74 percent) for a combination of training and technical assistance.

The DAI Beneficiary Study set-up a mini attitude and behavior survey that was to determine attitude changes by comparing opinions and attitudes between MSE beneficiaries and the control group. The questions were based on validated questions that measure such differences. Table 12 presents the issues and the comparisons with percentages of agreement or complete agreement with the statement.

TABLE 12
MSE ENTREPRENEUR ATTITUDES AND PRACTICES ON KEY ISSUES

	ISSUE	BENEFICIARY	CONTROL
1.	I can change my business only with more training and/or TA	67%	63%
2.	Normally a person should pay for training or technical assistance because the benefits are for them.	67%	62%
3.	The government has the obligation to help micro-businesses because they have to compete with larger businesses.	91%	90%
4.	I can compete favorably with medium and larger businesses if I am prepared and I have my own plans.	91%	81%
5.	I make decisions in my business with adequate information.	96%	83%
6.	I take risks in my business when I think there are possibilities of benefits.	95%	94%
7.	I like people that follow the rule "work first and then play".	98%	95%
8.	My biggest problems in my business are based on my own decisions.	55%	48%
9.	I like to compete and I am willing to do so.	92%	89%
10.	Lately, I have put into practice a new change in my business that has had favorable results.	69%	36%

Source: DAI Beneficiary Survey

The conclusions of these surveys and of NGO interviews is fairly positive regarding training. A few highlights:

- There is positive attitude by all MSE business owners about their businesses and their ability to make changes in their businesses. The only exception is that there are exogenous factors that can impede business growth and development;

- Both MSE beneficiaries and other MSE managers with no interventions have similar positive attitudes;

- There are significant differences of MSE beneficiaries and control groups putting into practice changes in the business. There could be some strong argument that MSE beneficiaries are putting into practice new operations based on the combination of credit, training, and technical assistance;

- NGO key informants are generally pleased with the results they are getting from their training programs. They state affirmatively that MSE entrepreneurs are making changes in their business operations; and

- Training is generally well received by the participants and does have the opportunity to induce changes in the MSE businesses.

The general conclusion, therefore, through a variety of surveys is that there are some fairly positive things happening in training that warrant continuation

TECHNICAL ASSISTANCE AND ADVISORY SERVICES FOR MSEs

Technical assistance and advisory services (TA/AS) for both resource institutions and MSE clients are assessed here following criteria similar to that applied in the previous training analysis. The analysis is reduced in scope due to its limited nature.

Contextual Framework

Two levels of technical assistance/advisory services should be considered in the MSE context:

- Technical assistance to resource institutions; and
- Technical assistance to MSE clients.

Before engaging in this analysis it is worthwhile to place these two specific interventions into the larger Ecuadorian context.

Technical assistance and advisory services in Ecuador are at a low level of development for most businesses. In the private sector only the larger Ecuadorian businesses use TA/AS. The TA/AS used is normally for specific technical issues and, in some cases, accounting and tax reporting. These larger firms tend to use accounting firms for maintaining books. There is less use of TA/AS for organization, management, marketing/sales, and technical advice.

The National Development Council (CONADE) in 1989 had 75 consulting firms registered; only 25 of these firms affirmed providing technical assistance and advisory services. In real terms fewer consulting firms are active in providing technical assistance and advisory services.

The public sector uses international consulting firms for technical assistance and with international donor funding. Only occasionally do public sector institutions use national firms for technical assistance and advisory services.

Interviews with commercial bank officials revealed that there is no system for technical assistance/advisory services for small, medium, and large-scale businesses who request financial assistance. A Banco del Pichincha official reported that he provides names of firms who can provide the necessary feasibility studies and financial analysis to obtain credit. Bank officials from the Banco La Previsora and Banco del Pacifico reported the same practice.

FENAPI reports that only a fraction of the 7,000 medium- and small-scale Ecuadorian businesses use TA/AS, claiming there is no conducive environment for using outside assistance. This author, in another 1989 USAID/Ecuador-funded study, interviewed 50 nontraditional product exporters and found only three firms that used TA/AS.

In Ecuador's commerce, service, and manufacturing sectors, TA/AS is almost unheard of. Entrepreneurs typically approach commercial banks or government agencies for financial assistance.

Very few credit officers go to the field. Recently, this author trained 40 CFN/FOPINAR staff and bank officials in "enterprise extension" strategies. Only a handful of these professionals felt they had the opportunity to go to the clients' businesses to provide technical assistance; almost all of these loan officers representing CFN and seven commercial banks stated that their institutions frowned on client visits. They stated that their institutions preferred the clients to come to their offices.

It is not surprising, therefore, that micro- and small-scale enterprises do not have the experience to seek out, receive, or pay for TA/AS.

Technical Assistance to Resource Institutions

Table 13 demonstrates the results of technical assistance in the areas of institution building, training of trainers, resource institution staff training, and in strategic planning.

TABLE 13
TECHNICAL ASSISTANCE TO RESOURCE INSTITUTIONS

INSTITUTIONS	CLIENTS	TYPE OF ASSISTANCE
Carvajal Foundation	Secondary City Institutions	Strategic Planning Training Strategies
ACCION/AITEC	FED and FEE Secondary City Institutions	Strategic Planning Training Strategies Administration
Inter American Foundation	NGO Clients	Strategic Planning
INSOTEC	Secondary City	Strategic Planning
UNF[illegible]OM	NGO Clients	Strategic Planning
CONAUPE	NGO Clients	Strategic Planning

The major technical assistance institutions have been the Fundación Carvajal, Acción/AITEC, Inter-American Foundation, and INSOTEC. Each has made a unique contribution to supporting training, and providing technical assistance so that the Ecuadorian resource institutions can, in turn, work more effectively with MSE clients. Financial and institutional support has come from the international donor agencies such as USAID/Ecuador, Inter-American Development Bank, and the World Bank.

Acción/AITEC has worked during the past eight years to support FEE and FED in establishing strategic plans for MSE service programs. Acción/AITEC has also worked in coordination with the Fundación Carvajal and CARE to found and support nine NGOS in secondary cities. Technical assistance has supported MSE programs, financial assistance mechanisms, and training programs.

Fundación Carvajal has been a leader in providing technical assistance to the nine NGOs in the USAID/Ecuador Small Enterprise Development Project. Its many years of experience in Colombia has assisted in setting-up NGOs in secondary cities, training, and providing technical assistance to new foundations.

The Inter-American Foundation, through its national representative COMUNIDEC, has provided both financial support and technical assistance to up to ten Ecuadorian NGOs, including INSOTEC, so that those organization can serve the MSEs. It has played an active role in the past five years.

INSOTEC has played a strong role in training and in providing technical assistance to Ecuadorian NGOs by training NGO promoters, developing training and technical assistance materials, conducting research, and sponsoring promoter workshops.

Both UNEPROM and CONAUPE have supported Ecuadorian NGOs with training and technical assistance. They have run workshops, conferences, and have provided training to NGO staff in how to provide technical assistance to MSE clients.

At this first level, therefore, there has been considerable technical assistance provided by both international consulting firms, international donor agencies, and several Ecuadorian NGO and public sector institutions. Each institution has brought its own "contending approach" about the most effective way to deliver services to MSE beneficiaries. Apart from the roles and relations of these organizations, technical assistance in general has been quite positive and even-handed.

NGO directors maintain they have received good to excellent technical assistance from their international and national supporters. FED and FEE, for example, give high marks to Acción/AITEC over the past decade. The IAF clients are most impressed with the continued support provided by that organization. Carvajal Foundation clients provide adequate evidence of good technical assistance to their client NGO organizations.

Technical Assistance to MSE Clients

Technical assistance to MSE owners typically has two objectives: 1) generation of additional income for the micro producer and family, and 2) creation and maintenance of productive employment. Variation of income requires careful study of how the micro producers can vary their production, sales, and increase net gains. The technical assistance should permit the micro producers to improve efficiency, reduce costs, increase production, and diversify the business activities to modify income.

Increasing employment entails creating new jobs through increased production as well as maintaining employment. A number of technical assistance advocates stress "accumulation" in which the MSE businesses accumulate both capital and assets. By increasing accumulation. the MSEs should increase income and employment generation.

The areas of technical assistance to MSE firms in Ecuador, in order of frequency and magnitude, are provided in Table 14.

TABLE 14
TECHNICAL ASSISTANCE TO MSE FIRMS FREQUENCY AND MAGNITUDE

TYPE	FREQUENCY	MAGNITUDE
1. Follow-up in supervision of credit	High	High
2. Assisting MSE firms to apply for credit	High	High
3. Serving as broker between the MSE entrepreneur and the credit source	Medium	Medium
4. Assisting in legalization of MSE firms	Medium	Low
5. Implementing accounting systems	Medium	Low
6. Locating input supply sources	Low	Low
7. Preparing feasibility and marketing studies	Low	Low
8. Identifying and installing appropriate technology	Low	Low

Credit Supervision

The general conclusion among NGO managers and bank officials is that technical assistance is primarily for credit supervision. Institution leaders report that they regularly "visit" clients to recruit potential credit customers, help them with credit forms, and then supervise clients once credit is obtained. Only a handful of sources stated that they had a systematic diagnostic procedure to determine the MSE needs for technical assistance.

Most persons interviewed stated that there is too great an emphasis on the first three types of services of technical assistance related to credit. Bank officials interviewed are interested almost exclusively in credit supervision to ensure there are no arrears in loan repayments. They are not concerned with assisting the MSEs to develop and grow. Even the NGO officials interviewed placed heavy emphasis on supervision of credit.

UNEPROM has adopted a policy whereby NGO affiliate institutions provide promoters who complete two follow-up visits to each beneficiary after training but prior to receiving credit. The strategy is to have another two visits once beneficiaries receive credit. The first visit of technical assistance is 30 days after obtaining credit; the second visit after the MSE entrepreneur makes the first loan repayment.

Legal Status

According to some surveys, over 70 percent of the MSE firms do not have legal status. NGO institutions are interested in the firms obtaining government benefits such as social security and access to other financial sources such as the Banco Nacional de Fomento. CONAUPE places a strong emphasis on MSE firms obtaining legal status.

Accounting Systems

NGOs stress accounting systems as a means for MSE clients to graduate and obtain larger loans. The commercial banks normally require the MSE firms to have an established accounting system that is approved by the bank. NGO organizations generally believe that a good accounting system is a major step for the MSE firms to become better organized and progressive.

Technical

The last three areas of technical assistance are practiced to a lesser degree. Only a few NGOs assist MSE firms to find input supplies, prepare feasibility studies, or help in technical matters facing the MSE firms. The veteran NGOs have the better record in providing this type of assistance.

Interestingly, few persons interviewed emphasized employment generation as a rationale for technical assistance. Rather, they emphasize the eight areas outlined above.

Magnitude and Access

For the most part, technical assistance for MSE clients must be viewed primarily as a "credit supervision" function. Almost all NGO directors and bank officials interviewed were unanimous in stating that the principal function of their TA/AS activity was to assure that MSE clients paid their loans. Their second objective was to ensure that MSE clients started to keep books and an adequate accounting system. Only after these issues had been addressed were they concerned for the clients' productive capacity, marketing and sales, quality control, or general viability.

The consulting category necessitates deeper involvement of the resource institution with the MSE client. A full-scale consulting relationship would include diagnosis of the MSE firm, assessment of problems, working with MSE firms on problems, and resolution of technical and administrative problems. This approach to technical assistance is being done almost exclusively by the veteran NGOs and the two commercial banks: Banco del Pacifico and Banco Popular.

Table 15 provides results from the DAI Survey indicating that a majority MSE beneficiaries do not receive technical assistance. The areas of technical assistance are mainly in bookkeeping and marketing.

TABLE 15
TECHNICAL ASSISTANCE AREAS FOR MSE CLIENTS

AREA	PERCENTAGE
No Technical Assistance Provided	57%
Bookkeeping	9%
Marketing	9%
Production	5%
Technical matters	4%
Sales	4%
General administration	3%
Other areas	9%

Source: DAI Beneficiary Survey

The magnitude and access of technical assistance to MSE firms is very small in Ecuador in mid-1990. Although no exact figures are available, the best estimate is that approximately 30,000 MSE firms have received some kind of technical assistance in the past five years. This represents about 10 percent of the MSE universe.

TABLE 16
MAGNITUDE TECHNICAL ASSISTANCE TO MSE FIRMS

Group	Total	Credit Supervision	Consulting
Veteran NGOs	15,000	5,000	10,000
Commercial Banks	10,000	5,000	5,000
New NGOs	5,000	5,000	-

Technical Assistance Strategies

Another conceptual tool is to assess technical assistance strategies used by resource institutions with respect to management, organization, technical approach, and integrated approach. Table 17 shows the results of such an assessment.

TABLE 17
RESOURCE INSTITUTION TECHNICAL ASSISTANCE STRATEGY EMPHASIS

AREA	EMPHASIS
Management	Medium
Organization	Low
Technical	Low
Integrated	Low

Management

This is the principal area of technical assistance provided by resource institutions to MSE clients but it is only practiced at medium levels. Almost all NGO organizations interviewed place emphasis on management which includes accounting, getting legal status, filling out credit forms, affiliation with social security, human relations, and administrative functions.

Organization

This second area refers to resource institutions helping MSE firms to get involved with associations, cooperatives, or other organizations that can help a group of MSE clients. CONAUPE places strong emphasis on the overall context of MSEs in society and the way that MSEs can get affiliated with cooperatives or associations.

The Corporación Nacional de Apoyo a las Unidades Populares Económicas (CONAUPE) with its 29 affiliates has a more broad approach to technical assistance. CONAUPE wants to provide technical assistance to the Popular Economic Units (UPEs) in the broad areas of 1) support for the organization of UPEs, 2) technological improvement, 3) marketing, 4) legalization of UPEs, 5) social security, and 6) communication and culture. There is a strong emphasis on organizing, strengthening, and supporting associations, trade unions, local organizations who will in turn provide better support to the UPEs.

The first CONAUPE area, Program of Support for Organizations, stresses institutionalization and juridical strengthening, self-sustainability of trade union organizations, support for federation organizations, and democratic leadership. The second area, Technological Improvement Program, emphasis is placed on grouping technological inputs that could be available for the MSEs. The third program, Marketing Support Program, places emphasis on getting more markets for MSE products with government contracts and by sponsoring fairs and exhibit shows for MSE entrepreneurs. The fourth program, Legal Improvement Program, the emphasis is on obtaining legal status for MSEs. The fifth program, Social Security Improvement Program, emphasizes getting more MSE entrepreneurs into the national social security system. Finally, the sixth program, Culture and Communication Program, emphasizes public information programs that support vitalizing MSEs as an entity within the national culture.

Technical

A few resource institutions emphasize providing assistance to improve understanding of technical issues such as machinery needs, inventory, appropriate technology, space, better production means, and quality control. The veteran NGOs provide some limited technical assistance in this area. Sources stress that the organizations have neither the staff nor the time available for such technical assistance. They emphasize that to provide this kind of assistance would require considerable diagnostic capabilities and would be costly for the MSE clients.

Integrated

Both the FEE and the FED are pioneers in providing an integrated approach to technical assistance. Both institutions began this effort in early 1980s with international technical assistance from Acción/AITEC. A recent FEE publication states their strategy, as follows:

> " Once a MSE forms part of our program, they have the right to permanent visits of technical assistance from our advisors to observe the actions of the MSE entrepreneur, his development, his strengthening, his diagnosis, his medium-term planning, and his putting into practice training received. In reality the advisor and the MSE entrepreneur work together to apply appropriate solutions to urgent problems. They work together to form a unit and bond that is a logical process of technical assistance.
>
> Technical assistance emphasizes:
>
> - Legal aspects of the MSE;
> - Personnel Issues (number of employees, placement, industrial security);
> - Accounting;
> - Production (fixed costs, variable costs, reinvestment);
> - Finances (reviews of inventories, financial statements, investments); and
> - Marketing (quality control, publicity).
>
> Our institution provides follow-up to verify if the credit is used as planned and to help resolve any pertinent problems they may have."
>
> The FED philosophy and strategy follow the same basic strategy as the FEE.

Both FEE and FED state categorically that they follow rigorous plans of technical assistance with their clients. This means that they are reaching almost all their clients with their TA/AS program.

The Fundación Guayaquil takes a similar approach. The director has stated that once a MSE entrepreneur enrolls in their program there is constant and repeated TA/AS and follow-up with the client as long as they stay in the program. After taking their initial basic training course and receiving a S/.85,000 line of credit, Fundación Guayaquil has a five-month systematic program of technical assistance. Technical advisors work with MSE entrepreneurs and note changes during those five months. If accepted for further development, the MSE entrepreneurs can enroll in an advanced Investment Project Course and receive lines of credit of S/.1.5 to S/.2.0 million. After credit approval, technical advisors work with MSE clients for another 20 months and evaluate MSE client progress. After the 20 months, MSE clients can apply for a $5,000 credit for machinery over a four year period. Again, Fundación Guayaquil provides TA/AS for these next four years. The Foundation has 2,000 beneficiaries enrolled presently in one of these three stages of development.

INSOTEC provides technical assistance to MSE entrepreneurs from its Quito office as well as the regional offices in Santo Domingo, Manta, Portoviejo, Esmeraldas, and Ambato. INSOTEC promoters recruit MSE entrepreneurs to attend their training courses and then offer technical assistance. Technical assistance costs about S/.1,000 per hour.

Demand and Constraints for Technical Assistance

Demand

MSE entrepreneurs demonstrate clearly a demand to receive technical assistance. All three surveys (Valinmer, UNEPROM, DAI) support this point: at least 85 percent of the beneficiaries want some kind of technical assistance.

Alternatively, a study by the Cámaras de Pequeñas Industrias de Azuay in 1989 of 250 small businesses in the Azuay Province showed that 55 percent of the entrepreneurs did not require technical assistance. Another 40 percent stated that they could use technical assistance but that it was not a critical need. The 5 percent requiring technical assistance needed assistance in getting legal status in the province. The conclusion that CAPIA drew from that survey was that small business in Azuay did not require technical assistance. This conclusion cannot be generalized for the MSE community since the CAPIA affiliated institutions are small businesses and may not need technical assistance as much as the MSEs.

Constraints

A very real constraint of technical assistance is the capability of the technical advisors. There are perhaps 300 to 400 technical advisors/promoters who work with MSE entrepreneurs. Despite considerable training by INSOTEC and others, the NGO directors report that the capability level of the advisors is still quite low.

UNEPROM, aware of this constraint, in December 1988 sponsored an international seminar to discuss ways to train technical advisors. It had representatives from nine Latin American countries. As a result of that seminar, UNEPROM held a workshop in Guayaquil and trained 150 promoters. UNEPROM also contracted Carvajal Foundation to train another 40 advisors.

The veteran NGO organization leaders are consistent in stating that technical assistance must be flexible, individualized, and based on very careful diagnosis of individual MSE needs. They are unanimously critical of standard and mechanized approaches to technical assistance; fixed procedures of four "visits" by technical advisors for credit supervision and minimal management advise. They consider this a constraint to providing technical assistance as it treats each MSE client in the same way without individual differences.

The DAI Beneficiary Survey found that the barriers or constraints to receiving technical assistance were:

Time Factor	46%
Costs	5%
No assistance available	12%
Not relevant	3%
Other	14%
Does not know	20%

Technical Assistance Content

Most sources interviewed expressed concern that there are no standard or accepted practices for working with MSE clients, no fixed means for establishing contact with MSE clients, no standard diagnostic tools, and only elementary technical assistance procedures. Even the veteran NGO directors admitted that they have not devised a standardized approach to technical assistance. A few were reluctant to consider setting up such standardized procedures.

At the same time the veteran NGO technical assistance institutions expressed concern that the CONAUPE and UNEPROM approaches to standardize and mechanize approaches to technical assistance were not warranted. They were cautious that the government institutions connotation of "coordination" and "standardization" really meant "control". Almost all mature NGO institutions and commercial banks have serious questions about control and coordination.

The organizations use several different diagnostic tools for assessing MSE constraints and problems. There are no generally accepted nor standardized diagnostic tools. Most instruments used emphasize credit worthiness of the MSE clients. This author reviewed the diagnostic tools of FED, FEE, INSOTEC, Banco del Pacífico, CFN/FOPINAR, Banco de Pichincha, Filanbanco, Banco de la Previsora, Fundación Guayaquil, FUNDESCOL, Banco Consolidado, and found them remarkably similar. Each emphasized credit worthiness, fixed assets, sales, number of employees, and assessments of credit guarantees. None of the diagnostic tools assessed the MSE firm in its entirety.

In general, only a few NGO institutions have worked with subsectors or specialized MSE firms. The Fundación Guayaquil works primarily with the informal urban sector in Guayaquil; INSOTEC with metal mechanic and leather works in Ambato. The NGO organizations in general do not make much distinction among commerce, manufacturing, service, nor agriculture.

Self-Sustaining Technical Assistance

There is no evidence that technical assistance to MSEs is presently a self-sustaining activity. There are a couple of mechanisms and approaches used for technical assistance payment:

- The MSE client pays directly for technical assistance to the NGO organization up front. In most cases the MSE client is paying anywhere from 50 to 70 percent of total technical assistance cost; and

- Technical assistance is built into the credit line. The NGO receives payment from 2 to 4 percent of the total credit. Again, this represents anywhere from 50 to 70 percent of total technical assistance cost.

The Inter-American Foundation is presently working with about ten NGO organizations who provide technical assistance. IAF subsidizes those organizations for the part of technical assistance not paid by the client. That subsidy ranges from 30-100 percent. For example, the Vicente Rocafuerte Foundation technical assistance to Santa Elena Peninsula MSE farmers (chickens farming, fisheries) is 100 percent subsidized by the IAF.

Sources maintain that MSE clients would most likely not pay more than S/.100,000 ($111) for technical assistance during any given year. Most MSE clients are currently paying an average of S/.40,000 ($44) for technical assistance and again this is subsidized at 50-70 percent presently.

Effectiveness and Impact

The four veteran NGO organizations FED, FEE, Fundación Guayaquil, and INSOTEC who provide technical assistance report positive results from their efforts. Those efforts have not been evaluated adequately in any of the beneficiary studies and so the results come from their own testimonies. Some of the salient results they report are:

- Very low arrears in credit repayment. This is a combined effort of credit supervision as well as positive reinforcement from the NGO institution;

- Some changes in operation and ways of managing the MSE businesses in terms of accounting and internal administration. They stress a gradualist approach in which the firms gradually accept and adopt accounting procedures as loans are increased;

- Conversion of informal MSE operations to more "graduate" and formal operations; and

- Some changes in technological practices related to machinery and tools. This is partially related to obtaining credit for new machinery and is also combined by the technical assistance to put the machinery into use.

The UNEPROM program places strong emphasis on the more standard four visits of an extension agent to the MSE. The UNEPROM Study showed the following:

- 47 percent beneficiaries received only one visit from a NGO promoter; and

- 51 percent reported receiving more than one visit.

This would appear to be natural since only one of fourteen MSE beneficiaries who receive training actually obtain credit.

The UNEPROM Survey of program clients revealed that:

- 17 percent of the beneficiaries felt that the technical assistance and follow-up was adequate;
- 47 percent stated that is was average or bad; and
- 37 percent did not answer.

The beneficiaries felt that NGOs provided the best technical assistance in accounting and human relations. The study concludes that a major reason is that technical assistance follow-up procedures fall way behind schedule and at times are not fulfilled.

MSE beneficiaries in the DAI Survey are generally pleased with the results of technical assistance received from the MSE service organizations. Table 18 shows the results of the DAI Beneficiary Survey.

TABLE 18
TECHNICAL ASSISTANCE RESULTS

• MSE clients who had received technical assistance	40%
• Technical assistance was good or excellent	80%
• Technical assistance was only average	18%
• MSE clients satisfied or very satisfied with the technical assistance	90%
• MSE clients believed that some new information was conveyed to them	73%
• MSE clients who were not pleased with technical assistance	26%
• MSE clients who thought it worthwhile to take technical assistance considering all factors	75%
• MSE clients who felt technical assistance should be a requirement before receiving credit	65%

Source: DAI Beneficiary Survey

These ratings are high and attest to some fairly good interactions between the technical advisors and the clients.

Alternative Technical Assistance Institutions

Today there are a host of different Ecuadorian institutions that claim to provide technical assistance to MSE businesses. This includes almost all the institutions mentioned above including 35-40 NGO institutions, 7-10 commercial banks, and a handful of other institutions. The point is that over 80 percent of these institutions provide only limited technical assistance in credit supervision. Decision makers, therefore, have the option of working with these same institutions to expand their services, or, alternatively, to search for other institutions that could provide full service technical assistance.

One candidate would be CFN/FOPINAR. Under its fourth credit line with the World Bank signed in early 1990, FOPINAR is required to provide on-going consulting services with its small and medium-sized business clients. The FOPINAR program, with its own 45 CFN credit agents as well as another 50 loan officers in seven commercial banks that participate in the FOPINAR program, has a cadre of highly talented and well-trained professionals who could perform full service technical assistance to MSE clients.

Another likely candidate is SECAP. SECAP has a cadre of over 300 instructors nationwide who are part-time course instructors and who have considerable experience working with small business managers. Although SECAP's primary function is to train skilled workers for salaried positions, a good portion of their trainee participants are also small business managers. Some mechanism could be devised so that SECAP instructors could also provide some technical assistance to MSE clients.

The Banco Nacional de Fomento is the nations largest credit provider in terms of number of clients. In 1989 they had over 90,000 clients in their portfolio. The BNF has 92 branch offices throughout the nation with a substantial number of credit officers. As noted above, BNF does not now provide training nor technical assistance. Again, some mechanism might be worked out to have BNF get more involved in providing technical assistance to MSE clients.

As noted above, the Universidad Católica in Guayaquil is the only Ecuadorian higher education institution presently working with MSE clients. It would seem likely that other universities could be enticed to work with MSE clients.

Finally, there are some other fine Ecuadorian NGO organizations that are not presently engaged in MSE activities. Some of them could become interested especially in targeted programs such as rural enterprise development, MSE agroindustrial businesses, women MSE firms.

Role of Government in Supporting Technical Assistance

This assessment has already analyzed above the present role that the Ecuadorian Government is making in financing and supporting technical assistance for MSE clients. The research question here is what could be the appropriate role of the government to finance and support technical assistance in the future.

Both UNEPROM and CONAUPE emphasize a coordinating role of engaging Ecuadorian NGOs to promote, recruit, train, make referrals for credit, and provide technical assistance to MSE clients. As has been seen, this is a very complicated and not too smooth operation at the present time. In technical assistance the UNEPROM approach emphasizes credit supervision in four visits by NGO organizations. Yet the evaluations made on this program demonstrate that these procedures are not being fulfilled properly.

In assessing a proper role for the government in technical assistance, a starting point is to make some conclusions regarding some common criteria that have demonstrated the most effective approaches in technical assistance. Those approaches appear to be as follows:

- Programs that have simplified credit procedures that MSE clients can follow with minimal problems. The NGO organizations can then provide clear and concrete advise concerning the procedures that must be followed;

- Integrated programs of credit, training, and technical assistance in which the NGO has the internal resources to implement all three components. If this is not possible, at least the NGO has an excellent working relationship with the commercial bank or financial institution;

- Technical assistance and training programs are targeted to specific MSE client groups and tailor-made for those subsector groups. The training and technical assistance are integrated;

- Technical assistance programs take into account a diagnostic approach in which the NGO organization is concerned with the viability, growth and development, and sustainability of the MSE business;and

- Technical assistance programs have an emphasis on "consulting" with the MSE clients and are not merely "visits" for credit supervision.

When taking into account these factors, and others, the government can begin to realize its proper role. It can engage in devising programs that finance and support technical assistance and advisory services for MSE clients. This leads, therefore, into some conclusions and alternative options which follow in the next sections.

CONCLUSIONS

During the past 10 years there have been considerable efforts made by different Ecuadorian and international entities to provide both training and technical assistance for MSE entrepreneurs in Ecuador. This has been achieved by many well-meaning public and private sector organizations, many with international donor agency support.

General

About one-half of the NGO institutions have gotten into MSE assistance without prior experience nor full awareness of the difficulty of working with MSE clients. The other one-half NGO institutions are more solid and have a good to excellent track record of work with MSE businesses.

During the next two years the three public institutions that support MSE businesses (UNEPROM, CONAUPE, and CFN/FOPINAR) as well as the two public sector training and technical assistance institutions (SECAP and CENAPIA) will have to consolidate and determine their actions for the foreseeable future. This is because there are two years left in the Borja Administration and the future of this movement after August, 1992 is difficult to assess at this point.

In the meantime, there is considerable work to be done by the involved institutions to tailor their training programs, provide more advanced training programs, and provide linkages among themselves.

Training

Reach and access for training is still in an adolescent stage in which minimal levels of potential MSE clients have access to the diverse training programs. There is much trial and error taking place and, with a few exceptions, few training organizations have found their proper market or operational niche. Many organizations are still experimenting with modified and adopted approaches.

There has been an infusion of foreign training and TA/AS models that have gone through trial and error in the country. Some efforts have been successful while others less successful. Many of the foreign training models have been ameliorated into an Ecuadorian context so that from an outsiders viewpoint there are more commonalities than distinctions among these training models. There are certainly more in common with their training models that unite them then separate and distinguishes them one from the other. For example, the Carvajal training approach and the ACCION/AITEC training approach, which supposedly represent two different training approaches, are closer together in Ecuador and are similar in so many ways to an outside observer's eye.

The training programs reflect a diversity of approaches ranging from training standing by itself to training combined with financial assistance and technical assistance. One supposes that each has its proper role but the integrated training + financial assistance + technical assistance model is having the most desirable effects.

The training programs demonstrate a commonality in the diverse approaches by offering an introductory basic management training program by almost all public sector and NGO institutions. These introductory training programs are normally followed by a gradual involvement of MSE clients in more advanced training programs. However, only a few NGO institutions offer these advanced programs. SECAP offers a wide array of training programs but these are generally not well-coordinated with either public sector or private groups.

These training programs are generally well received by MSE entrepreneurs because they represent a new and helpful intervention for the potential growth and development of their firms. For almost all MSE entrepreneurs, it does not particularly matter that the training courses do not satisfy most of their needs nor aspirations. They are willing to take the training programs for the dual purpose of getting something out of the training program and, more importantly, with the high hope of obtaining financial assistance. While the overall picture is bleak for obtaining financial assistance, they continue to attend courses with the optimistic hope of something positive happening. There is solid evidence that beneficiary need does exist and that future programs can build on those perceived needs.

The training materials used for MSE entrepreneur training are remarkably similar in content and in presentation. Most organizations have the good sense to continue to revise their training materials based on their trial and error. At least 7 of 10 organizations reported changing their training materials to adapt to MSE entrepreneur needs. This conclusion is positive given the fairly high cost of revising and publishing new materials. Low cost visual aids are used and are not revised as quickly as training materials.

Training instructors come from traditional backgrounds in the Ecuadorian university system and in general provide mirror image training similar to the kind of formal education they received. Despite considerable effort by Carvajal, Acción/AITEC, and INSOTEC in "training of trainers" workshops, the instructors still provide less than exciting instruction.

In comparing no training intervention at all with the still limited training interventions, one might conclude that the training intervention does have some residual effect. This effect is certainly higher at the information stage and much less influential in changing practices. Yet there seems to be enough training impact to suggest that MSE entrepreneur training should continue.

Technical Assistance

The MSE technical assistance affirmative action effort in Ecuador is in an adolescent stage in 1990. The past ten years have been years of growth, trying out different strategies to reach MSE clients, experimenting with different technical assistance strategies, and garnering experiences that should have more positive results in the future.

Technical assistance has been provided at two levels: 1) international entities providing and supporting technical assistance to Ecuadorian NGOs and some public sector institutions, and 2) technical assistance by Ecuadorian NGOs and commercial banks to MSE clients. In the first area this has proceeded fairly well and has enabled an outgrowth of national institutions to get involved in working with MSE businesses. In the second area the results have been less than expected.

Reach and access in technical assistance for MSE businesses is reaching very limited members of the MSE universe. Only a handful of NGO institutions provide a full service technical assistance program. Rather, almost all NGO and commercial bank loan officers opt for a minimalist "credit supervision" approach to technical assistance.

There is quite limited use of full-scale diagnostic tools to assess MSE business constraints and problems. Technical assistance centers on credit supervision, management, and organization. There is little emphasis on assisting MSE clients to resolve technical problems.

There are presently no self-sufficient technical assistance programs. They are subsidized by international donor agencies or the Ecuadorian government. Yet, the mature NGO institutions are beginning to approach a 70 percent level of self-sufficiency.

When organized and implemented properly, evidence indicates that technical assistance is effective and does have an impact on MSE businesses. This optimism must be tempered by the fact that the numbers are still quite limited.

There is some credible technical assistance work being accomplished by the veteran NGO organizations who provide individualized technical assistance that is most helpful for the MSE clients. The problem is that the technical assistance is still subsidized by donor agencies.

RECOMMENDATIONS

There are some strategic options and possible actions that policy makers can take that would bolster the training and technical assistance to MSE entrepreneurs in the country. These options are based on the findings and conclusions above.

Administration

1. There is a general widespread consensus that the MSE training and technical assistance program in Ecuador requires better coordination among the principal actors. To this end, there have been several good efforts to hold annual workshops and meetings to share information and experiences. Yet, there is still a basic lack of information among the different institutions. This coordination effort should continue and bolstered. In must be done in a context of "dialogue" among the interested parties with equal and shared participation for it to have the intended positive effects.

2. The public sector organizations can play an important role in supporting both training and technical assistance. SECAP has a twenty year history of training middle level manpower but has been working independently and with a widespread mandate for middle level training. Initial efforts have been made to coordinate their training with UNEPROM and CONAUPE. This coordination among the public sector organizations and SECAP should continue and be strengthened. SECAP could provide technical training that complements the training being provided by the NGOs. The initial efforts to have SECAP and the BNF to collaborate together should also continue.

3. Several international donor agencies have placed some emphasis on training of trainers and technical advisors for the MSE clients. There should be a continued concerted effort to train the trainers and technical advisors of the NGOs as they are key for promoting the MSE movement. The IAF and World Bank are both cognizant of this need and have placed more considerable emphasis in this area in recent years.

Training

1. NGO institutions should be encouraged to continue refining their training programs and tailoring their training programs for the MSE clients. Based on the findings and conclusions there should be training programs geared toward subsectors and specific MSE clients.

2. There should be a concerted effort to continue to revise training curriculums. The most acute problems are with SECAP as it needs to provide a dynamic training program for the MSE clients.

3. There is a need to have the availability of prototype training materials that could be adopted by the training institutions. This is not as much a recommendation for uniform training materials as it is more appropriate to permit the NGOs to experiment and refine their own training materials.

4. There should be widespread support for the publication and wide circulation of training materials to the MSE clients. As a minimum, this would require roughly 100,000 documents of training materials available for the MSE clients.

5. Plan and implement more advanced training curriculums and training materials for the "graduating" and improving MSE clients. This includes the more generic business administration, accounting, production, marketing/sales areas as well as technical information in specific areas such as craftsmanship, metal mechanics, and other similar technical fields.

Technical Assistance

1. Technical advisors require training of technical advisor seminars in how to perform as enterprise extension agents. This is the next step in bolstering the program. This training should include how to conduct diagnostic/organizational development of MSE firms, consulting protocols, and systems for providing management consulting.

2. International donor agencies should be encouraged to continue to provide technical assistance to the NGO communities in Ecuador. Their efforts of the past 10 years have made some impact but the NGOs will require additional assistance for another 5-10 years.

ANNEX A

INSTITUTIONS PROVIDING TRAINING AND/OR TECHNICAL ASSISTANCE TO MSEs

1. UNEPROM Ministry of Labor Affiliates

Fundación de Investigación y Desarrollo Empresarial (FUNDIEMPRESA)	Ambato
Fundación de Apoyo a la Microempresa (FAM)	El Oro
Fundación para el Desarrollo de Manabí(FUNDEMA)	Manabi
Fundación Huancavilca	Guayas
Fundación Simón Bolívar	Quito
Corporación Ecuatoriana de Investigación (CEI)	Quito
Corporación Femenina Ecuatoriano (CORFEC)	Quito
Fundación Ecuatorina de Tecnología Apropiada (FEDETA)	Quito
Fundación Vicente Rocafuerte	Guayaquil
FADEMI	Cuenca
ICD- SEME	Quito
Procredem	Quito
Universidad Católica de Guayaquil	Guayaquil
CECIM	Guayaquil
Fundación Quitus	Quito
FUMICRO	Guayaquil
Latinoamericana	Guayaquil
CORFONOR	Ibarra
FUNDETEC	Portoviejo
Fundación Microempresas de Portoviejo	Portoviejo
Jotapi	Portoviejo
Pintac	Quito
Corpadem	Quito
Fundación Banco Popular	Quito

2. CONAUPE Ministry of Social Welfare Affiliates

FUNDIEMPRESA	Ambato
Fundación Familia para el Futuro	Quito
FUNDAR	Quito, Ibarra
SEME	Quito
FUNDEC	Quito
Fundación Quito	Quito
PUCARA	Ambato
CORFONOR	Quito, Ibarra, Tulcán

Riobamba para el Desarrollo	Riobamba
FUNDESUR	Latacunga
INSOTEC	Ambato
CIDEC	Ibarra
Fundación Simón Bolivar	Quito
CORPECO	Quito
Fundación Huancavilca	Guayaquil
Centro Andino de la Juventud	Quito
Acción Integral Comunitaria	Quito
Centro de Promoción de Empresas del Sector Informal-CEPESIU	Guayaquil
Fundación Eugenio Espejo	Guayaquil
Fundación Vicente Rocafuerte	Guayaquil
FUNDASUR	Machala
Fundación Chirijos	Guayaquil
Corporación Estudios Regionales	Guayaquil
FECMIG-CEPESIU	Guayaquil
FUNQUEVEDO	Quevedo
FADEMI	Cuenca
Fundación Austral	Cuenca
FUNDESA	Cuenca

3. Carvajal Foundation Affiliates

FundeQuevedo	Quevedo
FundeManta	Manta
Funde Portoviejo	Portoviejo
Funane	Esmeraldas
CIPEP	Manta
Fundación Banco Popular	Quito
Fundación Offsetec	Quito
FUNDHABIT	Esmeraldas
FUNDESCOL	Santo Domingo

4. ACCION/AITEC Affiliates

Fundación Eugenio Espejo	Guayaquil
Fundación Ecuatoriano Desarrollo	Quito

5. Other Government Institutions

Corporación Financiera Nacional-FOPINAR	National
Banco Nacional de Fomento	National
Servicio Ecuatoriano de Capacitación (SECAP)	National
Centro Nacional de Apoyo de Pequeñas Industrias y Artesanias (CENAPIA)	Quito
Ministerio de Industria, Comercio, y Pesca (MICIP)	National

6. Others

Fundación Guayaquil	Guayaquil
Banco del Pacífico	Quito and Guayaquil
INSOTEC	Quito
CARE	
Comunidec Inter-American Foundation	

ANNEX B

QUESTIONAIRE FOR ASSESSING TRAINING AND TECHNICAL ASSISTANCE

TRAINING INSTITUTIONS

Each item represents a variable and question

Internal Review

1. General Description
2. Training needs assessment
3. Training Objectives
4. Training Criterias
5. Training Strategy
6. Training Methodology
7. Training Materials
8. Typology of Courses Given
9. Types of Beneficiaries
10. Number of Participants
11. Organization and Administration of Training
12. Instructors
13. Costs and Payments
14. Examinations and Certificates
15. Participant Follow-up
16. Internal Evaluations

External Achievement

1. Training Results
2. Competence and Capabilities
3. Relevance of Training Methods for Participants
4. Changes in Information, Attitudes, and Behavior
5. Cost Benefit Analysis
6. Cost per Participant Trained
7. Improvements in Operations by Participants
8. Degree of Benefit Perceived by Participants
9. Relationship of Training to Rates of Repayment, Growth Rates of Businesses, Rates of Adoption of Innovations
10. Self-Sufficiency of Training: Mechanisms for Financing; Alternative Prices

TECHNICAL ASSISTANCE

Internal Review

1. General Description
2. Technical Assistance needs assessment
3. Technical Assistance Objectives
4. Technical Assistance Criterias
5. Technical Assistance Strategy
6. Technical Assistance Methodology
7. Technical Assistance Materials
8. Types of Clients
9. Number of Clients
10. Organization and Administration of Technical Assistance
11. Extensionists
12. Costs and Payments for Technical Assistance
13. Client Follow-up

External Achievement

1. Technical Assistance Results
2. Competence and Capabilities after Technical Assistance
3. Relevance of Technical Assistance for Participants
4. Changes in Information, Attitudes, and Behavior
5. Cost Benefit Analysis
6. Cost of Technical Assistance per Client
7. Improvements in Operations by Clients
8. Degree of Benefit Perceived by Clients
9. Relationship of Technical Assistance to Rates of Repayment, Growth Rates of Businesses, Rates of Adoption of Innovations
10. Self-Sufficiency of Technical Assistance: Mechanisms for Financing; Alternative Prices

ANNEX C

SUMMARY OF VALINMER EVALUATION OF IMPACT OF SMALL ENTERPRISE DEVELOPMENT

Valinmer C. Ltda. of Ecuador conducted a random sample survey in early 1990 of beneficiaries and a control group of participants in the programs supported by the following foundations in the MICRO Program:

FUNDHABIT	Esmeraldas
FUNDESCOL	Santo Domingo
CIPEP	Manta and Portoviejo
FUNDQUEVEDO	Quevedo
Fundación Ecuatoriana de Desarrollo - FED	Quito
Fundación Eugenio Espejo	Guayaquil

The study was sponsored by CARE with USAID/Ecuador funding. The following are some highlights of the findings and conclusions of that study that are relevant to this study.

Impact of Training and Credit

1. Participants who receive both credit and training demonstrated growth rates, increased employment, modifications of the legal characteristics of their business, increase in use of machinery and tools, increase in purchasing of their own locales for operation, and increases in sells. The overall increases measured were 41% compared to 5% for the control group.

2. There is a significant increase in all aspects of MSE's with the combination of credit and training, compared to control groups.

3. Average 94% of beneficiaries consider the credit and training program significant for their growth. Most significant growths are in sales (33%); purchase of primary materials and other inputs (31%); and increases of knowledge (33%).

4. The expectations of particiants for participation in the MICROS program are learning (33% average); credit (8%); learning and credit combined (54%).

Training

1. About 5% are interested in MICRO program only for training. This increases to 74% average with training and credit combined.

2. Training impact was perceived by participants in better administration (35%); better sales (27%); and better control 15% average).

3. Applicability of training was assessed as totally applicable (39% average) and somewhat applicable (55% average).

4. 97% of participants believed that training methodology used was adequate.

5. 53% of participants thought the instructors were excellent; 47% assesed them as being good; or 100% in these two categories of excellent to good.

6. 93% participants would take more training in the MICRO program.

7. 85% of the participants believe the training has made an impact in their business and that they have applied something new from the training program. Most training impact is in administration of the MSE, improved sales, and better production.

8. An average of 33% participants have participated in other training programs besides MICRO, paying an average of S/. 4,221 per training course.

9. 90% of the participants finished the training course; the other 10% stated that they lacked time to finish the course.

10. 80% of the FED and FEE participants did not pay for their course.

11. Training interests are in marketing and sales 23%); administration (17%); technical training (14%); and finance (12%).

12. 92% of the participants would participate in another training program.

13. 73% felt the training duration was about right while the rest felt it was too short. Nobody felt the training duration was too long.

14. 94% of participants felt the course schedule was good to excellent.

Credit

1. Credit has helped participants in acquiring primary material (45% average); working capital (26% average); and purchasing new machinery (15% average).

2. 96% of the participants would want more credit from the MICROS program.

ANNEX D

SUMMARY OF UNEPROM EVALUATION

In June, 1990, a survey was completed with the results of an evaluation of the impact of the UNEPROM credit and training activities with nine NGO's. This was conducted by Arelis Gomez-Alfonso for Nathan Associates and sponsored by USAID/Ecuador. It is entitled "Informe de Evaluacion de Impacto Programa USAID/MTRH." The following are the background, findings, and some conclusions and recommendations of that survey.

Background

There are 7,782 beneficiaries attended by the nine NGO's in the UNEPROM program. The survey interviewed 673 beneficiaries; 539 who had received only training; 134 who had received both training and credit.

The NGO's surveyed were:

- Fundación de Investigación y Desarrollo Empresarial (FUNDIEMPRESA) — Ambato
- Fundación de Apoyo a la Microempresa (FAM) — El Oro
- Fundación para el Desarrollo de Manabí (FUNDEMA) — Manabí
- Fundación Huancavilca — Guayas
- Fundación Simón Bolívar — Quito
- Corporación Ecuatoriana de Investigación (CEI) — Quito
- Corporación Femenina Ecuatoriano (CORFEC) — Quito
- Fundación Ecuatorina de Tecnología Apropriada (FEDETA) — Morona Santiago
- Fundación Vicente Rocafuerte — Guayaquil

UNEPROM Training Program

All UNEPROM affiliated NGOs must use the same training program. It consists of a 40 hour basic training course that includes 1) accounting, 2) market and sales, 3) human relations, 4) credit use, and 5) legal aspects of MSE's. Thirty beneficiaries maximum can attend the course at a given time. Participants must attend 80% of all sessions in order to obtain a certificate. Participants must take the required training course before obtaining credit.

The training courses are free for participants. UNEPROM covers the training costs and reimburses the NGOs S/.22,000 for each particpant. This comes out to S/.550 per hour/per participant.

Training courses are promoted by the NGO promoters by newspapers, radio, television, and referrals.

The NGO promoters provide two follow-up visits of technical assistance to each beneficiary after training; another two visits once beneficiaries receive credit. The first visit after obtaining credit is 30 days later and the second after completion of the the first loan payment.

The UNEPROM program works with 31% production MSE's; 43% commerce; and 26% services. The production MSE's have 48% women and 52% men; commerce 56% women and 44% men; and service MSE's 53% women and 47% men.

Numbers of beneficiaries training in past three years by the NGO's are as follows:

FUNDIEMPRESA	2,604
FEDETA	321
FUNDACION SIMON BOLIVAR	912
CEI	465
CORPEC	264
FUNDACION HUANCAVILCA	958
FAM	929
FUNDEMA	241
FUNDACION VICENTE ROCAFUERTE	750
TOTALS	7,238

Training Results from Survey

1. 55% of beneficiaries affirm that training helped them in their businesses; 45% replied that training did not help especially in the areas of credit use and legal aspects of MSE's. The reasons courses were less than satisfactory was lack of usefulness in the business (32%); boring (31%); and inadequate methods (18%).

2. 75% participants stated would be willing to take another course and would be willing to pay for that course in the future.

3. Individual basic course module satisfaction in priority is accounting (53%); marketing and sales (21%); and human relations (17%).

4. 76% participants gave favorable assessment of courses overall.

5. 86% of participants assessed that training courses used adequate teaching methodologies.

6. 59% of participants desire more advanced levels of training then was offered by the 9 NGO's.

7. Directors of NGOs interviewed stated that training methodology used is difficult to adapt to the different educational levels of the beneficiaries. The survey showed that the training groups were not homogeneous: 33% of the beneficiaries have university education; 37% have primary school education.

8. 76% of beneficiaries prefer courses in the evening at 7:00-11:00 PM.

9. 61% of the beneficiaries attended all of the courses.

10. In relation to utility of the courses, beneficiaries rated as follows: human relations (69%); accounting (49%); marketing and sales (41%); credit use (25%); and legal aspects of MSE's (13%).

11. In application of course for business and putting into practice course content: human relations (59%); accounting (50%); credit use (9%); and legal aspects (6%).

12. Regarding interest in taking other courses, 87% would take another course; 59% would prefer more advanced courses especially in accounting, marketing, and human relations; 41% are interested in technical courses such as sewing, design, agriculture; craftsmanship; and cooperative management.

13. In relationship to payment for courses, 53% would be willing to pay over S/. 3,000 for another course; 71% of those who do not have a business would be willing to pay only up to S/. 3,000 for an additional course. NGO directors interviewed state that beneficiaries would be willing to pay partial costs of additional courses.

Technical Assistance

1. 17% of beneficiaries stated that technical assistance and follow-up by the 9 NGO's was adequate. Of these beneficiaries, the best technical assistance was in accounting and human relations. Of the beneficiaries receiving training, 16% stated that technical assistance visits were useful; 47% stated they were regular or bad; 37% did not answer.

2. The technical assistance program stipulates two visits of follow-up to training beneficiaries and two additional visits to those who receive credit. 49% of beneficiaries state receiving one visit while 51% report two visits or more.

Impact

1. Groups that have received training have increased their sales by 21% in one year (May,1989-June, 1990); this increases to 47% with training and credit combined. The control group increased by 12% for the same period. Therefore effective increase is 9% for training only and 35% with credit and training combined.

2. The average number MSE's increase of employees with credit and training was 1.6 to 1.8 employees. There was a generation of 0.2 average employment per MSE. There is no significant increases of employment with training only and credit/training combined. The control group had a negative employment rate of -0.1 during the same period.

Conclusions for Training and Technical Assistance

1. The UNEPROM has been able to channel the resources of both the commercial banks and NGO's together in one united effort to work with the micro- enterprises.

2. There is good evidence that the partiicpants want the training based on good levels of training satisfaction, willingness to pay for courses, and their desire to have more advanced courses.

3. There is some evidence that training and credit have positive effects on the socio-economic conditions of the MSE's.

4. There are limiting factors for sustainability of both the NGO's and their reach and access because of the free courses and the intensive nature of working with limited numbers of beneficiaries.

5. There is a serious gap between the number of participants who receive training and those who receive credit; one of every thirteen trained receive credit. Participants take training to receive credit. Therefore, there is serious gap of expectations causing discrepancies in the program.

6. There are some serious repayment delays in 44% of the cases with lines of credit.

7. Follow-up procedures by NGO's fall way behind the scheduled events.

8. There are serious problems related to the hetereogenity of the training groups.

9. The number of hours trained (40 hours) appears to be insufficient as 60% of the participants request more training.

10. 94% of the training participants have difficulty explaining how they can apply their training to their business practices. This means that alot of training is being ineffective at the information level.

11. Many of the NGO's rely 100% on the UNEPROM for their existence. They do not have other sources of financing for their programs.

Recommendations for Training and Technical Assistance

1. Establish a payment system for courses.

2. Define more clearly the eligibility requirements for the beneficiaries of the program.

3. Maintain the actual training program with its basic curriculum. Should have flexibility of adaptations for individual needs. Need to think about a curriculum for the rural sector. Courses in credit use and legal aspects need to be revised based on the low acceptance of those courses.

4. UNEPROM should have coordination with SECAP for complementary courses, more advanced courses, and technical courses.

5. Follow-up for courses is essential to put into practice information learned in the courses.

6. Have better coordination and communication among the NGO's.

7. UNEPROM should provide technical assistance and training to the NGO's to strengthen their capacities to promote, train, and work with MSE's.

ANNEX E

INSTITUTIONS PROVIDING TRAINING TO MSE CLIENTS

INSTITUTION	DATE COVERED	NO. PART.
1. UNEPROM Ministry of Labor Affiliates (Through the NGOs)	Jan. 89-June 90	13,523
Fundación de Investigación y Desarrollo Empresarial (FUNDIEMPRESA) Ambato	Jan. 89-Aug. 90	2,604
Fundación de Apoyo a la Microempresa (FAM) El Oro	Jan. 89-June 90	929
Fundación para el Desarrollo de Manabí (FUNDEMA) Manabí	Jan. 89-August 90	350
Fundación Huancavilca Guayas	Jan. 89-August 90	1,800
Fundación Simón Bolivar Quito	Jan. 89-August 90	1,000
Corporación Ecuatoriana de Investigación (CEI) Quito	Jan. 89-June 90	465
Corporación Femenina Ecuatoriano (CORFEC) Quito	Jan. 89-Aug. 90	550
Fundación Ecuatoriana de Tecnología Apropriada FEDETA	Jan. 89-Aug. 90	320
Fundación Vicente Rocafuerte Guayaquil	Jan. 89-Aug. 90	1,480
FADEMI Cuenca	Jan. 89-Dec. 89	750
ICD- SEME Quito	Jan. 89-Aug. 90	1,000
Procredem Guayaquil	Jan. 89-Dec. 89	1,328
Universidad Católica		

de Guayaquil Guayaquil	Jan. 90-August 90	1,440
CECIM Guayaquil	Jan. 89-Dec. 90	770
Fundación Quitus Quito	Jan. 89-Dec. 90	525
2. CONAUPE Ministry of Social Welfare Affiliates		5,400
FUNDIEMPRESA Ambato	Included Above	
Corporación Estudios Regionales - Guayaquil Guayaquil	Jan. 90-August 90	100
Fundación Simón Bolivar Quito	Jan. 89-June 90	912
CORPECO Quito	Jan. 89-August 90	540
Fundación Huancavilca Guayaquil	Jan. 89-June 90	958
Fundación Vicente Rocafuerte Guayaquil	Included Above	
3. Carvajal Foundation Affiliates		
FundeQuevedo Quevedo	Jan. 89-Dec. 89	381
FundeManta Manta	Jan. 89-June 90	241
Funde Portoviejo Portoviejo	NA	NA
Funane Esmeraldas	NA	NA
CIPEP Manta/Portoviejo	Jan. 88-Dec. 89	465
Fundación Banco Popular Quito	Jan. 89-Dec. 89	550
Fundación Offsetec Quito	NA	NA
FUNDHABIT Esmeraldas	Jan. 89-Dec. 89	435
FUNDESCOL Santo Domingo	Jan. 88-Dec. 89	523
4. ACCION/AITEC Affiliates		
Fundación Eugenio Espejo Guayaquil	Jan. 86-Aug. 90	4,000

Fundación Ecuatoriano Desarrollo Quito	Jan. 86-Aug. 90	5,000
5. Other Government Institutions		
Servico Ecuatoriana de Capacitación (SECAP) National	Jan. 88-Dec. 89	20,000
SECAP Capacitación Popular	Jan. 89-Aug. 90	5,322
Centro Nacional de Apoyo de Pequeñas Industrias y Artesanias (CENAPIA) Quito	Jan. 85-Dec. 89	10,000
6. Others		
Fundación Guayaquil Guayaquil	Jan. 89-Aug. 90	1,200
Banco del Pacífico	Jan. 86-Aug. 90	5,000
INSOTEC (5 cities)	Jan. 86-Aug. 90	4,000

Data was not available on the following UNEPROM affiliated institutions: FUMICRO, Latinoamericana,CORFONOR, FUNDETEC, Fundación Microempresas de Portoviejo, Jotapi, Pintac, and Corpadem. Data was also not available on the following CONAUPE affiliated institutions: Fundación Familia para el Futuro, FUNDAR, FUNDEC, Fundación Quito, PUCARA, CORFONOR, Riobamba para el Desarrollo, FUNDESUR, CIDEC,Centro Andino de la Juventud,Acción Integral Comunitaria, Centro de Promoción de Empresas del Sector Informal, CEPESIU, FUNDASUR, Fundación Chirijos, FADEMI, Fundación Austral, and FUNDESA.

APPENDIX A

LIST OF INTERVIEWS

ACCION Internacional
Rodrigo López

Agencia para el Desarrollo Internacional (AID)
Bambi de Arellano
Maruska de Burbano
Sonny Low
Alex Newton

Banco del Pacífico
Felipe Vásquez Berru (Quito)
Marcel Laniado (Guayaquil)
Xavier Chávez (Guayaquil)

Banco La Previsora
Virginia Flores (Guayaquil)
Alvaro Guerrero (Guayaquil)
Tania Morejón (Guayaquil)
Yolanda Luque (Portoviejo)
Justo Vasconez Proaño (Ambato)

Banco Central del Ecuador
Eduardo Barrera
Roberto Posso

Banco del Pichincha
Patricio Aguilar (Quito)
Hilda Andrade (Quito)
Gerardo Jara (Quito)
Cecilia Moreira (Ambato)

Cámara Artesanal del Azuay. Cuenca
Miguel Alvarez
Juan Toral

Cámara de la Pequeña Industria
Walter López (Ambato)
Mercedes Torres M. (Quito)

Centro de Promoción y Empleo para el Sector Informal Urbano (CEPESIU). Guayaquil
Laura Landívar
Félix Camacho

Centro de Investigación, Promoción y Educación Popular (CIPEP). Manta/Portoviejo
María Luisa Moreno

Corporación Nacional de Apoyo a las Unidades Populares Económicas (CONAUPE)
Maria Mercedes Placencia
Susana Balarezo

Corporación Femenina Ecuatoriana (CORFEC)
Myriam Calero Vela
María Eugenia de Buchelli
Hilda de Jaramillo

Corporación de Garantía Crediticia
Patricia Cerón (Quito)
Ensa Sarasty de Arias (Ambato)

Federación Nacional de Cámaras de la Pequeña Industria del Ecuador (FENAPI)
Carlos Ribadeneira Godoy
César Rovalino

Filanbanco. Guayaquil
Pedro Gómez-Centurión

Fondo de la Financiamiento de la Pequeña Industria y Artesanía (FOPINAR)
Marcelo Romero C.
Fabian Cerón R.

Fundación Carvajal
Weimar Escobar
Gloria E. Mena A.

Fundación OFFSETEC
Fabian Berru de la Torre

Fundación Vicente Rocafuerte. Guayaquil
José Luis Ortíz
Carlos Sáenz
Dalia Polonie

Fundación Guayaquil
Luis Orellana

Fundación Austral de la Microempresa (FADEMI)
Juan Torel

Fundación Eugenio Espejo (FEE). Guayaquii
Manuel Estrada Paez
Patricia S. de Estrada
Yankelly Rodríguez

Fundación Ecuatoriana de Desarrollo (FED)
César Alarcón
Fernando Merino (Guayaquil)

Fundación Banco Popular
Edison Pérez

Fundación de Investigación y Desarrollo Empresarial (FUNDIEMPRESA)
Víctor Reinoso (Ambato)
Vinicio Navarrete (Latacunga)

Fundación Ecuadtoriana del Habitat (FUNHABIT). Esmeraldas
Patricio Cevallos

Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC)
Fernando Fernandez A. (Quito)
Carlos Palén (Quito)
Gloria Quezada (Quito)
Jorge Grijalva (Ambato)
Nelson Oleas (Manta/Portoviejo)
Ricardo Ramírez (Santo Domingo)

Instituto Centroamericano de Administración de Empresas (INCAE)
Miguel Angel García
Donald Swanson

Konrad Adenaur Foundation
Paul Meiners

Programa para el Fomento de la Pequeña Empres Metalmecánica (PROFOPEM). Ambato
Oscar Castro L.

Servicio Ecuatoriano de Capacitación Profesional (SECAP)
María Teresa Arias
David Vera

Fundación Suiza de Cooperación para el Desarrollo Técnico (SWISSCONTACT)
Peter Lutz

Unidad Ejecutora del Programa Nacional de Microempresas (UNEPROM)
Mauricio Córdova Montero
Edison Echeverría
Leonidas Yépez

Universidad Católica. Guayaquil
María Gonzálcz Castro
Rosa Jiménez

APPENDIX B

LIST OF ACRONYMS

AID	Agency for International Development
BCE	Banco Central de Ecuador (Central Bank of Ecuador)
BID	Banco Interamericano de Desarrollo (Inter-American Development Bank)
BNF	Banco Nacional de Fomento (National Development Bank)
BEDE	Banco Ecuatoriano de Desarrollo (Development Bank of Ecuador)
CAC	Cooperativas de Ahorro y Crédito
CACPES	Cooperativas de Ahorros y Créditos de la Pequeña Empresa
CAF	Corporación Andina de Fomento
CDs	Certificates of Deposit
CEPESIU	Centro de Promoción y Empleo para el Sector Informal Urbano
CFN	Corporación Financiera Nacional
CIDA	Canadian International Development Agency
CIPEP	Centro de Investigación y Educación Popular
CODESPA	(Spanish development assistant program)
COLAC	Confederación Latinoamericana de Cooperativas de Ahorro y Crédito (Latin American Confederation of Credit Unions)
CONADE	Consejo Nacional de Desarrollo
CONAIE	Confederación de Nacionalidades Indigenas del Ecuador
CONAUPE	Corporación Nacional de Apoyo a las Unidades Populares Económicas
CONCAF	Confederación de Cooperativas de Alemania Federal
CORFEC	Corporación Feminina Ecuatoriana
CUs	Credit unions
CUNA	Credit Union National Association) FECOAC (Ecuadorian National Federation of Credit Unions)
ESF	(AID fund for economic support to a country, also, Emergency Social Fund of the World Bank)
FADEMI	Fundación Austral de la Microempresa
FECOAC	Federación Nacional de Cooperativas de Ahorro y Crédito del Ecuador
FED	Fundación Ecuatoriana de Desarrollo
FEE	Fundación Eugenio Espejo
FENAPI	Federación Nacional de Cámaras de Pequeños Industriales (National Association of Small Industry Associations)
FODEME	Fondo de Desarrollo del Sector Microempresarial
FODERUMA	Fondo de Desarrollo Rural Marginal
FOPINAR	Fondo de Financiamiento de la Pequeña Industria y Artesanía
FMO	(Dutch development organization)
FUNDIEMPRESA	Fundación de Investigación y Desarrollo Empresarial
GDP	Gross domestic product
GNP	Gross national product
GOE	Government of Equador
GTZ	Gesellschaft fur Technische Zusammenarbeit
IAF	Inter-American Foundation
IBRD	International Bank for Reconstruction and Development
INCAE	Instituto Centroamericano de Administración de Empresas

IDB	Inter-American Development Bank (see BID)
ILO	International Labour Organisation
IMF	International Monetary Fund
INSOTEC	Instituto de Investigaciones Socio-Económicas y Tecnológicas
KAF	Konrad Adenauer Foundation
INSOTEC	Instituto de Investigaciones Socio-Económicas y Tecnológicas
MOLHR	Ministry of Labor and Human Resources
MOSW	Ministry of Social Welfare
MSEs	Micro- and Small-scale Enterprises
NGOs	Nongovernmental organizations
ONUDI	United Nations Organization for Industrial Development
PROFOPEM	Programa para el Fomento de la Pequeña Empres Metalmecánica
PVO	Private voluntary organization
SECAL	Sector adjustment loans
SECAP	Servicio Ecuatoriano de Capacitación Profesional
SED	Small Enterprise Development
SWISSCONTACT	Fundación Suiza de Cooperación para el Desarrollo Técnico
UNDP	United Nations Development Program
UNEPROM	Unidad Ejecutora del Programa Nacional de Microempresas (National Program for Microenterprise Development of the Ministry of Labor)
UNICEF	Fondo de Desarrollo de las Naciones Unidas para la Infancia
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions
WWB	Women's World Banking

APPENDIX C

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