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ECUADOR MICRO-ENTERPRISE SECTOR ASSESSMENT:

Key Characteristics of the Micro-enterprise Sector

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GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International • Management Systems International, Inc. • Opportunity International • Technoserve • World Education

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by

John H. Magill
Robert G. Blayney
Rae L. Blumberg
Joseph Burke
Peter D. Livingston
Jennifer L. Santer

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PREFACE

This study of the Key Characteristics of the Micro-enterprise Sector 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 micro-enterprise profile was intended to develop a detailed statistical and analytical profile of the MSE sector and the various institutions supporting MSE development in Ecuador, identifying significant characteristics, trends, problems, and opportunities for expansion and growth. Based on the profile, the study was to provide an analysis of the employment- and income-generating potential of alternative intervention strategies.

In specific, the Key Characteristics study was to:

- Develop a stratification of the MSE sector according to scale, type of operation, economic sector, gender, geographic location and other relevant criteria, identifying the key constraints and problems relative to each stratum and the demand for credit and other services by strata;

- Identify the subsectors that have the greatest potential for generating employment and income;

- Assess the impact of assisting different types of businesses on the potential number, type and quality of new jobs created;

- Determine the potential for specialized interventions in export-oriented businesses or businesses that offer the potential for vertical or horizontal integration; and

- Assess the relative benefit of interventions in policy reform, credit or training and technical assistance on employment and income generation.

The study team was composed of the following individuals:

Team Leader:	John H. Magill, Ph.D. Senior Associate Development Alternatives, Inc.
Women in Development:	Rae L. Blumberg, Ph.D. Department of Sociology University of California, San Diego
Domestic Markets:	Robert G. Blayney Independent Consultant National Cooperative Business Association

International Trade:	Joseph F. Burke Independent Consultant Development Alternatives, Inc.
Data Analysis:	Peter D. Livingston, M.A. Chairman Stark/Livingston, Inc.
Data Analysis:	Jennifer L. Santer, M.A. Project Specialist Development Alternatives, Inc.

Field research for the study was carried out between August 12 and September 8, 1990.

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We also wish to thank the officers and staff of the Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC), an Ecuadorian nongovernmental organization and consulting firm that provided administrative and logistical support for this study through an existing USAID/Ecuador contract. Special thanks are due to Paulina Garzón, Cecilia Vásquez, Solanda Grijalva and Augusto Espinoza, who assisted in the research design, interviewing and analysis of findings. We are also indebted to the interviewers for the survey: Andrés Jervis, Iván Larrea, Edwin Andrade, Jaime Castellanos, Gonzalo Larrea, Teresa Ordoñez, Juan Carlos Rodríguez, Milton González, Eduardo Játiva, and Teresa Arévalo.

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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

GENERAL OVERVIEW

The micro- and small-scale enterprise sector in Ecuador is large, heterogenous and dynamic. There are between 250,000 and 350,000 such firms operating in the urban areas, providing employment to between 750,000 and 1,000,000 individuals. While the majority of these represent the unregistered economic activities of informal sector participants, a substantial number are either registered businesses or in various stages of formalization.

Far from being an insignificant, marginal sector of the economy, the micro- and small-scale enterprises perform a number of key roles in the national political and economic system. First, and most important, they provide employment to a significant number of urban and semi-urban residents — people who are not being absorbed into the smaller formal sector. Second, they create and sustain those jobs at virtually no social or economic cost to the nation — they are created, operated and terminated without subsidies, expensive programs or special services. Unlike many sectors of the economy that constitute continuous drains on scarce national resources, the MSE sector makes relatively few demands on the system. Third, they are a stabilizing force in that micro- and small-scale entrepreneurs tend to be rather conservative, and do not follow extremist political positions. Fourth, they serve as a conduit for less costly goods and services to lower income sectors of the national economy, offsetting the impact of inflation.[1] Finally, these enterprises have strong backward and forward linkages to other elements of the national economy, creating a demand for other goods and services, both from the rural sector and from the more modern sector.

There is a strong tendency to view small-scale enterprises as marginal, even dead-end, occupations. Small-scale enterprises are characterized as consisting of people who cannot — because of low education and skills, and the lack of opportunities — find employment in the "modern" sector. Income is viewed as marginal, at best, with extensive disguised un- and underemployment.

But the micro-entrepreneurs themselves appear to have a quite different perspective. Most reported starting their businesses because they perceived a way to improve income and gain independence; very few reported starting their businesses because they could not find work elsewhere. Moreover, most are satisfied with their businesses, have no intention of abandoning them, and perceive the future optimistically. Most of the respondents believe they are better off than they would be working at a stable, salaried job.

At the same time, the limited empirical evidence suggests that most are unable to keep pace with inflation. Social benefit-cost ratios calculated for the businesses were generally negative or, at best, neutral. Most of the businesses had declining real sales, and most perceived their incomes to be declining as well.

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[1]Paul Guenette, et.al., *Jamaica Microenterprise Development Project: Technical, Administrative, Economic and Financial Analysis*, GEMINI Technical Report No. 2, pp. 46-47.

Although credit and access to credit are the most significant issues to the small-scale entrepreneur, respondents to the survey conducted for this study considered training and technical assistance to be important, and rated the assistance highly. There is no strong evidence in the quantitative data, however, to support a conclusion that training and technical assistance improve performance. Sales growth, profitability, increases in employment and the social benefit-cost ratio calculated for the firms was not related to either their participation in micro-enterprise programs or to the levels of assistance received. There is, on the other hand, strong evidence that being associated with a program that supports micro- and small-scale enterprise development has a positive impact on the optimism of the micro-entrepreneur. Beneficiaries were clearly more optimistic about their business future and more committed to expanding the business than non-beneficiaries.

The strong subsector differences among micro- and small-scale enterprises suggest that tradeoffs exist between alternative strategies and expected results. At a minimum, differences among the three traditional sectors (production, commerce and services) suggest that focusing on one or the other has strong implications for the ability of a program to reach women, poorer strata of the micro-enterprise pyramid, or generate employment and income. Strategies focused on production-oriented firms will maximize employment and income achievements, but tend to marginalize women and other disadvantaged groups. On the other hand, strategies that focus on the commerce sector will benefit more women and disadvantaged groups, but have less of an impact on employment and income.

Service fields such as barber shops, repairs and artisanry and small commerce-oriented ventures such as small stores (*tiendas* and *bazares*), market and street vendors offer the best opportunities to work with poorer people. These are the subsectors that provided low-investment opportunities for people starting a small business. If the objective is to maximize employment and employment generation, however, programs should focus on manufacturing enterprises. In this sample, metalworking, basic product manufacturing and woodworking not only hired the most employees per firm, they tended to have the largest overall growth in employment and the highest annual rate of growth in employment. Textile operations (tailors and seamstresses) and food products and services subsectors, even though the average number of employees per firm is rather low, also tend to have rather high annual employment growth. This is offset by the higher cost of establishing successful businesses and corresponding higher investment per job created in these sectors.

Sales and profitability show varying patterns, and firms with the largest sales volumes are not necessarily those with the highest profitability. Development strategies that want to concentrate on generating income, should focus on subsectors that generated the highest return on assets, profits per employee, or social benefit-cost ratios. There is a remarkable consistency among the subsectors in terms of these indicators:

Highest Profits per Employee	Large and small stores, basic products and food subsectors
Positive SBC ratio	Food, basic products and repair subsectors
Highest Return on Assets	Food, basic products, repairs and barber and beauty subsectors
Highest Average Wages	Basic products, food, leather subsectors

GENDER

Women constitute 50 percent or more of the country's informal or small-scale enterprise sector. They are concentrated in a relatively few subsectors of the economy, primarily textiles and clothing, food products, small-scale commercial activities (markets and small stores), artisan handicrafts and beauty shops. Although their businesses tend to be relatively more invisible than male-owned businesses, and they often escape enumeration or censuses, women constitute an important segment of the economically active population.

Women-owned businesses tend to be newer and smaller than those of their male counterparts. In addition, they tend to employ fewer workers. However, rates of growth in employment are comparable to those achieved in male-owned businesses. Women-owned businesses also have sales volumes and profits that are, taking into account the different scale of operations, comparable to those of their male counterparts. Perhaps most important, women-owned businesses provide employment opportunities for other women. Women are more than twice as likely to hire women as men are.

Women face a number of special constraints — many related to the fact that they retain domestic house maintenance and childraising chores in addition to their business roles. More women's businesses are located in the home, a direct reflection of the need to combine domestic chores with economic activities and influencing the size of the business.

Women run the risk of being marginalized by the development process. None of the institutional programs included in the study served the small commerce sector, which is dominated by women-owned businesses and provides significant employment opportunities for women. Women have less access to resources than men. Average loan amounts were significantly less for women, relative to the size of their businesses, than for men. Women had received less training and technical assistance than men.

The programs that benefit women the most are those that charge positive real interest rates on loans, concentrate on small loans, provide group loans, concentrate on commerce and truly small-scale producers, and have outreach programs that are capable of identifying and servicing home-based businesses.

LOCAL MARKETS

Micro- and small-scale entrepreneurs in Ecuador tend to produce low-cost, low-quality goods and services for consumption by lower and middle-income segments of the population. The major exceptions to this are artisan handicraft enterprises and repair businesses.

Individual consumers are primary purchaser of MSE-produced goods and services, with sales to wholesalers and retailers constituting a limited secondary market. Very few of the businesses surveyed sold to government entities, institutions or had contracts to produce for larger manufacturers.

The continued decline in the Ecuadorean economy has a depressing effect on this market. As real incomes decline, disposable income is curtailed, especially among the lower and middle classes. It is this disposable income that generates demand for most MSE-produced goods and services. There is substantial evidence for declining market demand. Most of the respondents had experienced a negative real growth in sales between 1989 and 1990, and declining profit ratios, especially for larger firms, signify market constraints.

Micro- and small-scale entrepreneurs in Ecuador are generally optimistic about the domestic market's capacity to absorb their production. Almost all of the respondents felt that productive capacity rather than markets limited their sales, saying they faced no problems in selling all they produced and would be able to sell more if they could produce more. At the same time, most of the respondents perceived a high degree of competition — mostly from other small firms — and the empirical evidence indicates market saturation in a number of key industries.

Domestic markets appear to have limited capacity to absorb additional small enterprise activities — either through the creation of new businesses or expansion of existing ones. General improvements in the economy are necessary to increase the purchasing power of the primary market for MSE-produced goods and services. Development strategies that encourage the formation of new businesses are probably misguided. Other options — such as helping entrepreneurs improve product quality to achieve benefits of product differentiation and market segmentation — would appear to offer better opportunities for improving the income and profitability of these small-scale enterprises.

EXPORT MARKETS

Stimulating export opportunities for micro- and small-scale entrepreneurs is a way to expand market demand for their products. At the same time, successful exporting would increase the country's foreign exchange earnings and contribute to the overall economic recovery.

Very few micro- and small-scale entrepreneurs are engaged in export marketing activities. Only 3.8 percent of the respondents to this survey produced products for export, either directly or through exporters. These firms tend to be concentrated in a relatively few subsectors, and are located in the major cities.

Export opportunities for micro- and small-scale enterprises are limited to firms in the so-called "production" sector; firms in commerce and services are unlikely to participate in export activities. Although there are as many as 60 to 84 thousand small-scale firms in this "productive" sector, the number of these that might be capable of producing a product for export is much more limited.

The products that are most likely to favor small enterprise participation are metal products, Panama hats, food products, wood and processed wood products, basketry, textile products, leather

products, handicrafts, and crafts industry goods (such as leather products, textile articles, and woodcrafts). The high demand for wood and wood products in Japan, the U.S. and Europe also indicates a potential market for a sector characterized by small-scale operations.

Micro- and small-scale enterprises face major external and internal constraints to participating in export markets. The major external constraints stem from traditional GOE import substitution policies, which include:

- Low duties on importation of raw materials and capital goods for protected industries and high import duties and surcharges on finished products that compete with those of protected industries;

- Import controls ranging from advance deposits to import prohibitions;

- Unfavorable exchange rates for exporters (As of August 1990 exporters were receiving about 12 percent less under the obligatory controlled rate than they would have received on the free market), and favorable exchange rates for importers. Protected industry is the principal approved importer and, therefore, the prime beneficiary in terms of acquiring "cheap" dollars generated by exports from other sectors of the economy; and

- Confusing, time-consuming and expensive import/export red tape. Large (protected) industries have the material and human resources to cope with this, but micro- and small enterprises do not.

As a result of these policies, micro- and small-scale producers are faced with a series of problems, including: low-quality, high-cost and scarce inputs; inadequate returns due to exchange rate distortions; inadequate quality; delivery difficulties; pricing instability and overpricing of their goods in international markets.

Other constraints to small producer participation in export markets include a general lack of financing and credit, inadequate production technologies (resulting in low production volumes and a low quality product), limited management capability, and lack of access to market contacts and information (which makes it difficult for small-scale producers to produce a product that would find acceptance in export markets and then to development the actual contacts and contracts to market the product).

Several steps are needed to improve the export potential of MSE-produced goods. First, export controls (with their complicated procedures and high costs), cost and quality constraints of raw and intermediate materials, and anti-export biases (exchange, tariff, non-tariff) must be reduced to levels at which opportunity costs are a motivation rather than a disincentive for micro- and small-scale entrepreneurs to engage in export. Second, assistance efforts need to focus on developing marketing contacts and on improving product designs to better meet market tastes and demands. Third, the small-scale producers need assistance in production techniques, both to improve quality and increase production. Fourth, regular and reliable financing sources need to be developed. Finally, Alternative marketing channels and structures need to be explored and promoted.

CHAPTER ONE

DESCRIPTIVE PROFILE OF THE MICRO- AND SMALL-SCALE ENTERPRISE SECTOR

by

John H. Magill
Senior Associate
Development Alternatives, Inc.

INTRODUCTION

The purpose of this chapter is to explore the strategic and program implications of key characteristics and dynamics of the Ecuadorean micro- and small-scale enterprise (MSE) sector. A survey of 582 small-scale entrepreneurs that was administered as part of the study serves as the primary resource for this analysis. Additional information — from other surveys and studies, both within Ecuador and from other countries — is used to provide a conceptual basis for the analysis and to substantiate impressions.

Demographic Background and Trends

The population of Ecuador in 1990 is estimated to be between 10.7 and 10.8 million.[1] Annual population growth averaged about 2.9 percent during the 1980s, declining steadily from a high of 2.93 percent in 1980 to an estimated 2.83 percent in 1988.[2] Women constitute 49.7 percent of the population.

The society is becoming increasingly urban. Between 1974 and 1982, the dates of the two most recent censuses, the percentage of the population classified as "urban" increased from 41 to 49.2 percent. Estimates for 1988 place the urban population at 54 percent of the total,[3] with intermediate and smaller cities registering faster growth rates than the three major cities during the past few years. This growth in the urban population has come primarily from internal migration from rural to urban areas.

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[1]Based on high and low growth rate estimates. *Estimaciones y Proyecciones de Población, 1980-2000*, CONADE, INEC, CELADE. See Cuadros B1 and C1.

[2]Banco Central, *Boletín Anuario*, No. 11, p. 198.

[3]*Ibid.*, pp. 198-201.

As of 1987, there were 6.5 million persons of economically active age[4] in the country, of which approximately 3.34 million (51 percent) were estimated to be economically active. There were about 95,000 new entrants to the economically active population (EAP) each year.[5] Approximately half of the economically active population (1.67 million, or 49.9 percent) were in urban areas, and 82 percent of new annual entrants to the overall EAP between 1982 and 1987 were in urban areas. Women comprised 30.1 percent of the economically active population.

Micro- and Small-Scale Enterprises: A Preliminary Definition

There is an abundance of definitions for what constitutes a "micro" or "small-scale" enterprise, most of which have been developed by institutions working with micro-entrepreneurs for the purpose of establishing eligibility criteria. A United Nations/ECLA seminar in 1988 defined micro-enterprises as firms having less than 10 employees, small enterprises as those having between 10 and 49 employees, and medium between 50 and 100.[6] Under this definition, however, most of the enterprises in Ecuador would be classified as micro-enterprises.

Among the definitions used by the various institutions in Ecuador are:[7]

- CONAUPE (Ministry of Social Welfare) — no more than 8 employees, with assets of no more than 50 minimum salaries per worker; that is, between $1,860 and $14,883.
- UNEPROM (Ministry of Labor) — no more than 10 workers, with a low (not specified) profit rate and fixed assets of no more than 100 minimum salaries ($3,720.
- FOPINAR — fixed assets of no more than $11,626.
- Fundación Banco Popular — monthly sales between $346 and $5,812, with fixed assets of less than $11,626; must have been in business for at least 8 months.
- Fundación Eugenio Espejo (FEE) — fixed assets of less than $1,162.

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[4]Defined as 12 years of age or greater.

[5]ILDIS, *Estadísticas del Ecuador*, Cuadros VII-7 and VII-8. See also, Banco Central del Ecuador, *Boletín Anuario del Banco Central*, No. 11, 1988, pp. 216-220.

[6]Salvador Cazar C., "Políticas para el Desarrollo de la Microempresa en el Sector Artesanal y Microempresarial," *Programas de Micro y Pequeña Empresa en el Ecuador*, p. 21.

[7]At the time of this study, the minimum wage in Ecuador was S/.32,000 per month. The exchange rate varied on a daily basis, falling from a high of S/.908 to the dollar early in the study to as low as $/.840 per dollar near the middle before rising to $/.865 to the dollar as the study ended. Throughout this chapter we have used an exchange rate of S/.860 per U.S. dollar, which means the minimum monthly wage was approximately $37.20.

- CEPESIU — capital/labor ratio of no more than 50 minimum salaries, or $1,860 per worker.
- The Ministry of Small Industry and Artisanry — firms employing one or two persons, and with assets of less than $3,720.[8]

Although specific definitions vary, there is general agreement that micro-enterprises are small entities with relatively few workers, low levels of invested capital and low monthly sales volumes. Even though the question of informality is not raised in any of the above definitions, to many authors and institutions in Ecuador the micro-enterprise sector is considered to be synonymous with the urban informal sector. Thus, the Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC) refers to micro-enterprises in terms of the informal urban sector (SIU), Cazar refers to the absence of relationships with the state in order to avoid the tax system,[9] and most other authors assume that micro-enterprises are unregistered.

Although these definitions may serve to classify applicants for program services, they reveal little about the dynamics of the businesses themselves. Several authors and programs have attempted to include behavioral characteristics of the firms as additional components of the definition. Thus, small-scale enterprises are also characterized as:[10]

- Being sole proprietorships or small partnerships;
- Producing goods and services;
- Making intensive use of labor (as opposed to capital) as the primary factor of production;
- Using traditional technologies;
- Limited scale of production;

and as having:

- Little division of labor;
- Limited expansion possibilities;
- Minimal or no access to formal credit;
- Little capital and financial support;

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[8]Cazar, *op.cit.*, p. 21.

[9]Cazar, *op.cit.*, p. 20.

[10]Cazar, *op.cit.*, pp 21-22.

- Low retained earnings; and
- Low salaries and profit sharing.

The problem with formal definitions, however, is that none of the measures are absolute, and although the internal correlation among them may be high, the different measures will frequently yield different stratifications. Furthermore, they tend to overlook key behavioral characteristics that have important policy and program implications. The primary purpose of this chapter is to explore and present a profile of small-scale enterprises that will prove more useful for planning and implementing assistance efforts.

Overview of the Small-Scale Enterprise Sector

Size of the Sector

As recently as 1988 the government agency responsible for registering and supervising businesses, the Superintendencia de Compañias, reported that there were a total of 14,747 registered companies in the country.[11] These registered businesses are rather small, averaging only 15.4 workers per company, and employing a total of 227,000 workers.

Although there is no accurate census of informal and small-scale businesses, estimates on the number of businesses in existence, including self-employed individuals and small firms, range from 250,000 to 350,000 separate firms. The small-scale sector represents, a significant portion of the economic activity of the country.

Given the multiplicity of definition for small-scale enterprises, it is not surprising to find that estimates of the size of the micro- and small-scale enterprise sectors vary considerably. Data based on studies by CELADE, CONADE and INEC estimate the size of the informal sector as 42 percent of the economically active urban population, or about 674,000 individuals.[12] The Ministry of Social Welfare estimates the sector to include approximately 715,000 individuals, including self-employed individuals, owners of small firms, family workers (salaried or unsalaried) salaried workers and apprentices.[13] The Ministry of Labor estimates that approximately 860,000 persons, representing 39 percent of the

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[11]Superintendencia de Compañias, *Estadísticas: 1988*, Cuadro No. 17. This statistic covers incorporated private and mixed businesses and foreign branch offices, but does not include government offices or major service-oriented institutions such as banks and insurance companies.

[12]Luis E. Orellana, *La Empresa Popular Ecuatoriana*, p. 208.

[13]Raúl Baca Carbo, *"Plan Nacional y Masivo de Apoyo a las Unidades Populares Económicas," Programas de Micro y Pequeña Empresa en el Ecuador*, p. 13.

economically active urban population, are engaged in the informal urban sector.[14] Other estimates of the number of individuals involved in very small-scale businesses run from as low as 650,000 to as high as 1,000,000.

Formal estimates of small-scale business activities historically underestimate the size, scope and dynamics of the sector. Women-owned, home-based businesses, for example, are systematically underestimated in both household and enterprise censuses. In Bolivia, as another example, an intensive door-to-door survey of micro-enterprises in an area served by a micro-enterprise project had an overlap of only 10 percent with known project participants.[15] There is substantial evidence that similar undercounting has occurred in Ecuador as well.

Regardless of the accuracy of the individual estimates, the number of people engaged in micro- and small-scale enterprise activities is very large, and represents a significant segment of the population. It appears that there are between 250,000 and 350,000 micro- and small-scale business operations in the country. These are providing employment opportunities to between 750,000 and 1,000,000 people, or an average of 2.5 to 4.0 workers per establishment.

Location

Small-scale businesses are primarily an urban phenomenon. More than 65 percent of the EAP in rural areas is involved in agriculture, forestry, hunting and fishing. Another 12 percent is involved in communal, social or personal services. Although statistics by size of enterprise are not available, no more than 220,000 persons (13 percent of the total) are engaged in activities that might be classified as small-scale businesses.[16] In contrast, between 750,000 and 1,000,000 people (representing between 39 and 53 percent of the economically active urban population) are involved in small-scale enterprises in urban areas.

Of the businesses that comprise the urban informal sector, nearly half (47.9 percent) of the estimated number of businesses are found in the two major cities — Quito and Guayaquil — and 4.3 percent in Cuenca, the third largest city. Another 18.7 percent are located in intermediate cities, and 29.1 percent in smaller towns.[17]

The small-scale enterprise sector is a significant provider of employment in urban areas, especially in secondary cities. As much as 44 percent of all economically actively individuals are employed in

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[14]René Calderón, "Rol de la micro y pequeña empresa en la generación de empleo," in *Programas de Micro y Pequeña Empresa en el Ecuador*, pp. 38-39.

[15]Such findings are common, and illustrate the tendency to underestimate the overall size of the small-scale enterprise sector.

[16]Banco Central del Ecuador, *Boletín Anuario del Banco Central*, No. 11, p. 216.

[17]René Calderón, "Rol de la Micro y Pequeña Empresa en la Generación de Empleo," *Programas de Micro y Pequeña Empresa en el Ecuador*, p. 38.

micro-enterprises in secondary cities and smaller towns, compared to 35.5 percent in the three largest cities.[18]

Labor Composition

One of the most salient characteristics of small-scale enterprises is that owners constitute a major portion of the workforce. According to projections based on the 1988 National Housing Survey, more than half (53 percent) of the sector is comprised of individual self-employed persons, while another 13 percent are owners of businesses that employee others. Salaried or unsalaried family members comprise 8.9 percent of the total, while 25 percent consists of wage-earning nonfamily workers.[19]

Sectors of the Economy

It is customary to classify small enterprises into three categories: commerce, production, and services. Construction and transportation are sometimes included as separate categories. According to the Ministry of Social Welfare, persons involved in informal-sector activities in Ecuador are found mostly in commerce (49.1 percent). Another 23.6 percent are engaged in production, 16.8 percent in services and 9.3 percent in construction.[20]

While conceptually comforting, such a classification disguises at least two key characteristics of the MSE sector. First, the categories are not mutually exclusive: most producers also sell their products, placing them equally into the commerce sector; many production firms, such as metal workers, also repair items, which would justify placing them also in the service sector; some small shopkeepers also design and manufacture some of the items (especially handicrafts) that they sell; and some firms that manufacture and sell their own products may also be selling items produced by others. Second, truly small-scale entrepreneurs often engage in a number of distinct activities — sometimes engaged in manufacturing, sometimes working for others, sometimes selling merchandise in markets or on the streets — especially if the micro-enterprise venture is seasonal or allows free time. Marginal income groups are frequently involved in several different income-producing activities.

Even though the categories are not pure, however, there is a fundamental difference among individuals who are primarily engaged in manufacturing goods, those who are primarily engaged in selling products produced by others, and those providing labor as a service. Classifying the respondents according to categories that best describe the principal focus of the entrepreneur can be useful in understanding key differences, including differences in needs, as long as the institutions supporting MSEs do not lose sight of the fact that the individuals may not fit neatly into the categories.

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[18]Calderón, *op.cit.*, p. 36.

[19]Calderón, *op.cit.*, p. 40. As will be discussed later, this distribution differs from the study sample, which found an average of more than two workers (family or nonfamily) for each owner.

[20]Baca Carbo, *op.cit.*, p. 13.

Salient Characteristics of Micro- and Small-scale Enterprises

Micro-enterprises in Ecuador are generally considered to be marginal, precarious operations that provide little more than a bare minimum existence to their owners and workers. Externally, they are not legally registered and avoid taxes. Internally, they have a primitive style of organization, confused or nonexistent division of labor, low skill requirements and knowledge, minimal invested capital, a primary objective of maximizing income and a strategy focused on survival.[21]

According to the Ministry of Social Welfare Labor, MSEs are characterized by low income, insufficient capital accumulation, little ability to save and invest, inadequate technology, low productivity, and a low return to labor.[22] Informal sector wages reportedly average 33 percent below the "modern" sector: while 43 percent of workers in the modern sector have wages that are more than two times minimum wages, only 19 percent of informal sector employees receive similar wages.[23] To the Ministry of Small Industry, MSEs are characterized by extreme precariousness, a weak financial and economic base, disorganization, inefficiency, reduced productivity, and income below tolerable minimums[24]

INSOTEC's research[25] has generally concluded that MSEs suffer from:

- Low income, low salary levels, and a low standard of living;
- Difficulties in entering the market;
- Little managerial training and capacity;
- Lowly skilled workers;
- Growth discontinuities;
- Limited capital resources and little access to credit;
- Slow turnover of capital;
- Little capital equipment;
- Low efficiency;

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[21]Cazar, *op.cit.*, p. 20.

[22]Baca Carbo, *op.cit.*, p.14.

[23]Calderón, *op.cit.*, p. 37.

[24]Cazar, *op.cit.*, p. 20.

[25]Fidel Dura, p. 68.

- Low productivity;
- Low product quality;
- Limited markets;
- Lack of competitiveness with products from medium and large scale enterprises; and
- Declining net incomes.

RECENT STUDIES OF THE MICRO- AND SMALL-SCALE ENTERPRISE SECTOR IN ECUADOR

Numerous studies of the MSE sector in Ecuador have been carried out in recent years.

In late 1989 and early 1990, USAID/Ecuador sponsored an impact evaluation of the portion of small enterprise project that was being administered by CARE. This study examined the programs of five foundations sponsored by the Fundación Carvajal and two that were receiving assistance from Acción International/AITEC. The evaluator conducted a study of 447 small-scale entrepreneurs that were beneficiaries of the various programs, and 15 nonbeneficiaries for a control sample.[26] This is referred to as the Valinmer study in this report.

Also in 1990, USAID/Ecuador contracted a study of the other major component of its small enterprise project — a series of foundations that were drawing on loan funds made available through UNEPROM, a small enterprise program sponsored by the Ministry of Labor. This study examined nine foundations and nongovernmental organizations that were working with UNEPROM. The evaluator designed and administered a survey of 807 small-scale entrepreneurs, including 673 beneficiaries and 134 nonbeneficiaries.[27] This is referred to as the CEDATOS survey in this report.

INSOTEC has conducted a large number of general and subsector studies on the small-scale enterprise sector during the past five years. Among the more important are a recent study of the economic, social and political environment;[28] a series of studies on the metal mechanics, food, wood, plastics, chemicals and textiles sectors; and regional studies on the provinces of Chimborazo and Tunguragua and several secondary coastal cities.

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[26]Patricio Valdez, *Proyecto de Evaluación del Impacto del Programa de Desarrollo de la Pequeña Empresa*, 1990.

[27]Arelis Gomez Alfonso, *Informe de Evaluación de Impacto Programa USAID/MTRW.*

[28]Fernando Fernandez, *Condiciones de Entorno de las Pequeñas Empresas en el Ecuador.* Quito: INSOTEC, 1990.

Tonia Papke conducted a study of intermediate institutions involved in implementing the USAID/Ecuador Small Enterprise Development Project. This study did not look at individual small-scale enterprises, but did highlight numerous problems facing the intermediary institutions in trying to deal with their clients.

Finally, USAID/Ecuador sponsored two seminars on micro-enterprises in 1989 that brought together several Government of Ecuador (GOE) agencies and nongovernmental organizations. Papers presented for these seminars were published by INSOTEC later that year.[29]

A STATISTICAL PROFILE OF A SAMPLE OF MICRO- AND SMALL-SCALE ENTERPRISES IN ECUADOR

Demographics of the Survey Sample

As part of this study, a questionnaire was administered to 582[30] micro- and small-scale entrepreneurs in Ecuador during the months of July and August, 1990. This sample represents a specific sector of the MSE sector -- entrepreneurs who have chosen to participate in formal assistance programs and people who are relatively similar to them. It is not representative of the MSE sector as a whole; significant subsectors (in particular, market and street vendors and rural-based artisan enterprises) are underrepresented or not present. Overall, the micro-enterprise portion of the sample is biased toward the larger end of the spectrum of micro-enterprises in the country.

A detailed description of the survey methodology appears in Annex A, and a copy of the questionnaire in Appendix C.

Beneficiaries and Control Group

The survey sample included 430 "beneficiaries" and 152 "controls." Beneficiaries were defined as individuals who had received assistance — credit, training or technical assistance — from a formal institutional program of assistance to micro- and small-scale enterprises. These included programs of nongovernmental organizations (NGOs) supported by USAID/Ecuador and other international donor

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[29]Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC). *Programas de Micro y Pequeña Empresa en el Ecuador.* Quito: INSOTEC, 1989.

[30]The original sample contained 625 respondents. Reviewing the characteristics of 43 respondents who were classified as "rural" led to a decision to exclude these from the final sample, as they were engaged in animal husbandry activities rather than small-scale agroindustries.

projects, private foundations, private banks and the national development bank.[31] The beneficiary sample was drawn randomly from client lists provided by the institutions.

The control sample was drawn from names suggested by the beneficiaries. Each beneficiary interviewed was asked to provide the names of other MSEs in the immediate area who were similar to the respondent, but had not received outside project assistance. In some cases the "control" group had, in fact, received assistance, and became part of the "beneficiary" sample. A subset of the beneficiaries (111 respondents), although named as active clients by one of the supporting institutions, had apparently received no benefits — training, technical assistance or credit — from any program at all. In most of the analyses this group was treated as a separate category.

As discussed in the individual sections below, basic socio-demographic characteristics — the gender distribution, civil status and level of education — of the two groups were very consistent, indicating that, in fact, the control group was a good reflection of the beneficiary group.

Male/Female Distribution

Of the 582 respondents, 380 (65.3 percent) were men and 202 (34.7 percent) were women. This pattern was consistent for both the beneficiary and nonbeneficiary groups (see Table 1), indicating that the nonbeneficiary sample constituted an adequate control group for the sample on the basis of gender.

The proportion of women in the sample is somewhat below estimates based on the 1989 household survey, which projected that 39 percent of the country's informal sector entrepreneurs are women.[32] It is considerably below the estimates of persons studying the role of women in development. As pointed out in Chapter Two of this report, women entrepreneurs are significantly undercounted in typical enterprise surveys, with the result that from sources specializing in the role of women in development in Ecuador estimate female participation in the sector as high as 50 percent.

TABLE 1

GENDER DISTRIBUTION OF BENEFICIARIES AND NON-BENEFICIARIES

	SEX		
BENEFICIARY STATUS	Male	Female	TOTALS
Yes	279 64.9%	151 35.1%	430 100.0%
No	101 66.4%	51 33.6%	152 100.0%
TOTALS	380 65.3%	202 34.7%	582 100.0%

[31]Detailed descriptions of both the donor programs and the local institutions that support MSE development activities are contained in other reports of this series.

[32]Baca Carbo, *op. cit.*, p. 14.

The proportion of women in the sample is also lower than the samples of recent studies and estimates provided by other sources (see Figure 1).[33] The Valinmer evaluation of CARE-sponsored activities had a slightly higher percentage of females (37.6 percent) in its sample. The CEDATOS survey of 653 MSEs for the 1990 UNEPROM evaluation, found a much higher proportion of female beneficiaries (54 percent), leading Gomez to conclude that the program has had significant success in reaching female micro-entrepreneurs.[34] These higher estimates may be due to the fact that AID-sponsored programs tend to place a higher emphasis on serving females (because of -WID oversight) than independent programs and programs sponsored by other donors.[35] Data collected by Fraser and Gomez for the current sector assessment[36] found a relatively high proportion of women (ranging from 35 to 63 percent) among the listed beneficiaries. While USAID/-sponsored programs appear to be targeting sectors of the economy that women are heavily represented in, the current survey sample indicates a distribution more consistent with the population as a whole.

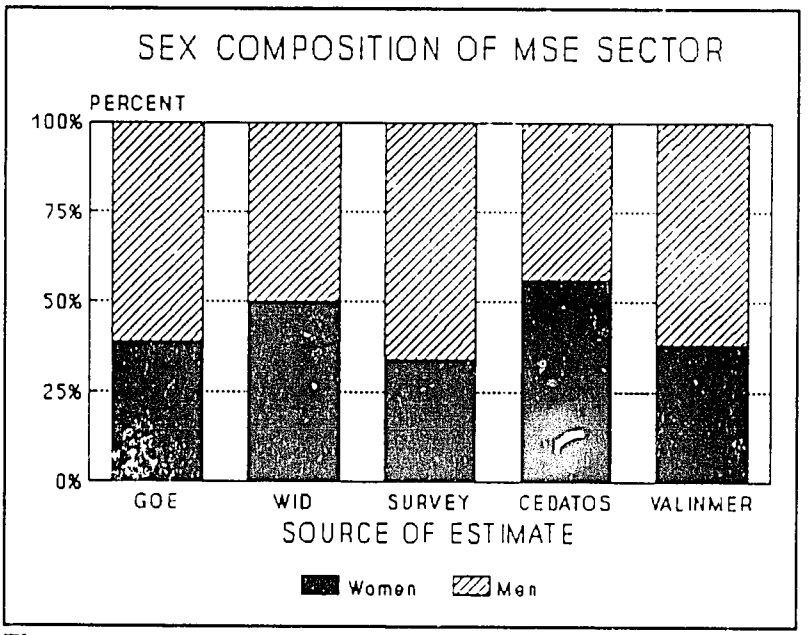

Figure 1

Age

The micro-entrepreneurs surveyed for the study are relatively young (see Table 2 below). Forty-six percent were 35 years of age or younger, and 71.1 percent were 41 years of age or younger. Only 9.0 percent were over 50.

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[33]Neither Orellana nor the participants in the two seminars sponsored by USAID/Ecuador and INSOTEC in 1989 provided gender-disaggregated information.

[34]Gómez Alfonso, *op. cit.*, p. 9.

[35]The current survey covered non-USAID-sponsored NGOs and foundations, while the CEDATOS and Valinmer surveys covered only USAID-sponsored programs.

[36]See Peter Fraser, Arelis Gomez and Miguel Rivarola, Chapters Two and Three in the separate background report, *Institutions and the Micro- and Small-Scale Enterprise Sector in Ecuador.*

There were slightly more men in the youngest and oldest age groups: 49.2 percent of the men were 35 or under, compared to 42.3 percent of the women; and 9.9 percent of the men were over 50, compared to 7.5 percent of the women. Half of the women interviewed were between 36 and 50, compared to only 41 percent of the men. The differences, however, were not statistically significant. Similarly, there was little age difference between the beneficiary and nonbeneficiary respondents: slightly more nonbeneficiaries were in the "Under 28" and "Over 50" age groups, but the differences were not statistically significant.

TABLE 2

AGE OF RESPONDENTS, BY BENEFICIARY STATUS AND SEX

AGE GROUP	BENEFICIARY STATUS		SEX		TOTALS
	YES	NO	Male	Female	
Younger than 28	59 13.8%	28 18.9%	55 14.7%	32 15.9%	87 15.1%
28 through 35	138 32.3%	44 29.7%	129 34.5%	53 26.4%	182 31.7%
36 through 41	103 24.1%	37 25.0%	88 23.5%	52 25.9%	140 24.3%
42 through 50	91 21.3%	23 15.5%	65 17.4%	49 24.4%	114 19.8%
Older than 50	36 8.4%	16 10.8%	37 9.9%	15 7.5%	52 9.0%
TOTALS	427 100.0%	148 100.0%	374 100.0%	201 100.0%	575 100.0%

This is consistent with the findings of the two USAID-sponsored evaluations. Nearly 60 percent of the respondents to both the CEDATOS and Valinmer surveys were 40 years of age or less[37].

There is no difference in age by sector, and no discernable age pattern by individual occupation.

Education

According to the 1988 household survey, only 22 percent of informal sector workers have completed a secondary education. This contrasts sharply with workers in the so-called "modern" sector, of which 54 percent have completed a secondary education.[38]

[37]Gomez, *op. ct.*, p. 10.

[38]Baca Carbo, *op.cit.*, p. 14.

Respondents to the survey were more highly educated than the household survey would indicate, as 36.9 percent had completed a secondary education. However, they do appear to be less educated than "modern" sector workers. These findings are consistent with both the Valinmer and CEDATOS surveys. Beneficiaries appear to be slightly better educated than nonbeneficiaries, but there is virtually no difference in education between men and women in the sample (see Table 3).

TABLE 3

LEVEL OF EDUCATION, BY BENEFICIARY STATUS AND SEX

YEARS OF SCHOOL COMPLETED	BENEFICIARY STATUS		SEX		TOTALS
	YES	NO	Male	Female	
Some Primary	19 4.5%	8 5.4%	18 4.8%	9 4.5%	27 4.7%
Completed Primary	119 28.0%	49 32.9%	114 30.3%	54 27.3%	168 29.3%
Technical School	31 7.3%	13 8.7%	29 7.7%	15 7.6%	44 7.7%
Some Secondary	62 14.6%	21 14.1%	51 13.6%	32 16.2%	83 14.5%
Completed Secondary	127 29.9%	32 21.5%	97 25.8%	62 31.3%	159 27.7%
Some University	39 9.2%	14 9.4%	39 10.4%	14 7.1%	53 9.2%
University Degree	28	12	28	12	40

Location

Nearly half (44.9 percent) of the sample was drawn from the two major cities of Quito and Guayaquil. Respondents from secondary coastal and highlands cities comprised 32.2 and 22.9 percent of the sample, respectively (see Table 4). The nonbeneficiary sample tended to be concentrated more in the two major cities of Quito and Guayaquil: 52.3 percent of the nonbeneficiary sample was drawn from these two towns compared to only 42.4 percent of the beneficiary sample. Secondary coastal and sierra towns were slightly underrepresented in the nonbeneficiary sample. None of the differences were statistically significant, however.

There was little gender difference in the location of respondents. Women were slightly overrepresented in Guayaquil and Quito, and slightly underrepresented in the secondary towns, but the differences were slight and not significant.

TABLE 4

GEOGRAPHIC DISTRIBUTION OF RESPONDENTS

INTERVIEW LOCATIONS	BENEFICIARY STATUS		SEX		TOTALS
	YES	NO	Male	Female	
Quito	94 21.9%	36 23.8%	82 14.1%	48 8.3%	130 22.4%
Guayaquil	88 20.5%	43 28.5%	78 13.4%	53 9.1%	131 22.5%
Coastal	144 33.5%	43 28.5%	125 21.5%	62 10.7%	187 32.2%
Sierra	104 24.2%	29 19.2%	94 16.2%	39 6.7%	133 22.9%
TOTALS	430 100.0%	151 100.0%	379 100.0%	202 100.0%	581 100.0%

Civil Status

A large majority of the respondents were either married or involved in long-term common law partnerships. Seventy-three percent claimed to be married, while 6.4 percent responded that they were common-law partners. Only 16.2 percent of the respondents were single, and only 5 percent were divorced or widowed. This is consistent with the findings of the Valinmer survey which reported between 65 and 73 percent of the respondents as married.

Several hypotheses may account for the large percentage of respondents that are either married or in long-term relationships. First, the respondents themselves, especially common-law partners, may be overstating their married status. Second, micro-entrepreneurs may represent a socially stable and upwardly mobile sector of the society. Third, the selection process used by the foundations and NGOs may (either overtly or unintentionally) weed out less stable individuals. This latter hypothesis is supported in part by the fact that a larger percentage of nonbeneficiaries are single, widowed and divorced (see Table 5).

TABLE 5

CIVIL STATUS OF RESPONDENTS, BY BENEFICIARY STATUS AND SEX

CIVIL STATUS	BENEFICIARY STATUS		SEX		TOTALS
	YES	NO	Male	Female	
Single	58 13.6%	32 21.3%	52 13.7%	38 19.1%	90 15.6%
Married or Common Law	351 82.0%	108 72.0%	313 82.6%	146 73.4%	459 79.4%
Widowed or Divorced	19 4.4%	10 6.7%	14 3.7%	15 7.5%	29 5.0%
TOTALS	428 100.0%	150 100.0%	379 100.0%	199 100.0%	578 100.0%

Female micro-entrepreneurs were less likely to be married than

men. A higher percentage of female respondents was single, and a higher percentage was widowed or divorced.

Head of Household

According to national statistics, approximately 49 percent of small-scale business owners are heads of household.[39] In contrast, more than two-thirds (67.4 percent) of the respondents to this survey classified themselves as heads of household.

Program beneficiaries are much more likely to be heads of households than are nonbeneficiaries. This could be due to biases inherent in the formal selection procedures used by the intermediary institutions, or to self-selection characteristics of people who tend to seek support from these institutions.

TABLE 6

HEAD-OF-FAMILY STATUS, BY BENEFICIARY STATUS AND SEX

HEAD-OF-FAMILY STATUS	BENEFICIARY STATUS		SEX		TOTALS
	YES	NO	Male	Female	
Yes	287 70.0%	85 59.9%	313 87.7%	59 30.3%	372 67.4%
No	123 30.0%	57 40.1%	44 12.3%	136 69.7%	180 32.6%
TOTALS	410 100.0%	142 100.0%	357 100.0%	195 100.0%	552 100.0%

Similarly, men are far more likely to be heads of household than women: 87.7 percent of the male respondents answered that they were heads of household, compared to only 30.3 percent of the women respondents. While women may be reluctant to claim head-of-household status, the responses imply that many women form businesses as a second source of income for the family or as an independent source of income for themselves.

Basic Characteristics of the Businesses

Sector

The largest percentage of the respondents (42.8 percent) were classified as primarily engaged in production activities, followed by 30.4 percent in services and 24.6 percent in commerce.[40] This distribution contrasts sharply with statistics provided by the Ministry of Social Welfare, which show that

[39] Baca Carbo, *op.cit.*, p. 14.

[40] Thirteen respondents (2.2 percent of the sample) were uncoded.

49.1 percent of micro-entrepreneurs in the country are involved in commerce, 23.6 percent in production, 16.8 percent in services and 9.3 percent in construction.[41]

The formal MSE programs appear to be selectively focusing on the productive and service sectors, to the exclusion of the small commerce sector. The commerce-sector businesses in the sample were almost exclusively small shopkeepers (*tiendas* or *bazares*); only five respondents were market women, street vendors or others who did not own or rent a regular store space.

Female respondents were heavily concentrated in barber and beauty shops, small stores, textiles and, to a much lesser extent, the artisanry and food sectors (see Figure 2).[42]

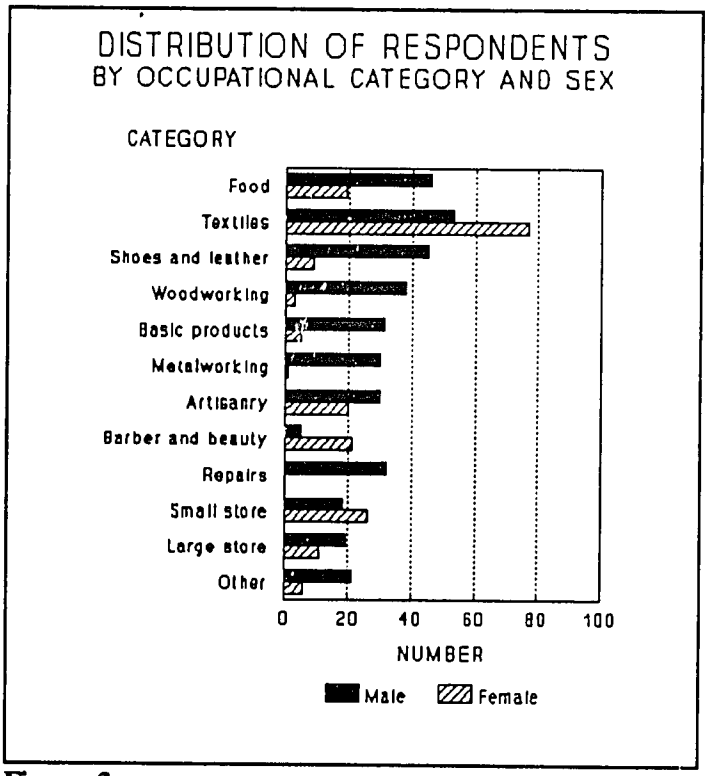

Figure 2

Age of Business

The small-scale businesses included in the survey sample display a bimodal age distribution. A substantial number (41.6 percent of the sample) had been formed within the past three years. On the other hand, an equally large number have been in business for more than seven years, and nearly one-fourth of the sample has been in business for more than 10 years.

Women-owned businesses tend to be younger than those owned by men. More than 20 percent of the women in the sample had established businesses within the past year, compared to only 10.6 percent of the men. Furthermore, only 34.5

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[41]Baca Carbo, *op.cit.*, p. 13.

[42]"Large stores," as used in this report, does not mean a store that occupies a large physical space or that has large sales volumes. Rather, it is a store that sells larger, higher-cost items (such as stoves, refrigerators, construction materials, and home electrical products), in contrast with firms that sell very small and low-cost items (such as foods, school supplies, and sewing supplies). There is a significant difference in scale, investment and risk between the two types of firms. The term "large store" may be misnomer, and somewhat confusing, but was the only simple term we could think of to distinguish between the two types of operations.

percent of the women had been in business for seven or more years, compared to 45.5 percent of the men. This could reflect a recent increase in women's economic activities.[43]

Nonbeneficiary businesses are significantly younger than those owned by beneficiaries. More than half of the nonbeneficiaries had formed their businesses within the last three years, compared to only 37 percent of the beneficiaries.

TABLE 7

AGE OF BUSINESSES, BY BENEFICIARY STATUS AND SEX

YEARS IN BUSINESS	BENEFICIARY STATUS		SEX		TOTALS
	YES	NO	Male	Female	
One or less	43 10.4%	35 23.8%	39 10.6%	39 20.1%	78 13.9%
Two or three	111 26.7%	39 26.5%	98 26.6%	52 26.8%	150 26.7%
Four thru six	82 19.8%	18 12.2%	64 17.4%	36 18.6%	100 17.8%
Seven thru ten	78 18.8%	21 14.3%	72 19.6%	27 13.9%	99 17.6%
Eleven or more	101 24.3%	34 23.1%	95 25.8%	40 20.6%	135 24.0%
TOTALS	415 100.0%	147 100.0%	368 100.0%	194 100.0%	562 100.0%

Legal Status

Nearly two-thirds of the respondents said their businesses were legally registered enterprises. This appears to be an exaggeration. Perhaps the respondents failed to understand the question; perhaps they were afraid to admit to owning an unregistered business; perhaps they did not understand the full process of registering and legalizing the business. On the other hand, it may be that the selection processes used by the NGOs and foundations is biased toward larger and more stable businesses. Whatever the reason, the micro- and small-scale enterprise sector is virtually synonymous with unregistered, informal-sector operations, and the number of respondents reporting that their businesses were legally registered is inconsistent with known registration patterns.[44]

There was no difference between beneficiaries and nonbeneficiaries. Male respondents were slightly more likely than female respondents to say their businesses were registered.

Of the 228 respondent who said their businesses were unregistered, the vast majority (156) said they saw no benefit to registering the business or that it not occurred to them. Only 20 hadn't registered their businesses because of the higher tax burden registration implied; 10 cited difficult and cumbersome procedures as an impediment to registration; 5 said the costs of registration were too high; and only 1

[43]See Rae Blumberg, Chapter Two in this report. An alternative interpretation would be that women-owned businesses have a higher failure rate, which reduces the number of older women-owned businesses in the sector. Additional research would be needed to explore this issue.

[44]Further research would be required to clarify this point.

cited the onerous burden of submitting to the provisions of the labor code as a reason for not registering the business.

Type of Ownership

Most of the respondents (97.9 percent) were either sole owners of the business or in partnership with their spouse or other family member (see Table 8). Only 12 of the 576 respondents for whom data were available, all of whom were men, were either in partnership with nonfamily members or incorporated. Women respondents were much more likely than male respondents to have their spouse as a business partner. There was no difference between the ownership structure of beneficiary and nonbeneficiary businesses.

TABLE 8

OWNERSHIP STRUCTURE, BY SEX

OWNERSHIP TYPE	SEX: Male	SEX: Female	TOTALS
Owner, Alone	314 83.5%	150 75.0%	464 80.6%
Family Partner(s)	50 13.3%	50 25.0%	100 17.4%
Non-Family Partner(s)	10 2.7%	0 .0%	10 1.7%
Incorporated	2 .5%	0 .0%	2 .3%
TOTALS	376 100.0%	200 100.0%	576 100.0%

Motives for Starting the Business

Rather than representing a desperate last resort, starting a small-scale business is viewed by most entrepreneurs as a positive alternative to other lines of work. Only six percent of the respondents to the survey said they had started their businesses because they could not find other work. The vast majority started businesses either to be independent (34.0 percent) or because it represented an opportunity to earn more income than other alternatives (49.1 percent).

Nonbeneficiaries were more likely to have started their businesses out of need ("No Other Opportunity") than beneficiaries. Beneficiaries were much more likely to view the business as representing a better opportunity to increase income.

Women were much less likely than men to view the business as an opportunity to be independent, and more likely to see it as representing a better income potential. This probably reflects a realistic assessment of the limited job potential and overt wage discrimination against women in the formal sector.

Newer businesses were more likely to have been started as an opportunity to earn more, while older businesses had been started primarily to be independent.

TABLE 9

REASON FOR STARTING THE BUSINESS, BY BENEFICIARY STATUS AND SEX

	BENEFICIARY STATUS		SEX		
MAJOR REASON	YES	NO	Male	Female	TOTALS
No Other Opportunity	21 4.9%	16 10.7%	20 5.3%	17 8.5%	37 6.4%
Continue Family Business	39 9.2%	16 10.7%	35 9.3%	20 10.0%	55 9.5%
To be Independent	144 33.8%	52 34.7%	143 38.1%	53 26.4%	196 34.0%
Better Opportunity	218 51.2%	65 43.3%	173 46.1%	110 54.7%	283 49.1%
Other	4 .9%	1 .7%	4 1.1%	1 .5%	5 .9%
TOTALS	426 100.0%	150 100.0%	375 100.0%	201 100.0%	576 100.0%

Business Location

Slightly more than half (53 percent) of the respondents operated their businesses from independent stores, shops or other locations, while 42 percent operated businesses that were located either in or attached to their homes. Only 4.6 percent of the respondents were market or street vendors, showing the strong bias of the donor programs against working with these sectors of the MSE population.

Female respondents were much more likely than male respondents to have their businesses located in their home. While 54.2 percent of the female respondents had businesses located in or attached to their home, only 32.1 percent of the male respondents did. In part, this reflects the fact that fewer women are heads of households: their businesses represent second incomes juxtaposed with traditional housekeeping activities. At the same time, however, even female heads of households are only slightly more likely than female nonheads of households to have businesses located in separate facilities.

TABLE 10

LOCATION OF BUSINESS, BY SEX

	SEX		
LOCATION	Male	Female	TOTALS
In or Attached to House	120 32.1%	109 54.2%	229 39.8%
Separate Location	237 63.4%	82 40.8%	319 55.5%
Market/Street Stall	12 3.2%	6 3.0%	18 3.1%
No Permanent Location	5 1.3%	4 2.0%	9 1.6%
TOTALS	374 100.0%	201 100.0%	575 100.0%

Enterprises that employ nonfamily labor nonfamily labor are much more likely to be located in a separate facility. More than 51 percent of the businesses that used only family labor were located in the home, but only 34 percent of those that hired nonfamily workers were.

Similarly, the more employees a firm has the more likely the firm is to be located away from the home. Although 48.6 percent of the firms with 1 or two employees are located outside the home, for example, this percentage increases rapidly until 83.3 percent of the firms with more than 10 employees are located in separate facilities.

Assets

The firms in the sample ranged from extremely small businesses with limited assets (one firm actually claimed to have no assets) to a relatively large firm with nearly $70,000 in assets. For the most part the firms were quite small, clearly falling within the accepted range of micro- and small-scale enterprises. One-fourth of the firms had less than S/.900,000 ($1,046) in total assets; 50 percent had less than S/.2 million ($2,326) in assets; and 75 percent had total assets of less than S/.4.3 million ($5,000). Only 26 firms (less than 5 percent of the sample) had total assets exceeding S/.15 million ($17,442). Thus, at least 50 percent of the sample clearly consists of businesses that would be classified as micro enterprises under the criteria established by most of the local intermediaries, and another 45 percent that would be classified as small enterprises. The remaining 5 percent might well be considered medium-scale enterprises.

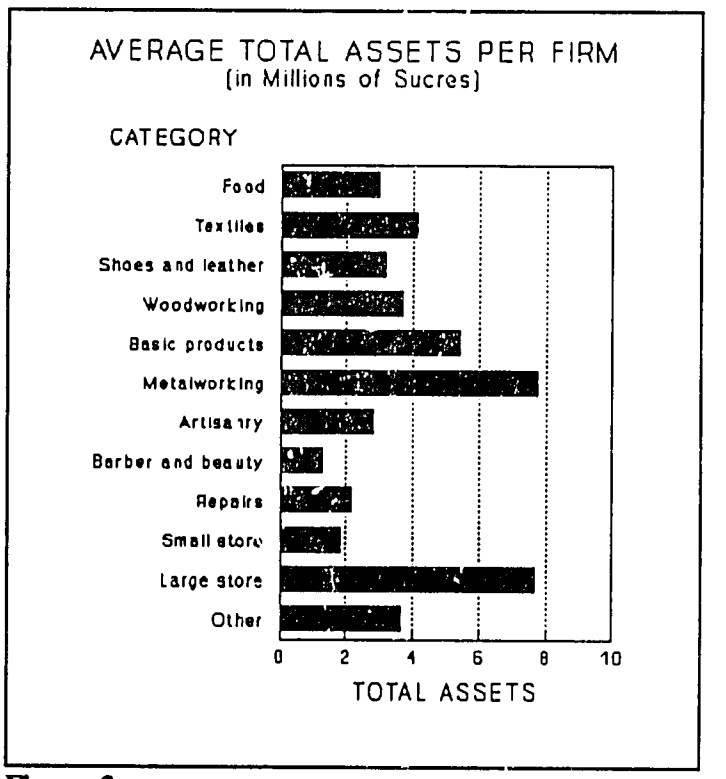

Figure 3

There are strong sectoral differences in business size, as can be seen in Figure 3. Businesses in the metalworking and basic products subsectors, and the large stores tend to be much larger than firms in the other subsectors. Barber and beauty shops, artisan handicraft producers and small stores tend to be very small operations.

This data can be interpreted two different ways. Subsectors with larger firms may be more dynamic subsectors, offering greater potential for growth and expansion. On the other hand, these seem to be fields that require a larger amount of capital, both to get established and to stay in businesses. Issues of profitability and relative success are discussed later in this chapter.

The differences between subsectors, however, is not as striking as the variation in asset size among firms in the same subsectors. There is a tendency to consider small-scale enterprises, especially those within a single subsector, as being similar. In fact, as can be seen in Figure 4, there is considerable variation in firm size, even within the subsectors. The greatest variability occurs in the large stores, metalworking and basic products; there are both very small and very large firms within these subsectors. Barber and beauty shops and small stores, on the other, tend to be uniformly small-scale operations, with very little variation in size.

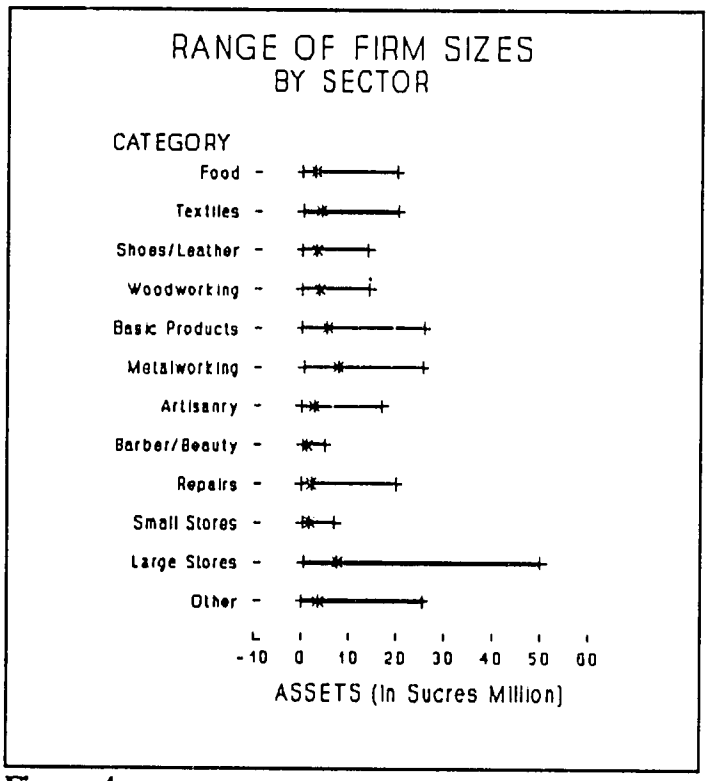

Figure 4

This has important program implications. Differences in asset size are related to differences in management capabilities, scale of operations, sophistication of production and marketing technologies, and capital requirements. Programs adopting standardized approaches to providing assistance to these groups are unlikely to be able to address the specific needs of the different participants in the subsector because they fail to recognizes the differences in needs implied by differences in scale of operations.

Gender is strongly related to asset size: women-owned businesses are smaller than men-owned businesses. More than half of the women-owned businesses have less than S/.1.5 million ($1,750) in total assets, compared to only 37 percent of the men-owned businesses. Conversely, more than 20 percent of the male-owned businesses had more than S/.6.0 million ($7,000) in assets, compared to only 9.2 percent of the women-owned businesses. The relationship is strong, consistent, and statistically significant.

Similarly, businesses owned by nonbeneficiaries tend to be smaller than businesses owned by beneficiaries. More than half (53.4 percent) of the nonbeneficiaries had less than S/.1.5 million invested in their businesses, compared to only 20.6 percent of the beneficiaries; and while 19.4 percent of the beneficiaries had more than $/.6 million invested in their businesses, less than 9 percent of the nonbeneficiaries did.

TABLE 11

SIZE OF BUSINESSES,
BY BENEFICIARY STATUS AND SEX

ASSET GROUP	BENEFICIARY STATUS		SEX		TOTALS
	YES	NO	Male	Female	
Thru 750k	80 18.9%	41 28.1%	69 18.5%	52 26.5%	121 21.3%
751k thru 1,500k	80 18.9%	37 25.3%	69 18.5%	40 24.5%	117 20.6%
1,500k thru 3,000k	105 24.8%	30 20.5%	90 24.1%	45 23.0%	135 23.7%
3,000k thru 6,000k	76 18.0%	25 17.1%	68 18.2%	33 16.8%	101 17.8%
More than 6,000k	82 19.4%	13 8.9%	77 20.6%	18 9.2%	95 16.7%
TOTALS	423 100.0%	146 100.0%	373 100.0%	196 100.0%	569 100.0%

Part of these differences could be due to the age of the businesses. Both nonbeneficiaries and women tend to have younger businesses, and asset size is a function of age: older businesses tend to be larger. More than one-fourth of the businesses over 10 years old have more than S/.6 million ($7,000) in assets, compared to only 9.7 percent of the businesses less than three years old. In contrast, more than one-fourth of the businesses less than three years old had assets of less than S/.750,000 ($872), compared to less than 15 percent of the businesses over ten years old. There are older firms that have apparently not grown, and younger firms that have either grown rapidly or have started with a larger asset base, but the general pattern is strong and significant.

The difference, at least in the case of gender, may also be due to the nature of the business. As discussed earlier, businesses in metalworking, basic products, and large stores tend to be relatively large, while those in barber and beauty, artisan handicrafts and small stores tend to be small. Women-owned businesses tend to be concentrated in sectors characterized by smaller businesses.

Assets may also be considered a proxy for the costs of being in business, however. From the average assets of firms in the sample, it appears that metalworking, basic products, large stores and, to a lesser extent, textiles, require the highest level of investment. Artisan handicrafts, repair shops, barber and beauty shops and small stores require the least. It is easier and less costly to establish a small artisan, repair shop, store or barber and beauty business than it is to establish a metalworking, large store or basic products manufacturing operation. These are, therefore, more attractive and accessible as start-up business ventures for people with less capital.

TABLE 12

IMPACT OF BUSINESS AGE ON ASSET SIZE
(Assets in millions of Sucres)

YEARS IN BUSINESS	TOTAL ASSETS 0 to .75	.75 to 1.5	1.5 to 3.0	3.0 to 6.0	More than 6.0	TOTALS
0 THRU 3 YEARS	57 25.6%	48 21.5%	57 25.6%	39 17.5%	22 9.9%	223 100.0%
4 THRU 10 YEARS	35 18.0%	41 21.1%	47 24.2%	32 16.5%	39 20.1%	194 100.0%
MORE THAN 10 YEARS	21 15.8%	27 20.3%	26 19.5%	28 21.1%	31 23.3%	133 100.0%
TOTALS	113 20.5%	116 21.1%	130 23.6%	99 18.0%	92 16.7%	550 100.0%

This can be seen clearly in Table 13. More than three-fourths of the barber and beauty shops have less than S/.1.5 million ($1,744) in assets. At the other end of the spectrum, very few metalworking, woodworking and basic products operations have less than S/.1.5 million in assets.[45] From this table we

TABLE 13

COMPARISON OF ASSET SIZE, BY SECTOR
(Assets in millions of Sucres)
Percentages

CATEGORY	TOTAL ASSETS 0 to .75	.75 to 1.5	1.5 to 3.0	3.0 to 6.0	More than 6.0	TOTALS
Food	26.6	26.6	18.8	14.1	14.1	100.0
Textiles	17.2	17.2	25.0	19.5	21.1	100.0
Shoes and leather	22.6	22.6	18.9	22.6	13.2	100.0
Woodworking	7.3	22.0	29.3	24.4	17.1	100.0
Basic products	17.6	8.8	20.6	23.5	29.4	100.0
Metalworking	9.7	9.7	19.4	16.1	45.2	100.0
Artisanry	25.0	16.7	29.2	22.9	6.3	100.0
Barber and beauty	42.3	34.6	15.4	7.7	.0	100.0
Repairs	43.8	21.9	18.8	9.4	6.3	100.0
Small Store	20.9	41.9	18.6	16.3	2.3	100.0
Large Store	13.8	10.3	34.5	17.2	24.1	100.0
Other	26.9	15.4	30.8	11.5	15.4	100.0
TOTALS	21.6	20.7	23.2	18.0	16.4	100.0

[45]Basic products show a greater variability because the subsector contains a variety of enterprise activities.

would expect barber and beauty shops, repair shops, food, artisan handicrafts and leather working to be fields selected by first-time entrants to the micro-enterprise sector.

However, with easier entry into these fields, competition should be greater and profitability lower.

DYNAMICS OF MICRO- AND SMALL-SCALE ENTERPRISES IN ECUADOR

The major rationale for supporting micro-enterprise development is, and must be, a conviction that these organizations are capable of growing and providing a decent standard of living for the owners, their dependents and employees. Small businesses throughout the world have a high rate of failure: as much as 80 percent of all businesses that are established fail within the first two years of operation.[46] Many GOE officials and professionals studying micro-enterprises in Ecuador have come to the conclusion that these are marginal operations characterized by substandard wages, low productivity, disguised underemployment, and little chance of growing into significant businesses.[47]

There are several ways to estimate the relative degree of success of the micro-entrepreneurs. Clearly one way is through the perception of the entrepreneurs themselves — whether or not they perceive their businesses to be successful and their plans for the future. These are discussed later in the chapter. Another is to calculate indicators based on the economic performance of the firm. This section discusses several indicators of firm performance — growth in sales and profitability, and a benefit/cost ratio that examines a firm's contribution to economic output.

Specific Success Indicators

Growth in Sales in Sales and Income

When asked directly whether or not sales had increased, less than half (41.2 percent) of the respondents reported that their sales had increased between 1989 and the first six months of 1990. More than one-fourth indicated that sales had decreased from 1989. Another one-fourth of the respondents said that their sales had not changed during the past year. The rest had either been recently created, so there was no basis for comparing sales with the previous year, or that they did not know. In a highly inflationary setting, such as that facing Ecuador, constant and even growing sales often represent a decline

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[46]In this sense all recent studies of micro-entrepreneurs in Ecuador are highly biased in that the samples do not contain the responses of people who have failed and gone out of business.

[47]See especially the papers presented to the USAID/INSOTEC seminars on the informal sector. INSOTEC, *Programas de Micro y Pequeña Empresa.*

in real terms. Thus, a minimum of 50 percent of the respondents report that they are experiencing declining real sales.

Reported sales amounts for 1989 and 1990 generally corroborated responses to the direct question. Nearly two-thirds (65.3 percent) of the respondents had increased nominal sales volumes in 1990.

However, when the rate of inflation is taken into account, the sales of nearly two-thirds of the respondents are not keeping pace with inflation. If 40 to 60 percent is considered to be the annual rate of inflation, more than 70 percent of the respondent had negative real growth in sales volumes.[48] Another 10 percent had no change in real terms. Only 19.4 percent had a positive real growth in sales.

This trend is strong, and consistent across most of the subsectors. As can be seen in Figure 5, only in the metal-working subsector did less than 50 percent of the firms experience negative real rates of growth in sales and, with the exception of barber and beauty shops and artisans, between 60 and 75 percent of the firms in the other subsectors experienced negative real rates of growth in sales between 1989 and 1990. The barber and beauty and small stores subsectors have the largest proportion of firms with positive real sales growth rates, but the majority of firms in even these subsectors experienced negative growth rates.

What is surprising in the data is that there is no apparent difference between beneficiaries and nonbeneficiaries. If we were to assume that MSE programs were having a positive impact on business viability, we would expect to find more beneficiaries among the positive real sales growth group. As can be seen in Table 15, however, that is not the case. Beneficiaries performed no better than nonbeneficiaries.

TABLE 14

REPORTED CHANGE IN SALES, 1989 TO 1990

CHANGE IN SALES	NUMBER	PERCENT
Not Applicable, Recently Created	26	4.6
No Opinion, Doesn't Know	9	1.6
Increased, Much	67	11.8
Increased, a Little	171	30.0
No Change	141	24.7
Decreased, a Little	111	19.5
Decreased, Much	45	7.9
TOTALS	570	100.0

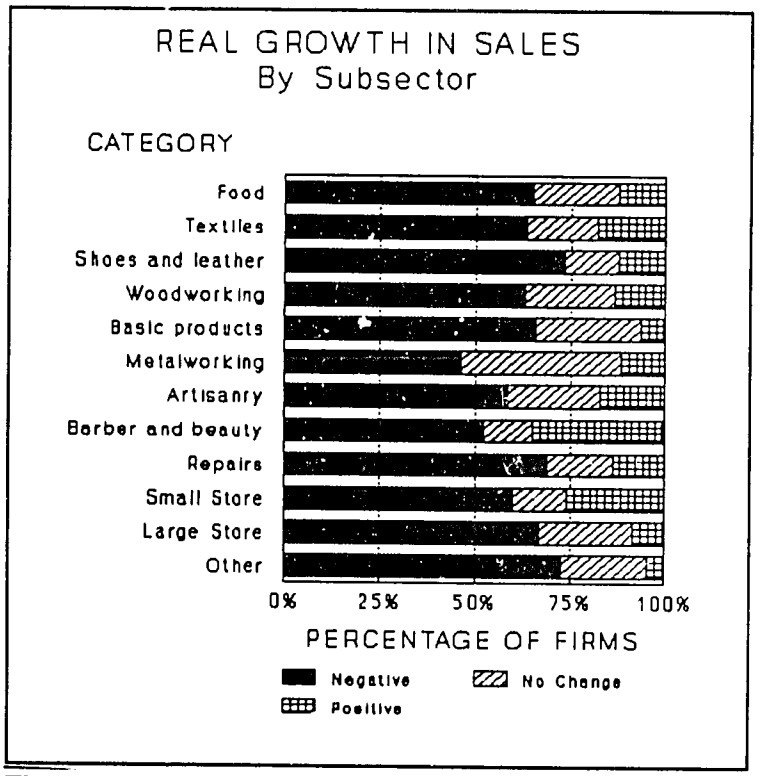

Figure 5

[48]This cannot really be taken as indicating a decline in income, because we do not have corresponding figures on increases in costs of production.

TABLE 15

GROWTH IN SALES, 1989 TO 1990,
BY BENEFICIARY STATUS AND SEX

REAL CHANGE IN SALES	BENEFICIARY STATUS		SEX		TOTALS
	YES	NO	Male	Female	
Negative	247 64.0%	71 61.7%	218 64.3%	100 61.7%	318 63.5%
No Change	81 21.0%	26 22.6%	75 22.1%	32 19.8%	107 21.4%
Positive	58 15.0%	18 15.7%	46 13.6%	30 18.5%	76 15.2%
TOTALS	386 100.0%	115 100.0%	339 100.0%	162 100.0%	501 100.0%

Similarly, there is no difference in performance between men and women in the sample. A slightly higher percentage of women were in the group that experienced a positive real growth rate in sales, but the differences were not statistically significant, which would seem to imply that women-owned businesses are not more precarious than men-owned businesses. This is consistent with some of the literature in the field, which shows that women tend to be concentrated in businesses that have a high growth potential.[49] Women are heavily concentrated in the barber and beauty industry and in the small stores subsector, both of which had the highest percentage of firms with positive real growth in sales.

[49]See Chapter Two of this report.

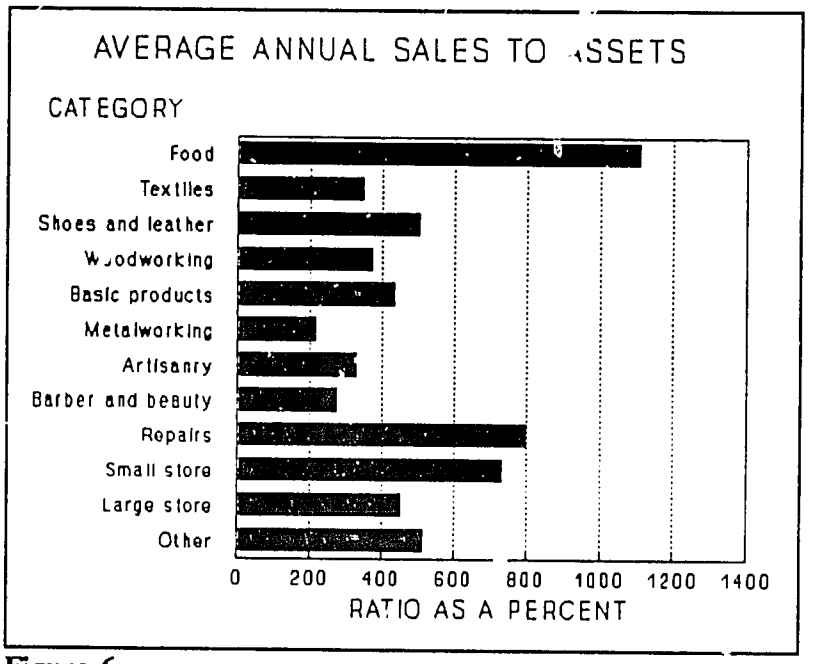

Figure 6

Sales Ratios

Comparing the sales efficiency of firms in the different sectors produces a distinct pattern of success.[50] Both sales as a ratio of assets (Figure 6) and sales per employee (Figure 7) vary significantly by sector. Firms in the food sector have far higher sales compared to the level of investment than any other sector, followed by repair shops and small stores. Firms in metalworking, barber and beauty shops and artisanry have the lowest average sales relative to assets. But in terms of sales per employee, large stores have the highest ratio, signifying a high sales turnover with relatively few employees. Small stores also have relatively high sales turnover per employee, followed by food products firms. The other firms have significantly lower average sales per employee.

Since sales are the basis for profitability, firms that have the greatest sales efficiency should also be generating the highest relative profit levels, which should, in turn, be translated into higher incomes for both the owners of the businesses and their employees.

Again, there was no difference among the respondents on the basis of either beneficiary status or gender. Nonbeneficiaries performed as well as MSE program beneficiaries. Improvements in MSE performance, at least in terms of sales efficiency, cannot be ascribed to program impact. Women performed as well as men in terms of both sales per assets and sales per employee. Even though women, in general, own smaller businesses than men, their sales levels are consistent with the level of assets invested in the business and the number of persons they employ.

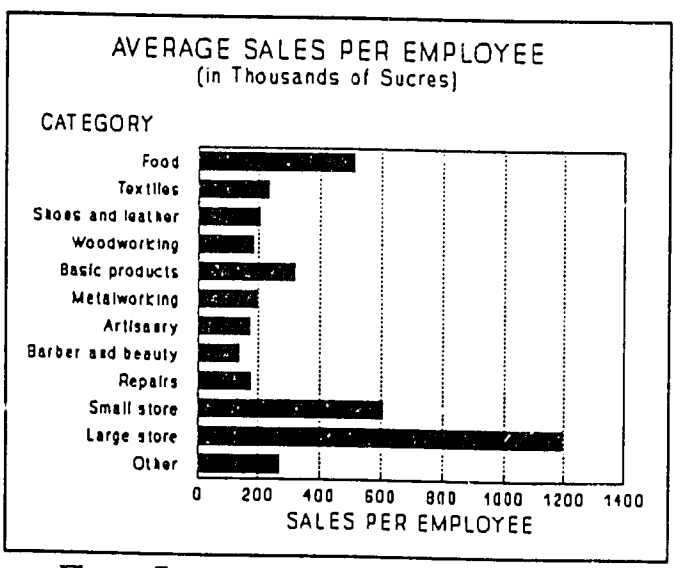

Figure 7

[50]Measured in terms of sales per unit of assets and sales per employee.

Profits and Profitability

As can be expected, larger firms generate larger profits; there is a strong and consistent relationship between asset size and absolute profit levels. In general, firms with less than S/.750 thousand in total assets ($842) generate profits of less than S/.100 thousand ($116) per month. The largest firms, those with more than S/6 million ($7,000) in assets have the highest percentage in the large profit category. There are, however, some small firms that have high levels of profits, and some large firms with very low profit levels.

TABLE 16

DISTRIBUTION OF FIRMS IN TERMS OF RELATIVE PROFITABILITY, BY ASSET SIZE (Numbers)

ASSET GROUP (sucres)	PROFIT GROUPS (sucres)				TOTALS
	Up thru 50,000	50,001 thru 100,000	100,001 thru 200,000	More than 200,000	
Thru .75 million	43	45	16	7	111
.75 thru 1.5 million	30	44	22	10	106
1.5 thru 3.0 million	18	56	38	20	132
3.0 thru 6.0 million	12	19	40	24	95
More than 6.0 million	5	18	28	39	90
TOTALS	108	182	144	100	534

Absolute profit levels do not indicate relative efficiency or success, however. Ratios such as return on investment (profits relative to assets) or profit margins (profits relative to sales) provide a better indication of a firm's ability to generate income.

There were significant differences among the subsectors in terms of return on assets (Figure 8). Repair shops and firms in the food products sector report significantly higher profits relative to assets than any of the other sectors. Firms in the metalworking sector and large stores reported the lowest profits relative to asset size.

A quite different pattern emerges in terms of profits per unit of sales (see Figure 9). Based on responses to the questionnaire, repair shops, artisans and barber and beauty shops — all of which are labor intensive — have the highest profits for their volume of sales. As can be expected, small stores, large stores and leather workers — which require large inventories or expensive inputs — report the lowest profitability per unit of sale.

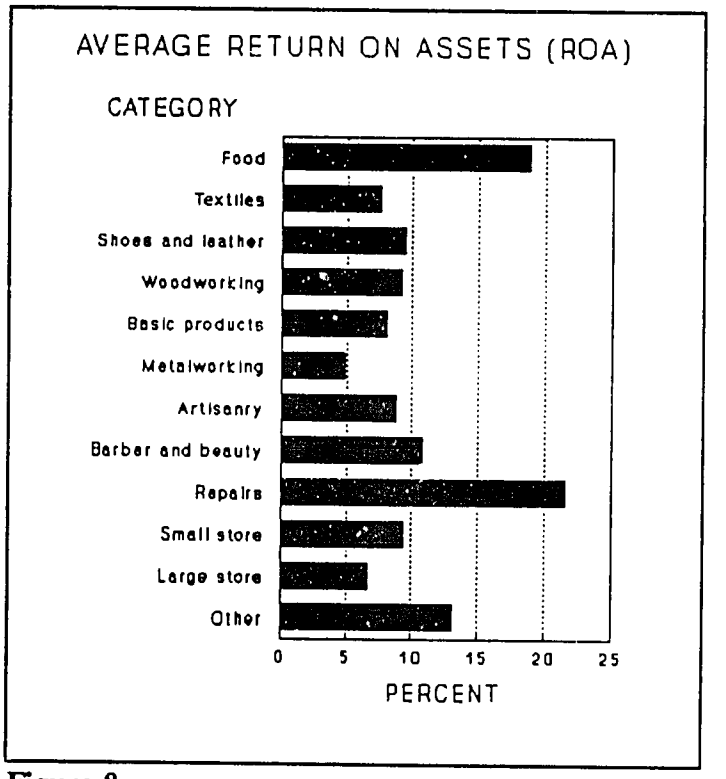

Figure 8

As in the case of sales and absolute profit levels, there was no discernable difference based on beneficiary status or gender. Nonbeneficiaries performed as well as MSE program beneficiaries, and women-owned businesses performed as well as those owned by men.

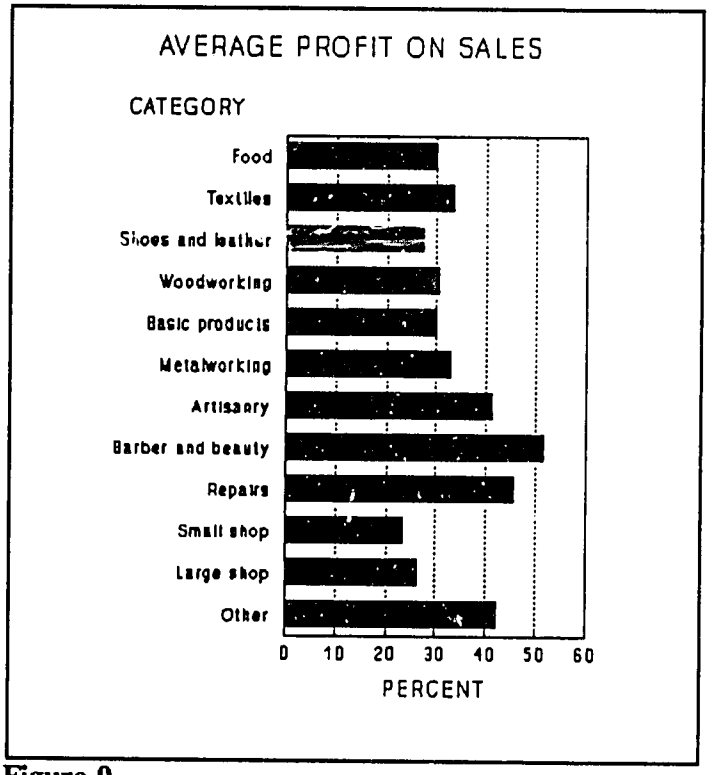

Figure 9

Profits per Employee

Profits per employee provide an indication of a firm's ability to remunerate workers or add new employees. In this sample, large stores, small stores, basic products manufacturing firms and food product firms have the highest average profits per employee ratios (Figure 10). Firms in other subsectors generate significantly lower levels of profits per employee.

As in the case of earlier indicators of efficiency, there was no discernable difference based on beneficiary status or gender. Nonbeneficiaries performed as well as MSE program

beneficiaries, and women-owned businesses performed as well as those owned by men.

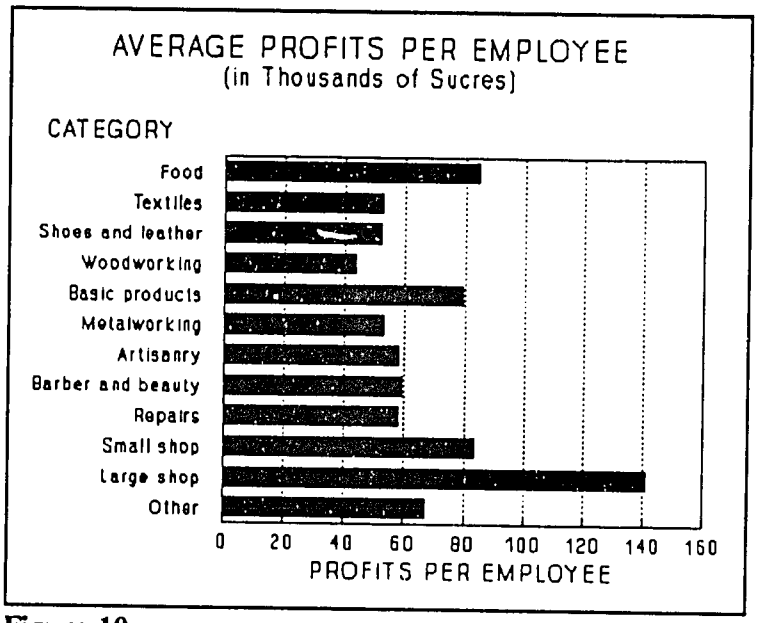

Figure 10

Social Benefit-Cost Ratios

Calculating a social benefit-cost (SBC) ratio is another approach to estimating the economic viability and contribution of a firm. Defined as the " . . . ratio of an enterprise's value added to the cost of its capital and labor, both valued at their shadow prices . . .", the social benefit-cost ratio provides a measure of a firm's efficiency:[51]

A ratio greater than one means that an activity or enterprise has a positive effect on the total output of the economy, while a ratio of less than one means it has a negative effect.

This social-benefit cost ratio is calculated by the following formula:

$$SBC = \frac{VA}{r_s K + w_s L}$$

where:

VA = Value Added
r_s = shadow price (interest rate) of capital
K = Total fixed and working capital
w_s = shadow price of labor
L = total labor hours, including family hours

In this case, "value added" was calculated as total sales less the estimated cost of inputs which, in turn, was estimated at 70 percent of the gross sales value of the product.[52] The shadow price of capital

[51]Carl Liedholm and Donald Mead, *Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications*, pp. 62-63.

[52]See Robert Blayney, Chapter Three in this report, for a discussion of calculating value added.

was estimated at 45 percent[53]. The minimum wage S/.32,000 per month was used as the shadow price of labor.

Of the 509 firms for which this ratio could be calculated, only 95 (18.7 percent) had a positive social benefit-cost ratio; the rest had either a negative ratio (205, or 40.2 percent of the firms) or an indeterminant ratio (209, or 41.1 percent of the firms).[54] Relatively few of the firms made a positive contribution to overall economic output. Stated another way, the real return to most of the micro-entrepreneurs in the sample is below the opportunity costs of their capital and labor, supporting the contention of widespread underemployment in the micro-enterprise sector.

The size of the firm was inversely correlated with the SBC ratio. As can be seen below, the smallest firms (those with assets of less than S/.750 thousand) were far more likely to have a positive SBC and much less likely to have a negative SBC ratio than any other sized firm. The largest firms (those with assets of more than S/.6 million) were far more likely to have negative SBC ratios and much less likely to have positive SBC ratios. Stated another way, smaller firms tend to be more efficient in producing sales and profits, while large firms — with more assets and employees — are generally less profitable.

The relationship was consistent and highly significant. As can be seen in Table17, not only do more of the smaller firms have positive SBC ratios, the average SBC is much higher than for larger firms, and the relationship is consistent through the entire asset range.

Consistent with this, firms with fewer employees tend to have higher SBC ratios than firms with more employees. As firms add employees, even within the range of small-scale enterprises considered in this study, they become more inefficient.

There were also significant differences among industry

TABLE 17

SOCIAL BENEFIT/COST RATIOS, BY SIZE OF FIRM

Asset Size (in S/.000)	Average SBC Ratio	Number of Employees	Average SBC Ratio
Less than 750	1.21	Up to 1 employee*	.96
751 to 1,500	1.04	Between 1 and 2	1.15
1,501 to 3,000	.99	Between 2 and 4	.91
3,001 to 6,000	.82	Over 4	.83
Over 6,000	.55		

*Includes part-time owner-operated businesses

[53]Estimates of the annual inflation rate ranged from 35 percent to over 50 percent. Government programs were lending at 39 percent per year, while commercial interest rates on savings and loans were 45 percent and 54 percent, respectively.

[54]Recognizing limitations on the data, firms with an SBC ratio of between 0 and .6 were classified as having a negative ratio, firms with an SBC ratio between .61 and 1.4 were classified as neutral, and firms with a ratio greater than 1.41 were classified as positive. Although these ranges may appear large, the variability in the data and the lack of precision in calculating value add prohibit using narrower ranges. While the limits of the "indeterminant" range may be open to question, it appeared that those with ratios of below .6 were clearly doing poorly, while those above 1.41 were clearly doing well.

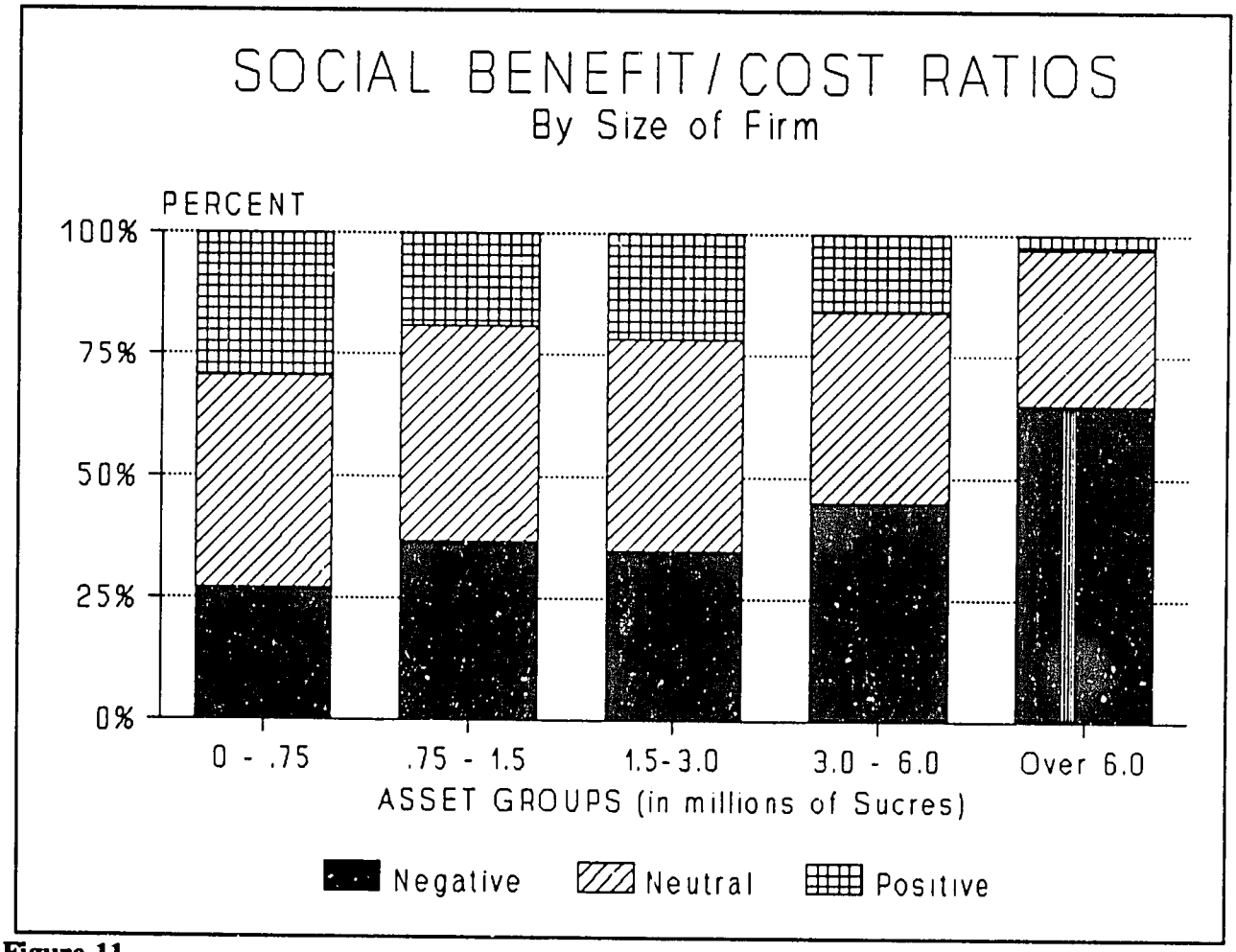

Figure 11

groups, as only firms in the food sector, repair shops and large stores had positive average SBC ratios. Average ratios for firms in all other sectors were negative, with metalworking firms having the lowest average SBC ratio.

Gender was not a factor: men and women respondents were similar throughout the sample. Women's businesses are just as likely (or unlikely) as men's businesses to have a positive social benefit-cost ratio.

Being associated with one of the micro-enterprise programs does appear to be marginally related to the SBC ratio. Although approximately the same percentage of beneficiaries and nonbeneficiaries had positive SBC ratios, program beneficiaries were much less likely to have negative ratios than nonbeneficiaries. The relationship was not statistically significant, however, and the differences cannot be attributed to the effect of program interventions: the programs may, in fact, be helping beneficiaries achieve higher SBC ratios, or the higher ratios could signify that more successful micro-entrepreneurs are joining the programs. Two aspects of micro-enterprise assistance programs, however, were negatively related to the SBC ratio: respondents who had never received technical assistance had significantly higher SBCs than those who had, and training apparently had little or no impact on SBC.

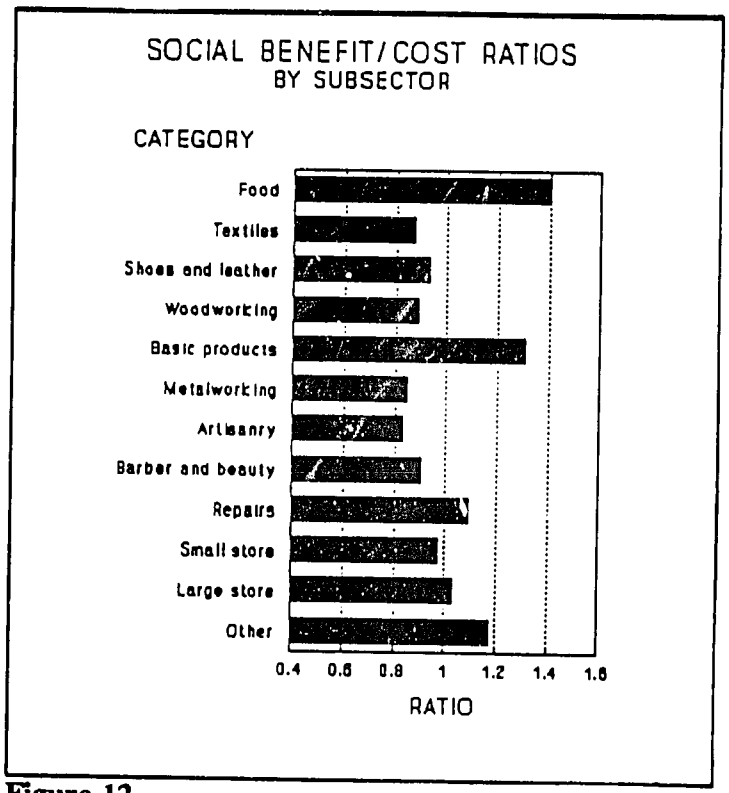

Figure 12

The amount of credit received by a firm did have a strong effect on the firm's performance in terms of the SBC ratio. Firms that had received loans amounting to less than 5 percent of their annual sales, had the highest average SBC ratios, while those that had received relatively larger loans compared to sales had much lower average SBC ratios (Table 18).

TABLE 18

SOCIAL BENEFIT/COST RATIOS, BY RELATIVE LOAN SIZE

Amount of Loan as Percent of Sales	Average SBC Ratio	Amount of Loan as Percent of Assets	Average SBC Ratio
Through 5 percent	1.19	0 to 10 percent	.66
5 to 10 percent	.99	11 to 20 percent	.83
10 to 20 percent	.81	21 to 40 percent	.95
Over 20 percent	.60	Over 40 percent	1.16

In an apparent contradiction, firms that received large loans relative to their asset size tended to have the highest ratios. This is understandable in that sales are not directly related to assets. Small firms with larger sales tend to have the highest SBC ratios. Loans are effective in stimulating sales, but need to be tailored to the size of the firm. Surprisingly, however, firms that had never applied for loans at all, or who had applied but had been turned down, also had high average SBC ratios.

EMPLOYMENT CHARACTERISTICS AND EMPLOYMENT GENERATION

General Characteristics

Even though the definition of what constitutes "micro," "small" and "medium" businesses varies considerably among institutions, the number of employees is one major variables used to distinguish between the categories. To some, "micro" enterprises are one-person businesses, while others assign arbitrary numerical limits on the number of employees to determine which is which: micro-enterprise may be defined as having less than 2, 4, 6, or 10 employees, while small enterprises have less than 10, 25 or 50. To others, micro-enterprises are businesses that use employ only members of the family, while small-scale businesses hire nonfamily workers. In any event, micro-enterprises are presumed to employ fewer people than small-scale enterprises which, in turn, employ fewer people than medium-sized enterprises.

Number of Employees

Firms in this survey ranged from sole proprietorships, providing employment for only the owners, to one firm that had the equivalent of 12.5 full-time employees.[55] The sample is comprised predominantly of very small-scale businesses, as nearly one-fourth of the firms provided employment (part- or full-time for only the owner. Firms with 3 or fewer full-time employees constituted 65.8 percent of the sample, and nearly 84 percent of the firms interviewed employed 5 or fewer employees. The smallest firm provided only part-time employment for the owner, while the largest firm in the sample had 12.5 total employee equivalents.

TABLE 19

NUMBER OF EMPLOYEES, BY SEX OF ENTREPRENEUR

NUMBER OF EMPLOYEES	SEX: Male	SEX: Female	TOTALS
Only the Owner	58 15.3%	84 41.6%	142 24.4%
1 to 3	165 43.4%	76 37.6%	241 41.4%
3 to 5	78 20.5%	26 12.9%	104 17.9%
5 to 10	72 18.9%	13 6.4%	85 14.6%
More than 10	7 1.8%	3 1.5%	10 1.7%
TOTALS	380 100.0%	202 100.0%	582 100.0%

The micro-enterprises in the sample provide 1,832 full-time jobs to 2,096 individuals, an average of 3.15 full-time jobs per firm. Small-scale businesses in Ecuador do not make extensive use of part-time employees, as more than 50 percent of the firms interviewed employed no part-time workers.

[55]The number of total employees was calculated on the basis of 1 full-time equivalent for each full-time employee and .5 full-time equivalents for each part-time employee.

Men-owned businesses tend to be larger than women-owned businesses: men-owned businesses had an average of 3.59 employees, while female-owned firms had an average of only 2.3 employees. This is clearly reflected in the distribution of businesses by number of employees (see Table 19).[56] Nearly two-thirds of the women owned businesses with only one or two employees, compared to only one-third of the men. In contrast, nearly 10 percent of the men-owned businesses have more than 7 employees, compared to only 2 percent of those owned by women.

The average size of firms also varies significantly by subsector (see Figure 13). Average employment per firm ranges from about 1.7 in the case of barber and beauty shops to as high as 4.4 in metalworking. Metalworking, basic product manufacturing and woodworking tend to employee more employees than other occupations, with barber and beauty shops and small stores employing the least.

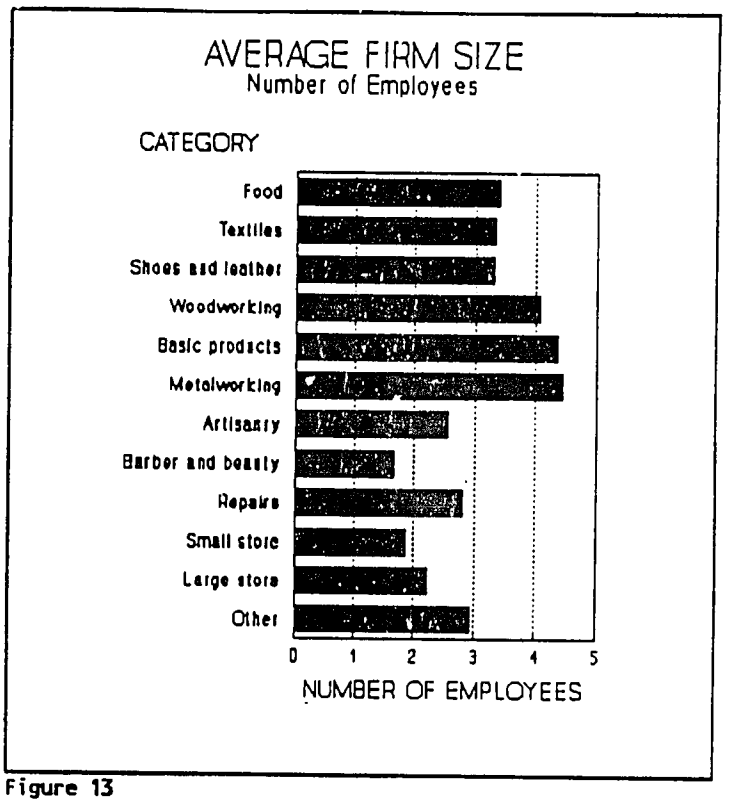

Figure 13

Assuming that firm size is partially determined by market forces and questions of efficiency, there appear to be natural limitations on the number of employees that a firm will employ in a given subsector. This could partially explain the relative size differences between men- and women-owned businesses: women tend to be concentrated in subsectors that are dominated by smaller firms. The number of employees hired by women-owned businesses is consistent with the size of business required to operate efficiently in the subsector.

Initial Size of Business

Most of the respondents began business small. More than half (57 percent) started their businesses by themselves, with no other employee, while another 27 percent had started with only one employee. Women were more likely than men to have started their businesses alone: 64 percent of the women respondents compared to 53.4 percent had no employees when they started the business. Textiles, leather, barber and beauty shops and small stores are the subsectors most likely to begin with no employees other than the owner, implying that these are businesses that can be started easily by persons with little capital and no desire to incur the risk of having employees. Large stores, and people involved in food and basic products, usually have at least one other employee at the time they start the business.

[56]The number of employees includes the owner, and is expressed in terms of full-time employment equivalents.

Sex of Employees

Approximately two-thirds of the total number of employees represented in the sample are men, which approximates the gender distribution of the sample itself. The sex of the employees is strongly related to the gender of the owner and the industrial sector. Men overwhelmingly hire men and women overwhelmingly hire women. Men hire, on the average, 2.8 men for every woman they hire; women, in contrast, hire nearly 2.7 women for every man they hire. This is strongly correlated with the gender differences in occupational skills rather than sex discrimination. Mechanics (who tend to be men) hire people who are skilled in mechanics (who also happen to be men). Dress makers (who are women) hire people who know how to make dresses (who also happen to be women). There does not seem to be sufficient task specialization within very small-scale enterprises to cause cross-gender employment.

Involvement of Family Members

Slightly more than half of the respondents (57.6 percent) involve other members of the family — either spouse or children — in their businesses. Men (45.1 percent) are more likely than women (25.3 percent) to have their spouses working in the business. This could reflect more limited economic opportunities for women, in that the spouses of married women who own businesses tend to have outside jobs, while the spouses of married men are often unemployed prior to the formation of the small enterprise. Working in the enterprise reduces the need to hire external (nonfamily labor), reduces direct labor expenses, enhances family income, and permits the wife to handle domestic chores at the same time.

Women (33.8 percent) have a greater tendency than men (21.7 percent) to involve their children in the business. This could be due to the nature of the business (certain businesses require specialized skills), but it certainly reflects the situation that more men own businesses that are physically separated from the house. It is less convenient for the children to become involved in the business when the business is not based at home.

Nonfamily Employees

Slightly more than half (55.6 percent) of the respondents hire nonfamily labor for their businesses. There are strong gender differences in the employment of nonfamily members, however, as nearly two-thirds of the men employee nonfamily labor, compared to only 37.8 percent of the women (Table 20). This is consistent with the general patterns of involving family members in the business. Men-owned businesses tend to be larger, requiring more employees than family members represent. They also require specialized skills, which can often not be provided by family members. Finally, their businesses tend to be located away from the home, which makes it both easier and more necessary to hire nonfamily members.

The decision to employee nonfamily labor is directly related to the size of the firm, with the shift occurring at three employees. With two employees or less, 79.3 percent of the respondents employed only family members; but 86.4 percent of the firms with three or more employees hired nonfamily labor.

The hiring of nonfamily labor is also related to industry subsector. Firms in the textile, shoes and leather, woodworking, basic products, metalworking and repair sectors tend to hire nonfamily labor. Barber and beauty, small and large stores tend to hire very little nonfamily labor, while food products and artisanry businesses are mixed.

TABLE 20

EMPLOYMENT OF NON-FAMILY LABOR

ARE NON-FAMILY MEMBERS EMPLOYED IN THE BUSINESS	SEX		
	Male	Female	TOTALS
Yes	245 65.2%	76 37.8%	321 55.6%
No	131 34.8%	125 62.2%	256 44.4%
TOTALS	376 100.0%	201 100.0%	577 100.0%

Growth in Employment

Employment generation is one of the three key objectives of A.I.D.-sponsored micro- and small-scale enterprise programs. Apart from the fact that small-scale businesses provide employment for a substantial portion of the economically active population, there is a question as to whether or not they continue to grow and offer expanded employment opportunities.

Total Growth

At the present time, firms in the sample provide employment for the equivalent of 1,832 full-time employees. When these same firms began business they provided employment for 995 individuals. Thus, slightly over half (54 percent) of the jobs created by these firms were created by the formation of the business, and slightly less than half by subsequent growth.

According to responses to the survey, slightly over half of the firms (347 of the 568 firms for which data were available) have added employees since they were founded. Another 154 firms have neither increased nor decreased employment, while only 67 have clearly declined in total number of employees.

The overall average increase in employment for all firms in the sample is 1.47 full-time equivalents per firm.[57] Firms that have declined have lost a total of 65 full-time employee equivalents, or an average of approximately one full-time employee equivalent per firm. The 347 firms that have grown have added a total of 902 employees, or an average of 2.6 new full-time equivalents per firm.

[57]Total employment growth was calculated by subtracting the number of employees the business started with (as reported by the respondents) with the calculated number of full-time employee equivalents working in the firm at the time of the interview.

Businesses owned by men have added more new jobs than those owned by women (see Table 21). On average, men-owned businesses have created 1.87 new full-time jobs per firm, while women-owned businesses have created an average of only .73 new full-time jobs. As will be discussed later, the relatively smaller growth in total employment in women-owned businesses reflects the fact that these businesses are newer, started smaller, and are smaller than businesses owned by men.

TABLE 21

JOB CREATION PATTERNS, BY GENDER

	Women-Owned			Men-Owned		
Type of Change	No. Firms	Total Change	Average Change	No. Firms	Total Change	Average Change
Decreased Number of Employees	21	-21	-1.00	36	-34	-.94
Stayed the Same	80	0	-	74	0	-
Increased Number of Employees	96	165.5	1.72	261	726.5	2.78
Totals	197	144.5	.73	371	692.5	1.87

Program beneficiaries have created slightly more jobs than nonbeneficiaries, averaging 1.59 new jobs per firm compared to an average of 1.13 new jobs per firm among nonbeneficiary respondents (Table 22). The distribution is not statistically significant, however, indicating that growth in employment cannot be attributed to program interventions.

TABLE 22

JOB CREATION PATTERNS, BY BENEFICIARY STATUS

	Beneficiaries			Non-Beneficiaries		
Type of Change	No. Firms	Total Change	Average Change	No. Firms	Total Change	Average Change
Decreased Number of Employees	46	-43	.94	21	-22	-1.05
Stayed the Same	104	0	-	50	0	-
Increased Number of Employees	270	712.5	2.64	77	189.5	2.46
Totals	420	669.5	1.59	148	167.5	1.13

Growth in total employment is also related to the industry sector (Figure 14). Firms in woodworking, basic products and metalworking have had the highest average growth in total employment. Most of the businesses in these sectors are owned by men. Small stores (*tiendas* and *bazares*), barber and beauty shops, artisanry and repair shops generate significantly less total employment. With the exception of repair shops (and, to a lesser extent, artisanry businesses) these tend to be owned by women. Large stores actually tend to have negative employment growth.

Part of the difference in total employment growth is undoubtedly due to the age of the businesses. With the largest firm in the sample having 12.5 employees, there appears to be a limit to total employment growth, which the largest firms have reached.

Rates of Employment Growth

Growth in total employment does not, however, present a complete picture of the dynamics of employment generation in the MSE sector because it fails to take into account the age of the firms in the sample. Controlling for the age of the firm shows that younger businesses are adding employees at a faster rate than older businesses. Firms in business one year or less added new employees at an average rate of .78 per year, while firms over 11 years of age added employees at an average rate of only .12 per year.[58] The relationship was strong, significant and consistent across the entire age spectrum (see Table 23).

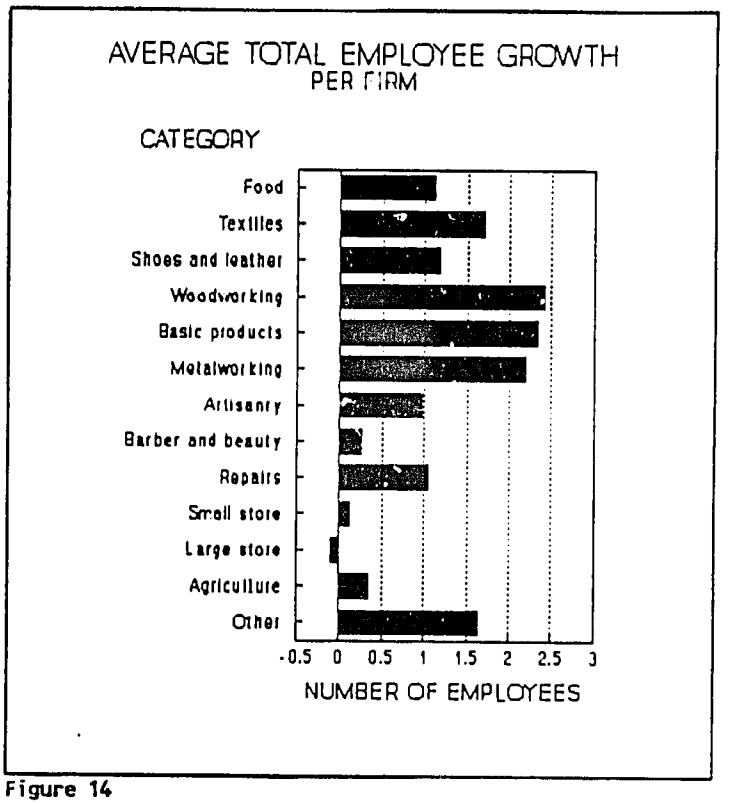

Figure 14

In the absence of other data, this suggests that the older firms are reaching maturity — either because of market saturation, willingness to grow and absorb new risk, or limits of managerial capability. Additional research to explore this issues should attempt to determine whether or not this pattern is generalized across the MSE spectrum, or was unique to this sample.

TABLE 23

IMPACT OF BUSINESS AGE ON
RATE OF EMPLOYMENT GENERATION

Age of Business	Average	Lowest	Highest
1 year or less	.78	-2.0	8.0
2 to 3 years	.48	-1.0	4.8
4 to 6 years	.22	- .3	1.7
7 to 10 years	.21	- .2	.8
11 or More	.11	- .1	.8

Men-owned businesses tend to add employees at a much faster rate than women-owned businesses. On average, men add .4 new employees per year, while women average .14 new employees per year. Even controlling for the age of the business, women-owned businesses grew at a slower rater. For example, of firms in business for one year or less, 68 percent of those owned by women experienced negative or no growth in employment, compared to only 23.8 percent of the firms owned by men. At the same time, 71.4 percent of these new firms owned by men added an average of at least .5 new employees per year, compared to only 12 percent of the firms in this group owned by women.

[58]This was calculated by taking the number of employees added to the firm since its inception, divided by the number of years the firm had been in business.

In terms of annualized employee growth rates (Figure 15), metalworking, basic products, textiles and woodworking tend to have the highest annual rates of employee growth. Both food and textiles tend to produce jobs at a higher annual rate than the overall employment generation index (presented above) suggests. Again, small and large stores, barber and beauty shops, artisanry and repair shops generate significantly fewer jobs than firms in the other subsectors.

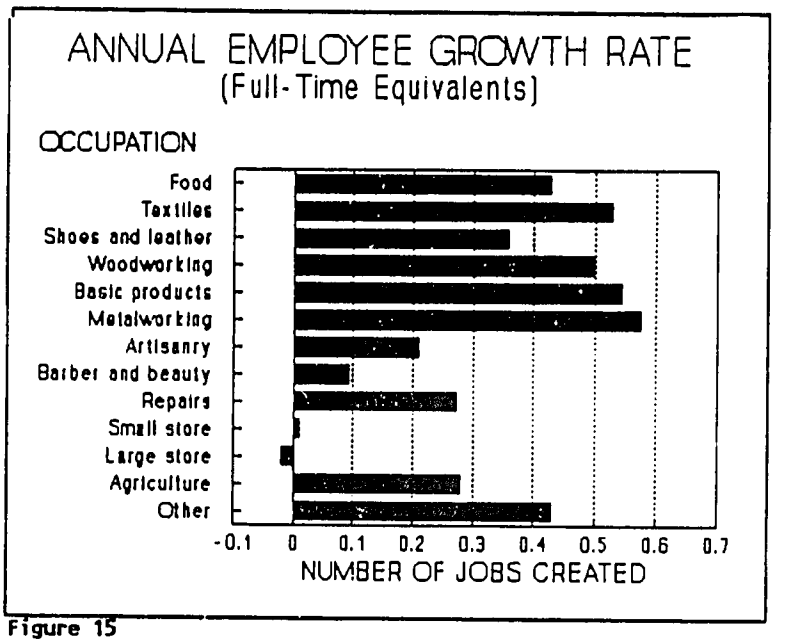

Figure 15

Influence of Asset Size and Profitability on Employment Generation

Several factors have a direct impact on the employment generation patterns presented earlier. Gender and the age of the business have already been discussed. Other factors include the asset size of the business and its level of profitability.

Asset size plays an important role in determining growth in employment. Larger firms have larger increases in the absolute number of employees and tend to increase employment at a faster rate (Figure 16). The relationship is strong, and highly significant.

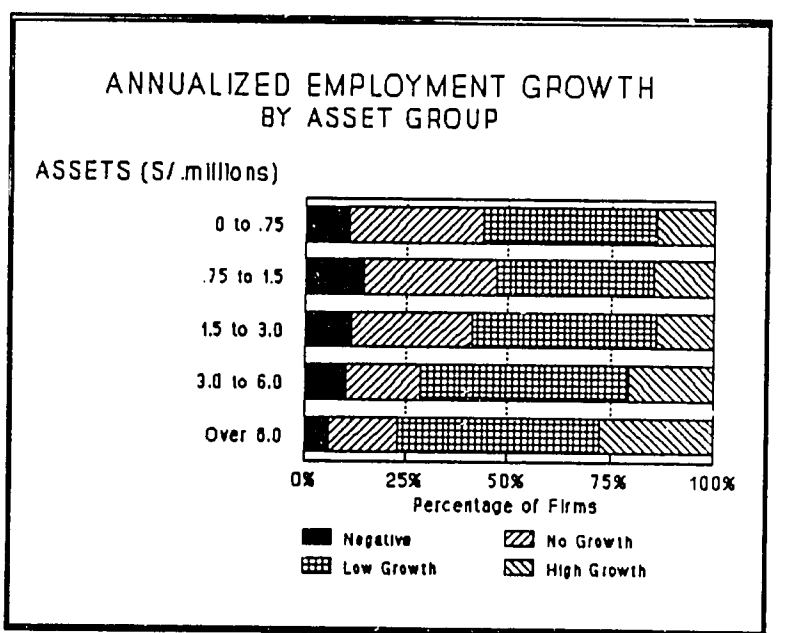

Figure 16

Firms with higher absolute profit levels also are more far more likely to increase employment than firms with smaller absolute profit levels (Figure 17). Higher profit firms had both larger total employee growth and higher average annual employee increases. Of the 508 firms for which data was available, for example, 35.3 percent of the firms with profits of more than S/.200,000 ($235) per month averaged more than .5 new employees per year, compared to only 8.2 percent of the firms with less than S/.50,000 ($58) in monthly profits. Conversely, only 13.5 percent of the more profitable firms had no or negative growth in employees, compared to 27.0 percent of the less profitable firms. This relationship is strong, and highly significant.

There has been a consistent dichotomy throughout the survey sample: larger, older firms tend to be less dynamic, less successful and growing slower than the younger, smaller firms. There are some obvious exceptions — large firms that are growing rapidly and small firms that are stagnant — but the relationship has been strong and widespread. Additional research that examines the specific clusters of firms to see if there are explainable differences could help to refine intervention strategies.

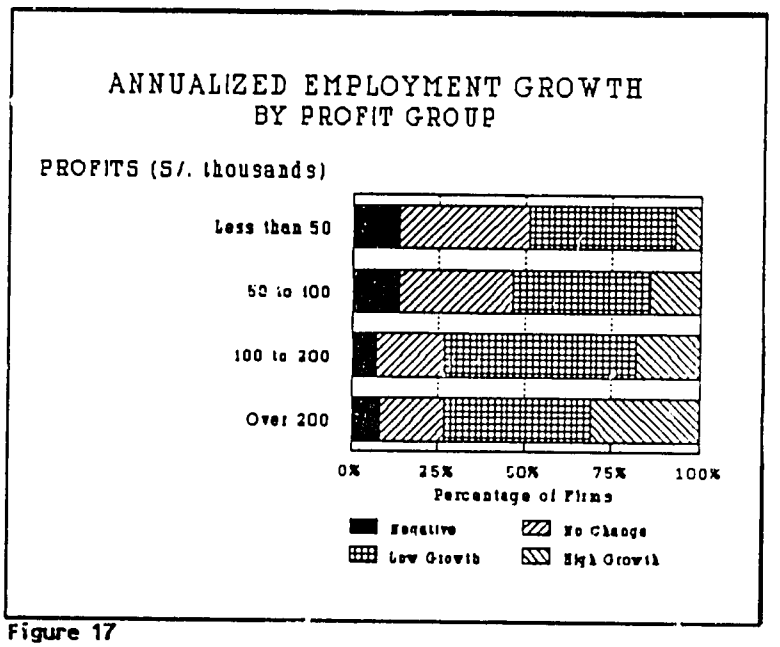

Figure 17

Cost of Generating Jobs

Assets-per-employee can be used as a proxy for the average cost of generating a full-time job. One of the strong arguments in favor of supporting small-scale enterprises is that they are relatively efficient generators of employment — requiring significantly less capital per job created than larger enterprises. In this sample, assets-per-employee ranged from a low of S/.2,500 ($2.90) to a high of S/.28 million ($32,558). The average cost per employee was S/.1.6 million ($1,840), but the median was only S/.850 thousand ($999), and 95 percent of the firms had assets of less than S/.5 million ($5,850) per employee. Job creation does take place in these businesses at relatively low cost.

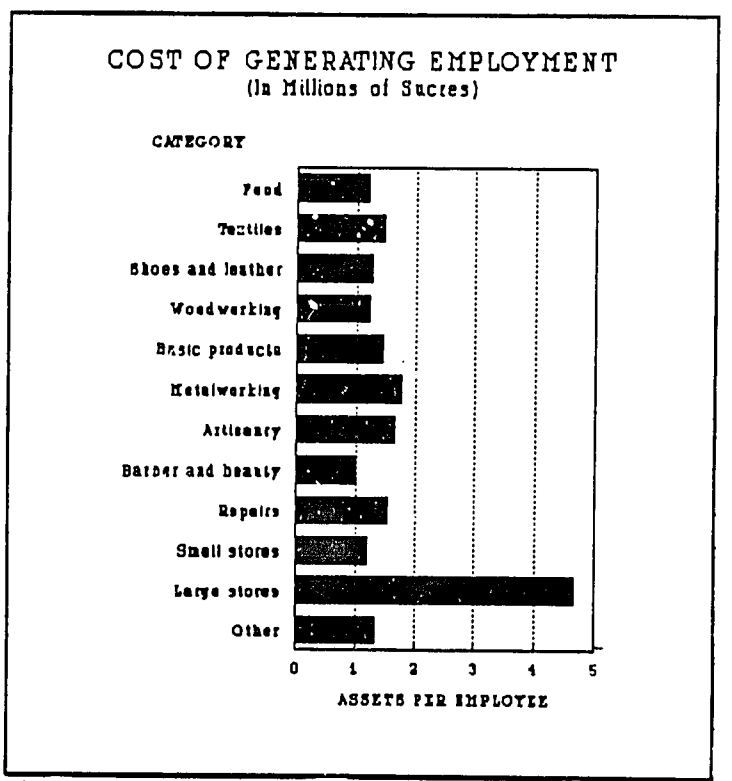

Figure 18

The data showed no difference between men-and women-owned businesses: both tend to have the same level of assets per employee. This suggests that women are not necessarily more efficient creators of employment than men, as other studies have found.

There was, however, a significant difference among the sectors. As can be seen in Figure 18, the average amount of investment required per employee varies between S/.1.0 million ($1,176) to S/.1.8 million ($2,058) in most of the sectors. Although Figure 18 appears to show little difference among most of the subsectors, the variations are substantial: it requires almost 75 percent

more investment to generate employment in metalworking, for example, than in barber and beauty shops. Large stores have the highest cost per job created, with an average of $/.4.6 million ($5,411) of capital invested per employee. Programs that emphasize employment creation should examine these differences carefully to validate assumptions about the program's employment creation potential.

Returns to Labor

Sales per Employee

Sales generate the revenues needed to hire and pay employees, and thus have a direct impact on both employment opportunities and wage levels. The ratio of total sales to the number of employee is a strong indicator of the ability of a firm to generate sufficient sales to sustain the business and support growth. With a cost-of-goods-sold ratio of between 60 and 70 percent,[59] sales of between S/.70,000 to S/.100,000 per month are needed to pay minimum wage (S/.32,000) to an employee.

In this respect, most of the firms in the sample were clearly very small businesses. One-fourth of the firms had sales of less than S/.75,000 per month, which would indicate that they are only marginally capable of providing full-time employment to the owner. Another 24 percent of the firms had monthly sales between S/.75,000 and S/.150,000, which would generate enough revenue to provide full-time employment for 1 to 2 employees. Another 16 percent of the firms had monthly sales of S/150,000 to S/.225,000, sufficient to sustain full-time employment for between two and three employees. Finally, 34 percent of the firms generated more than S/225,000 in monthly sales, the minimum needed to provide full-time employment to three or more employees.

Sales per employee was not related to gender. Men- and women-owned businesses in the sample had similar volumes of sales per employee. Even when the type and size of business were controlled for there was no discernable gender-related difference in sales per employee.

Beneficiary status was related to sales per employee, but the pattern was not consistent. More nonbeneficiaries than beneficiaries had low levels of sales per employee, but similar proportions of the two groups had high levels of sales per employee. More beneficiaries than nonbeneficiaries had moderate sales per employee ratios.

There were strong subsector differences, however. Firms in food products, small and large stores, and firms in basic products tended to have the highest sales per employee. While this could indicate strong potential for employment growth, two of these — small and large stores — are the subsectors with the lowest employment growth rates in the sample. They achieve profits by severely limiting the number of employees involved in the business. Artisans, barber and beauty shops and repairs are the subsectors with the lowest average sales per employee. In all cases these are personal service businesses that can charge little more than labor costs for their services.

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[59]See Chapter Three of this report for estimates of the cost structure of small enterprises.

Profits Per Employee

Even more than sales, profits per employee indicate the ability of a firm to increase compensation to employees, either through employing more workers or through higher wages to existing employees. More than two-thirds of the sample (67.9 percent) had profit levels of less than S/.60,000 per employee.[60] Another 13.4 percent of the respondents reported monthly profits of S/.60,000 to 90,000, while only 18.8 percent had profits exceeding S/.90,000 per employee.

There were gender differences in the distribution of responses. Women-owned businesses tended to have higher profits per employee than men-owned businesses. While 38 percent of the men-owned businesses reported monthly profits of less than S/.30,000 ($35) per employee, only 28 percent of the women-owned businesses had profit levels that low. At the other end of the spectrum, more women-owned than men-owned businesses (23.9 percent compared to 16 percent) reported monthly profits of more than S/.90,000 ($105) per employee.

The difference in profits per employee between beneficiaries and nonbeneficiaries in the sample was not statistically significant. More nonbeneficiaries than beneficiaries were in the very low profitability category (less than S./30,000 per employee per month), but more were also in the high profitability category.

There were, however, strong subsectoral differences. Small stores, large stores and firms in the food and basic products subsectors had significantly higher profits per employee than firms in any of the other subsectors.

Wage Levels

Profits per employee are not directly translated into better wages, however. Based on the wages reported by respondents to the survey, only employees in the basic products manufacturing sector averaged wages approximating the national minimum wage.[61] Large stores, which had the highest average profits per employee, paid only average wages to their employees. Wages in the food, leather, woodworking, metalworking, repairs and large shop sectors averaged between S/.20,000 ($23.52) and S/.27,000 ($31.76) per month. Average monthly wages in the textile, artisanry, barber and beauty, and small stores sectors were below S/.20,000, with small store wages averaging the lowest.

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[60]It is not clear from the responses if profits are being reported before or after the owner has drawn personal compensation from the business.

[61]These wages were still far short of minimum wages for the formal sector, however, as they did not include such additional benefits as thirteenth, fourteenth, and fifteenth salaries.

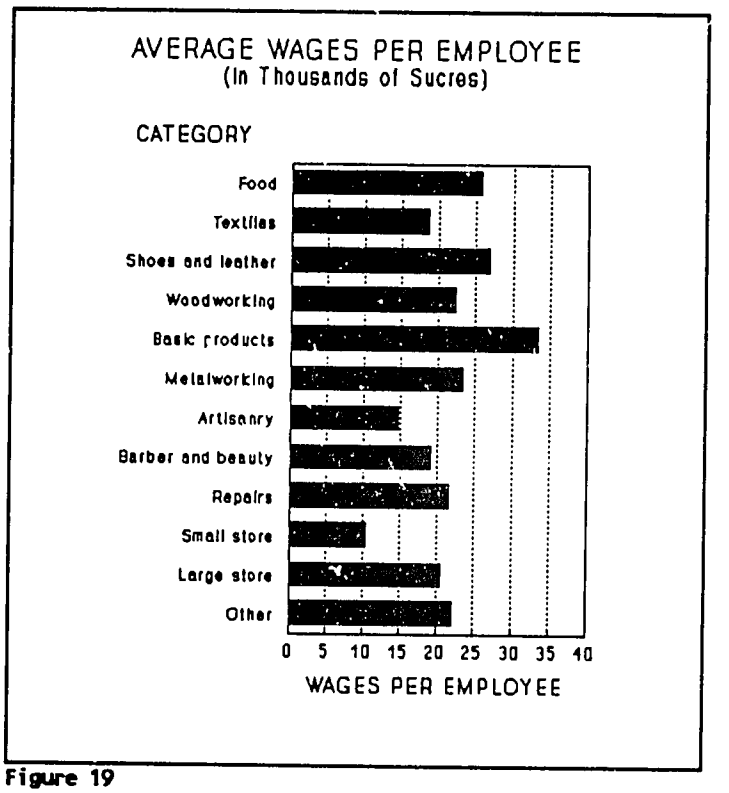

Figure 19

OPTIMISM/PESSIMISM: THE FUTURE

There is a popular impression that MSEs are the result of the inability of the "modern" sector to provide sufficient employment opportunities to absorb the labor supply. Marginal individuals — those with less education, lower skill levels, or other impediments — are forced to establish informal sector activities because they are unable to find employment in the formal sector. Consistent with this is the general feeling that these business ventures are marginal economic activities, providing substandard incomes, with little chance to expand or provide a decent standard of living to those that depend on them.

In fact, however, the situation is much more complicated. While it is true that many micro-enterprises fail to provide an adequate remuneration to their owners and those that depend on the businesses, there is strong evidence that most small-scale entrepreneurs are pleased to be doing what they do.

The survey used three questions — degree of satisfaction with the business, plans for expanding the business and perception of the business' future — to explore this issue.

Degree of Satisfaction

Most of the respondents to the survey (66 percent) said that they were either satisfied or very satisfied with their businesses. Another 27 percent responded that they were neither satisfied nor dissatisfied, and only 4.6 percent were actually dissatisfied. These responses seem to contradict the impression that informal-sector, small-scale businesses represent a dead-end, last-resort activity for their owners.

There were some differences in degree of satisfaction among the respondents. As can be expected, owners of high-sales and high-profit businesses expressed a much high level of satisfaction (85-87 percent reported they were satisfied or very satisfied) than owners of low-sales and low-profit businesses (only 47-48 percent of whom expressed satisfaction). Owners of businesses with positive social benefit/cost ratios were more likely to express satisfaction than those with negative ratios.

Respondents who had received loans tended to be more satisfied than those who had not received loans within the past year, indicating that being to mobilize working capital increases the beneficiary's optimism for the business.

Owners of older businesses were more likely to say they are dissatisfied or very dissatisfied than owners of newer business. This may indicate a growing awareness that the businesses are not profitable, or it may be that new businesses are qualitatively different from older ones.

Finally, beneficiaries expressed a higher level of satisfaction with their businesses than nonbeneficiaries. This should not be interpreted as a positive indicator of program impact, however. While the programs may be developing business confidence among the beneficiaries, it is equally likely that small-scale entrepreneurs who are already satisfied with their businesses are those who seek program support.

Interest in Expanding the Business

Consistently, the respondents to the survey were strongly committed to sustaining their businesses, as 89 percent indicated that they want to expand their businesses and another 5 percent planned to continue business on the same scale. Only 6 percent indicated that they would prefer to abandon the business, either to start a new business or to find a wage-earning job for another company.

Plans for the future are strongly conditioned by the degree of satisfaction with the business. Respondents who were dissatisfied with their business were much more likely to want to abandon the business, either to start a new business or find salaried employment. Only 4 percent of those who want to expand the business, and 10 percent of those who want to continue as is, expressed dissatisfaction with the current business. On the other hand, 45 percent of those who want to abandon company to start over, and 57 percent of those who want to abandon the sector entirely, expressed dissatisfaction with their current business.

Owners of older businesses were slightly less committed to sustaining their business ventures; only 79 percent want to expand, while 13 percent indicated they would like to abandon the business. Older

respondents are also somewhat less likely to want to expand, as only 75 percent of those over 50 indicated they would like to expand their business.

Current success is clearly related to plans for the future. Businesses with higher absolute profits are more likely to want to expand their businesses. Positive social benefit/cost ratios are predominantly found among those who wish to continue or expand their businesses. Almost none of the respondents who wish to abandon the business have positive SBC ratios.

Beneficiaries are more likely to want to expand their businesses than nonbeneficiaries, but this could be an indication of self-selection rather than program impact.

Perception of the Future

The respondents are decidedly optimistic about the future. Most (82 percent) believe that their businesses will expand, and another 16 percent believe their business will stay at about the same level. In other words, only 2 percent of the respondents think their businesses will decline in the future.

Age is directly related to the respondents' perception of the future. Younger entrepreneurs are more likely to think their business will expand than older ones: 89 percent of the younger respondents believe their businesses will grow compared to only 66 percent of the older respondents. Similarly, respondents with businesses 4-10 years old are much more likely to think their businesses will grow than respondents with businesses that are more than ten years old.

Successful applicants to special micro-enterprise programs are more optimistic about the growth potential of their businesses than unsuccessful ones: 92 percent of the successful applicants say their businesses will grow, compared to only 75 percent of the nonbeneficiaries. Respondents who have not received loans are the most likely to predict a no-growth future, reflecting the perceived importance of credit to business success.

Summary

The overwhelming optimism of the survey respondents is both inconsistent with conventional perceptions of the small-scale enterprise sector and sharply incongruent with empirical evidence. Establishing and maintaining such businesses does not appear to be the last recourse of people who have no other opportunity, as conventional wisdom suggests. These respondents have chosen to be small-scale entrepreneurs, and generally prefer that status to any other alternative. This is in spite of the fact that the data show that they are generally losing ground financially, and are receiving relatively low returns for their capital and labor.

There is a consistent trend of disillusionment throughout the responses, however. Older respondents and respondents who had been in business the longest were the least optimistic, and the most likely to want to leave their businesses for other opportunities.

Being involved in an MSE program is clearly associated with the respondents' perceptions of the future: project beneficiaries are considerably more optimistic than nonbeneficiaries. But the causal

relationship is not clear. The projects may be increasing the level of optimism, or it may be that people who are optimistic about the future are seeking project support.

PROBLEMS AND NEEDS

Major Problems

Access to capital markets dominates the small-scale entrepreneur's perception of his or her major problem. When asked to select what the most important problem they faced in their business from a fixed list of twelve items (Table 24), 57 percent cited a lack of working capital as their most important problem and another 13 percent said that a lack of capital for fixed assets was their major problem. Interest and exchange rates were cited as a major problem by a large number of respondents, but, given the relatively small number of MSEs engaged in export sales or importing raw materials, it is difficult to see how exchange rates are affecting them directly. Most likely they are aware of the deteriorating status of the sucre, and perceive that to be a problem, even though it may not affect them directly. Almost no respondents selected problems with import restrictions or obtaining foreign currency, confirming the local market orientation of their products and sales. Likewise, very few indicated problems with complying with sanitary or labor codes, indicating that these (when they exist), are largely ignored. There was no gender difference to the responses, and no significant difference in responses by subsector.

TABLE 24

RESPONDENTS' PERCEPTIONS OF MAJOR PROBLEMS

Problem Area	First Response	Second Response	Third Response	Totals
Working Capital	319	109	22	450
Capital for Fixed Assets	72	208	32	312
Exchange Rates	56	36	24	116
Lack of Materials	26	26	63	115
Interest Rates	25	45	34	104
Transportation	10	20	28	58
Tax System	11	14	23	48
Administrative Procedures	-	5	16	21
Obtaining Permits	1	5	6	12
Import Restrictions	2	1	5	8
Sanitary Controls	-	1	3	4
Labor Code	1	1	1	3
Obtaining Foreign Currency	1	1	-	2
Other	41	13	7	61
Totals	565	485	264	1,314

Responses to the fixed question paralleled those obtained when the respondents were asked whether each of the individual items constituted a problem for them (Table 25). Again, lack of working capital and capital for fixed assets were viewed as problems by most of the respondents. Interest and exchange rates were also viewed as problems by over half of the respondents. Significantly fewer respondents perceived the other issues to be problems that affected their businesses. There were no gender-related differences in the responses, and no differences by subsector.

TABLE 25

PERCENTAGE OF RESPONDENTS SAYING THAT ITEM WAS A PROBLEM OR A SERIOUS PROBLEM

Problem Area	Percent
Lack of Working Capital	79.0
Lack of Capital for Fixed Assets	68.3
Interest Rates	63.1
Exchange Rates	59.5
Tax System	20.8
Raw Materials	20.2
Transportation	18.4
Import Restrictions	16.7
Administrative Procedures	8.1
Ability to Obtain Permits	6.8
Labor Code	6.2
Ability to Obtain Foreign Currency	1.1

Major Needs

Not surprisingly, the respondents cited access to capital (61.2 percent of all responses)[62] as their major need for expanding the businesses (Table 26), followed by a need for better raw materials and products (17.6 percent of all responses). Training, technical assistance, business advise and counseling and skill development were viewed as major needs by a relatively small percentage of the respondents — 11.6 percent of the responses made reference to a need for training and technical assistance, while 9.3 percent of the responses cited a need for improved techniques and technical skills. In fact, most of the references to a need for training and technical assistance arose from prompting for a second and third response. Again, there were no significant gender differences in the responses.

TABLE 26

MAJOR NEEDS TO EXPAND BUSINESS

Major Needs	First Response	Second Response	Third Response	Total Responses
Access to Working Capital	383	123	22	528
Access to Permanent Capital	91	158	62	311
Access to Raw Material	68	99	93	260
Training in Business	3	50	62	115
Access to New Techniques	5	22	38	65
Improved Technical Skills	5	20	36	61
Technical Assistance	2	8	22	32
Advise, Counseling	2	3	9	14
Other	16	9	21	46
	575	492	365	1,432

There were subsector differences, however. Firms in the wood products, leather and basic products subsectors were less likely to express a need for access to capital. Firms in the basic products, metalworking and repairs were more likely than firms in the other subsectors to express a need for fixed asset (as opposed to working) capital. Textiles, leather, and basic products firms expressed the greatest need for raw materials, while repair firms and barber and beauty shops expressed the least. Artisans and firms in wood expressed the most need for improved techniques and technical skills. Training and

[62]This was a multiple response question, with the interviewers probing for three responses.

technical assistance were most often cited as a need by owners of large and small stores, artisans and firms in food products. Owners of firms in basic products, metal working and textiles were least likely to cite training and technical assistance as a need.

Credit Needs

The respondents were asked how much credit they needed to operate their businesses effectively. Of the 557 who responded with a definite amount, estimates ranged from S/50,000 ($58) to S/20 million ($23,250), with an average loan need of S/.2.54 million (about $3,000). As can be seen in Table 27, most of the respondents (64.6 percent) said that they needed between S/.300,000 and S/.2.9 million (approximately $3,500). Only 5.2 percent needed less than $350, and only 17 percent needed loans larger than $/.5 million ($5,813).

TABLE 27

ESTIMATES OF AMOUNT OF CREDIT NEEDED

Amount Needed, in Millions of Sucres	Number	Percent
0 to 0.3 ($350)	29	5.2
0.3 to .99 ($1,162)	102	18.3
1.0 to 1.9 ($2,209)	164	29.4
2.0 to 2.9 ($3,480)	94	16.9
3.0 to 4.9 ($5,813)	73	13.1
5.0 to 9.9 ($11,628	68	12.2
10.0 to 20 ($23,256)	27	4.8
Totals	557	100.0

In light of recent initiatives in the U.S. Congress to limit loan sizes to $300 or less, the respondents were asked if loan limits of that amount would still be attractive to them. Only 6.9 percent of the respondents said such an amount would cover their needs. Another 58.7 percent said that such an amount would be inadequate, and that they would have to supplement it with loans obtained from other sources. More than one-third of the respondents (34.4 percent) said that such an amount would not even be worth the trouble of applying for.

There were strong gender differences in the responses, however. Women (12.9 percent) were more likely that men (3.9 percent) to say that such an amount would cover their credit needs. Fewer women (27.8 percent) than men (37.9 percent) felt that such a small loan amount would not be worth the trouble of applying for.

OTHER SIGNIFICANT FINDINGS

Access to Resources

Women are receiving less support than men proportionate to the size of their businesses. When the size of business is controlled for, women receive smaller loans relative to their assets. Men's loans average 64 percent of assets, while women's loans average only 37 percent of assets.[63]

Asset size however, is more important than sex in predicting the amount of loan the business receives. Larger businesses tend to obtain larger loans, reinforcing the impression that the lending agencies — MSE programs as well as banks and CUs — are looking primarily at balance sheet performance, rather than social lending objectives, in evaluating loan applications

Years in business definitely affects ability to get loans. Older, more established businesses tend to be viewed as preferred credit customers and receive disproportionately larger loans.

Factors Related to Business Success

Effect of Age

Two age effects were present in the sample of entrepreneurs surveyed for this study. The first was the age of the respondent. Younger respondents tend to own more recently formed businesses, report slightly more sales growth, and have slightly higher social benefit-cost ratios. Older respondents own older businesses that are larger (in terms of assets) and have more employees. Older owners also tended to be more pessimistic about the future and more likely to want to abandon their businesses. The second age effect was the age of the business itself. Older businesses were larger, hired more employees and were more successful in obtaining loans from formal financial institutions. Younger businesses tended to be smaller, were growing faster, and had slightly higher social benefit-cost ratios. They were also decidedly less successful in obtaining credit from formal financial institutions.

Effects of Education

Education has a positive effect on business success. Younger respondent and owners of younger businesses tend to have higher education. Assets, number of employees, payrolls and profits are higher in businesses owned by respondents with higher education. Likewise, annualized growth in employment is higher in businesses owned by respondents with more education.

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[63]There is so much variation in the men's sample, however, that the differences may not be significant, even though they appear large.

Effect of Previous Occupation

Previous occupation is related to business success. People with less experience — defined as persons who had not worked previously or who had worked as domestic servants or daily laborers — were more likely to have negative social benefit-cost ratios than persons who had worked in a family business, had owned their own business previously or had worked in a wage-earning situation in a private company.

Profits followed a similar pattern. The highest profits were found among respondents who entered from wage-earning employment, followed by those who had previously been self-employed. Persons with little previous business experience tended to have the lowest sales and profits.

One hypothesis for the relatively high performance of persons with wage-earning (as opposed to prior business ownership) experience is that these have seen larger scale businesses in operations — they have received checks, seen bookkeeping, and are actually more familiar with those procedures than either people who have had their own businesses or newcomers to the field.

SUMMARY AND CONCLUSIONS

The micro- and small-enterprise sector in Ecuador is large, heterogenous and dynamic. There are between 250,000 and 350,000 such firms operating in the urban areas, providing employment to between 750,000 and 1,000,000 individuals. While the majority of these represent the unregistered economic activities of informal sector participants, a substantial number are either registered businesses or in various stages of formalization.

While it is customary and convenient to talk about MSEs in general, as if they constitute a homogeneous population, nothing could be further from the truth. There is a tremendous variation among MSEs, not only between sectors but within supposedly consistent subsamples. Part of the heterogeneity can be traced to known differences, such as: the sector (service, commerce or manufacturing), location (urban, small town or rural), motivation (whether subsistence or growth), the linkage of the firm to the economy, or to subsector differences.[64]

This is, perhaps, the major problem facing most of the current institutional approaches to helping small-scale entrepreneurs. The underlying assumption that they are similar has led to rather simplistic, standardized approaches to providing services — both in terms of the services provided and the method in which services are provided. To be effective, programs need to adopt individualistic strategies that respond to the real needs of the intended beneficiaries rather than offer standardized solutions that reflect the preconceived ideas of the providers.

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[64]Boomgard, *Synthesis Report*, p. 12.

Importance

Far from being an insignificant, marginal sector of the economy, the MSEs perform a number of key roles in the national political and economic system. First, and most important, they provide employment to a significant number of urban and semi-urban residents — people who are not being absorbed into the smaller formal sector. Second, they create and sustain those jobs at virtually no social or economic cost to the nation — they are created, operated and terminated without subsidies, expensive programs or special services. Unlike many sectors of the economy that constitute continuous drains on scarce national resources, the MSE sector makes relatively few demands on the system. Third, they are a stabilizing force in that micro- and small-scale entrepreneurs tend to be rather conservative, and do not follow extremist political positions. Fourth, they serve as a conduit for less costly goods and services to lower income sectors of the national economy, offsetting the impact of inflation.[65] Finally, these enterprises have strong backward and forward linkages to other elements of the national economy, creating a demand for other goods and services, both from the rural sector and from the more modern sector.

Dead-End or Path to Success

There is a strong tendency in Ecuador to view small-scale enterprises as marginal, even dead-end, occupations. Small-scale enterprises are characterized as consisting of people who cannot — because of low education and skills, and the lack of opportunities — find employment in the "modern" sector. Income is viewed as marginal, at best, with extensive disguised un- and underemployment.

But the micro-entrepreneurs themselves appear to have a quite different perspective. Most reported starting their businesses because they perceived a way to improve income and gain independence; very few reported starting their businesses because they could not find work elsewhere. Moreover, most are satisfied with their businesses, have no intention of abandoning them, and perceive the future optimistically. Most of the respondents believe they are better off than they would be working at a stable, salaried job.

At the same time, the limited empirical evidence suggests that most are unable to keep pace with inflation.

Small-Scale Enterprises Redefined

The problem with formal definitions, is that none of the measures are absolute, and although the internal correlation among them may be high, the different measures will frequently yield different stratifications. Micro-scale enterprises tend to follow certain characteristics and small-scale ones others, although on any one criteria the absolute difference may be somewhat contradictory and suggest classification in another category. Furthermore, they tend to overlook key behavioral characteristics that have important policy and program implications.

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[65]Paul Guenette, et.al., *Jamaica Microenterprise Development Project: Technical, Administrative, Economic and Financial Analysis*, GEMINI Technical Report No. 2, pp. 46-47.

Data generated in this study suggest that a more dynamic and flexible definition of small-scale enterprises — based on behavior and tendency — may be more useful for planning policy and program strategies.

Perhaps the key break-point in the micro-enterprise continuum occurs when the firm grows to the point where it employs three full-time persons. With up to two employees, 79.3 percent of the respondents hired only family labor, but with three employees, 86.4 percent of the respondents reported hiring nonfamily labor. Associated with hiring nonfamily labor is a series of behavioral decisions: firms that hire nonfamily labor are more likely to be located in facilities separate from the home, keep accounting records, and be registered as legal businesses.

As the 1989 "stocktaking" exercise pointed out, it is important to distinguish between "micro-enterprises" and "survival strategies."[66] A micro-enterprise is an established business venture that the entrepreneur is committed to sustaining and developing as a permanent occupation. This is in sharp contrast to survival strategies, in which individuals seek to gain income from temporary marginal activities motivated by the drive to survive rather than by an urge to prosper. The decision to hire nonfamily labor seems to be closely related to this shift from survival strategy to micro-enterprise.

A summary of the factors that appear to distinguish micro-, small- and medium-scale enterprises appears in Table 28. These measures are not absolute, as for any one, or even several measures, a given enterprise may exhibit characteristics that would tend to place it in another category. They do, however, point out significant differences among the firms.

TABLE 28

Basic Characteristics of Micro-, Small- and Medium-Scale Enterprises

Characteristic	Micro Enterprise	Small Enterprise	Medium Enterprises
Legal Status	Vast Majority are not formally registered	Some registered, some not.	Most registered, very few not.
Location	Most are home-based	Most are not home-based	Vast majority are not home based.
Assets	Less than $2,000	$2,000 to $10,000	Over $10,000
Annual Sales	Less than $3,000	$3,000 to $15,000	Over $15,000
Number of Employees	0-2 for smallest 3-5 for growing businesses	6-10	Over 10
Owner/worker relations	Management-worker status is usually not differentiated	Some differentiation between owner and workers	Strong differentiation between owner and workers
Market	Very localized market, with little product differentiation	Highly competitive, usually some product and market differentiation	Strong product and market differentiation

[66]Boomgard, Synthesis Report, pp. 9-10.

Easy of Entry	Very Easy	Moderately Difficult	Difficult
Capital Required to Begin Business	Minimal	Small-Medium	Substantial
Stability	Highly volatile, large turnover, high rate of failure.	More stable	Relatively stable, established businesses
Current Capital Requirements	Small amounts of working capital	Larger amount of working capital and some investment capital	Large amounts of investment and working capital
Average Size of Loan Requested	$500 to $1,500	$1,500 to $5,000	$5,000 to $50,000
Technical Assistance Required	Rudimentary business skills	Technical and marketing skills, plus more advanced business skills	Specialized management, finance and technical support

Gender

Women play an important role in the MSE sector. They constitute a significant portion of the owners of such businesses and a significant portion of the workers employed by them.

As discussed previously, men-owned businesses are significantly larger (in terms of assets) than women-owned businesses. This does not, however, mean that women-owned businesses are less successful than men-owned businesses. Women tend to be concentrated in fields that require a lower initial level of investment, less total capital and fewer employees to operate in effectively. Women also tend to have established their businesses more recently. When the data are controlled for field and age of business, there is virtually no difference in asset size between men- and women-owned businesses.

In many respects there is very little apparent difference between men-owned and women-owned businesses. On several key indicators and ratios — such as assets/employee, profits/employee, sales/employee, gross value added, gross value added/employee, net value added, and net value added/employee — there was no significant difference between the male and female respondents. Men- and women-owned businesses are equally efficient.

Men-owned businesses have more employees, but this is a function of the age of the business rather than the sex of the owner. Women and men start businesses with the same number of employees and add employees at the same rate. Women do not generate employment more efficiently than men (both required the same amount of capital per employee), but do tend to generate more employment for women.

Women are not necessarily less educated than men. Female respondents to this sample reported formal levels of education similar to those of the male respondents.

At the same time, women apparently have less access to resources, especially credit. Women were less likely to have been successful credit applicants, and received less in credit relative to the size of their business. Women were less likely than men to have taken formal credit courses, or to have received technical assistance.

Women run the risk of being marginalized by the development process, especially when the focus of development programs is on production or employment generation. It is easy to dismiss women-owned business in female-dominated subsectors as just a second income for the family, not as large or important, and as not creating as many job opportunities as businesses owned by their male counterparts. But that is not necessarily the case. Women-owned businesses represent a dynamic portion of the MSE sector that has the potential of generating significant income and employment opportunities.

Size of Firm

Contrary to popular belief, there is considerable evidence, even among this rather limited range of firms in the micro-enterprise sector, that small firms are more profitable and more successful than larger firms. Without exception smaller businesses had greater sales per assets, sales per employee, profits per employee and profits per assets than larger businesses.

The ratio of assets to employees is inversely related to the size of the business, implying that businesses do not substitute capital for labor. This pattern was consistent and continuous — the larger the business the lower the ratio was.

There are several possible explanations for this. The first, and most likely is that, as these small businesses grow, they do so without corresponding infusions of capital. The absence of sufficient capital relative to the number of employees and production levels causes inefficiencies. The marginal productivity of labor is such that additional increases in employees does not, in the absence of adequate capitalization, result in a corresponding increase in production and sales.

But other explanations are equally plausible. There may, in fact, be significant market constraints that become relevant as a business attempts to grow. Competition is limited as long as the micro-business is extremely small, because the business fits into a well defined and demarcated local niche.[67] But growth implies expanding beyond that local market, where competition may, in fact, be a significant constraint.

Employment versus Income

There has been speculation that growth in employment and profitability are incompatible. The data from this study show that growth in employment is positively related to profits. For example, of the firms in the highest profit groups, 31 percent had annualized employee growth of greater than 1/2 employee per year; only 8 percent of the lowest profit group had employment growth rates this high.

At the same time, there does appear to be a tradeoff between income and employment; that is, between the growth of the business and growth in employment. The most successful firms in the sample were successful in that they generated high profit levels while keeping the number of employees small.

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[67]Boomgard, *Synthesis Report*.

Beneficiaries versus Nonbeneficiaries

Several of the studies on micro-enterprises carried out in Ecuador in recent years[68] have shown a strong correlation between project-provided resources (credit, TA and training) and success (growth in assets, sales, profits and employment). But great caution must be taken in arriving at these conclusions, for several reasons. First, beneficiaries represent a highly self-selected group of people. For one reason or another — probably because they already wanted to progress — they chose to enroll in the programs. Control groups, very likely because they do not have the same growth motivation, have chosen not to join the programs. This contamination of the sample makes it very likely that growth and change is due to a predisposition to grow and change rather than an effect of the project's activities. Second, none of the studies were conducted as controlled before-and-after surveys, so that actual changes are not measured; the mere presence of more employees, more assets or higher profits does not prove causality. Third, in the absence of supporting documentation, measurements based on respondent recall have been found to be very inaccurate.[69]

In this particular sample, respondents considered training and technical assistance to be important, and rated the assistance highly. There is no strong evidence in the quantitative data to support a conclusion that training and technical assistance improve performance. Sales growth, profitability, increases in employment and the social benefit-cost ratio calculated for the firms was not related to either their participation in micro-enterprise programs or to the levels of assistance received.

At the same time, there is strong evidence from this survey that being associated with a program that supports MSE development has a positive impact on the optimism of the micro-entrepreneur. Beneficiaries were clearly more optimistic about their business future and more committed to expanding the business than nonbeneficiaries.

Sector Variations

The strong sectoral differences among MSEs suggest that tradeoffs exist between alternative strategies and expected results. At a minimum, differences among the three traditional sectors (production, commerce and services) suggest that focusing on one or the other has strong implications for the ability of a program to reach women, poorer strata of the micro-enterprise pyramid, or generate employment and income (Table 29).

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[68]See Gomez, *op.cit.*; and Hagan and Tiffany *op.cit.*

[69]See Liedholm and Mead, *op. cit.*

TABLE 29

Beneficiary Characteristics, According to Scale of Enterprise

Potential for	SECTOR		
	Micro	Small	Medium
Number of people Reached	Very Large	Large	Moderate
Job Creation, after initial creation of the business	Moderate	High	Moderate
Efficiency of Job Creation	High	High	Moderate
Income Enhancement	Low-Moderate	High	Unknown
Working with Disadvantaged Groups	High	Moderate-High	Moderate, mainly as laborers
Role of Women	High	Moderate	Low, mainly as laborers

A more detailed disaggregation of the MSE sector reveals, other, potentially more significant differences and tradeoffs. Service fields such as barber shops, repairs and artisanry and small commerce-oriented ventures such as small stores (*tiendas* and *bazares*), market and street vendors offer the best opportunities to work with poorer people. These are the subsectors that provided low-investment opportunities for people starting a small business.

If the objective is to maximize employment and employment generation, however, programs should focus on manufacturing enterprises. In this sample, metalworking, basic product manufacturing and woodworking not only hired the most employees per firm, they tended to have the largest overall growth in employment and the highest annual rate of growth in employment. Textile operations (tailors and seamstresses) and food products and services subsectors, even though the average number of employees per firm is rather low, also tend to have rather high annual employment growth. This is offset by the higher cost of establishing successful businesses and corresponding higher investment per job created in these sectors.

Sales and profitability show varying patterns, and firms with the largest sales volumes are not necessarily those with the highest profitability. Development strategies that want to concentrate on generating income, should focus on subsectors that generated the highest return on assets, profits per employee, or social benefit-cost ratios. There is a remarkable consistency among the subsectors in terms of these indicators:

• Highest Profits per Employee	Large and small stores, basic products and food subsectors
• Positive SBC ratio	Food, basic products and repair subsectors
• Highest Return on Assets	Food, basic products, repairs and barber and beauty subsectors
• Highest Average Wages	Basic products, food, leather subsectors

ANNEX A

METHODOLOGY

A survey of 582 micro- and small-scale entrepreneurs (MSEs) in Ecuador served as the major empirical data base for the 1990 sector assessment. This survey provided a broad spectrum of attitudinal, perceptual and factual information on a representative sample of participants in approximately 25 micro- and small-scale enterprise development programs and of a control group of similar entrepreneurs who were not participating in any formal MSE program.

The Sample

Because of time and resource constraints, the study was not able to conduct a random sample of the MSE sector in Ecuador. Instead, the primary sample was randomly drawn from the clients of the major MSE support programs in the country. A list of clients was obtained from each of the participating institutions, and a random number procedure applied to select respondents.

Sample Size

The survey was originally administered to 625 respondents. Forty-three respondents were later excluded from the survey because they did not fall within the basic criteria of micro-entrepreneurs. All of these were rural residents engaged in animal husbandry activities, and were not involved in any kind of production, service or commercial activity that would constitute a small-scale business.

The final sample included 430 beneficiaries and 152 nonbeneficiaries. Beneficiaries were defined as individuals who had received assistance — credit, training or technical assistance — from a formal institutional program of assistance to micro- and small-scale enterprises. These included programs of nongovernmental organizations (NGOs) supported by USAID/Ecuador and other international donor projects, private foundations, private banks and the national development bank.

The control sample was drawn from names suggested by the beneficiaries. Each beneficiary interviewed was asked to provide the names of other MSEs in the immediate area who were similar to the respondent, but had not received outside project assistance. In some cases the "control" group had, in fact, received assistance, and became part of the "beneficiary" sample. A subset of the beneficiaries (111 respondents), although named as active clients by one of the supporting institutions, had apparently received no benefits — training, technical assistance or credit — from any program at all. In most of the analyses this group was treated as a separate category.

Sample Bias

The sample is not representative of the micro- and small-scale enterprise sector in Ecuador. Instead, it is representative of the micro- and small-scale enterprises that are being assisted by established foundation and NGO programs. Significant groups of small-scale entrepreneurs — in particular, small-scale commercial enterprises (market women and street vendors), service industries, and home-based survival oriented businesses — are underrepresented or not present in the sample because these groups are not being assisted by the current programs.

The sample is skewed toward larger, more stable enterprises, and underrepresents women. However, as mentioned above, this is because the current programs are skewed this way.

Supplementary Information

Although the survey provided a underlying background for the work of all of the consultants, each team supplemented the survey with other data collection activities. These included: (a) interviews with program directors and staffs, government and international donor officials, and private sector individuals; (b) specialized surveys of micro-entrepreneurs (especially related to informal financial markets, gender issues and marketing); and (c) a review of both general literature on small-scale enterprises and studies available on the Ecuadorean small-scale enterprise sector.

CHAPTER TWO

GENDER AND MICRO-ENTERPRISE IN ECUADOR

by
Rae Lesser Blumberg
University of California, San Diego

INTRODUCTION

Overview

Measuring the full extent of the informal sector is a difficult task, not just in Ecuador, but in any developing country. National account statistics measure the formal, monetized sectors of the economies of industrialized countries. However, many of the activities of the informal sector take place behind closed doors (often to avoid official scrutiny and licensing), on the street, inside homes or in remote rural or urban slum locations. Census enumerators rarely visit these sites and, when they do, are often unaware that economic activities are occurring all around them.

Practitioners of these activities may not care to be counted or queried for official purposes when they are visited. Thus, many informal sector endeavors "fall between the cracks" of both a country's census and its national household surveys. In Ecuador, for example, the 1987 Permanent Household Survey estimated that 38.8 percent of the country's economically active population is found in the urban informal sector[1]. This is viewed as an underestimate by many working in the field. For example, a substantially higher figure is offered by Alarcon Costta, who calculates the size and economic impact of Ecuador's urban and rural informal sector as representing some 60 percent of the economically active population and about 60 percent of the gross value added produced by the country[2].

There is less disagreement about the ubiquity and importance of micro- and small-scale enterprises, defined as nonfarm firms with one to nine employees. According to the 1980 Economic Census, they

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[1]René Calderón, "Rol de la Micro y Pequeña Empresa en la Generación de Empleo," in *Programas de Micro y Pequeña Empresa en el Ecuador, p.p. 35*-38.

[2]César Alarcón Costta, *Sector Informal: Problema o Solución?*, p.p. 8 and 104.

accounted for fully 97.6 percent of all firms in the country[3]. In fact, "microentrepreneurs are thought to make up the largest single subsector within the [Ecuadorian] informal sector."[4]

Proportions of Women and Men

Estimates of the proportion of women and men in the informal sector are even more nebulous than those on the size and economic weight of the sector. This is largely due to the greater invisibility of women's economic activities, which are more often home-based than men's. A PREALC-International Labour Organization study[5] found women to comprise 39 percent of the informal sector in Ecuador's two principal cities, Quito and Guayaquil. The November 1987 round of the Permanent Household Survey found women to be 39 percent of the employees of micro-enterprises in Quito, Guayaquil and Cuenca and projected that figure for the country's urban population.[6] But Berger's research indicates that one-half or more of the Latin American informal sector is female.[7]

In Ecuador, there is reason to believe that even Berger's figure may be low. In a series of case studies in Guayaquil and Santo Domingo de los Colorados, over 80 percent of the women in the specific barrios studied were involved in income-producing economic activities — most of which were both informal sector and home-based.[8] Formal labor force participation figures for women are drastically below this figure; for example, the 1982 Census indicated that only 4 percent of the women in Santo Domingo were economically active. The high figures encountered by the case studies emerge from the methodology employed: in-depth anthropological techniques that asked not for "occupation," or even "primary and secondary activity," but, rather, whether the woman engaged in any income-producing

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[3]John Chang, Andrew Cannellas, and Jeffrey Poyo, *AID Microenterprise Stocktaking: Ecuador*, p. 2.

[4]Mayra Buvinic, Marguerite Berger, and Cecilia Jaramillo, *"Impacto de un Proyecto de Credito Dirigido a Microempresarios en Quito, Ecuador." In La Mujer en el Sector Informal*, edited by Marguerite Berger and Mayra Buvinic, p. 333

[5]PREALC, *Funcionamiento y Políticas, Sector Informal.*

[6]Raúl Baca Carbo, "Plan Nacional y Masivo de Apoyo a las Unidades Populares Económicas," *Programas de Micro y Pequeña Empresa en el Ecuador*, p. 14.

[7]Marguerite Berger, "La Mujer en el Sector Informal." In *La Mujer en el Sector Informal: Trabajo Femenino y Microempresarial en América Latina*, edited by Marguerite Berger and Mayra Buvinic, p. 17.

[8]See the case studies by Humberto Balarezo (of barrio Mapacingue, Guayaquil), Marcela Blacio (of barrio Febres Cordero/El Cisne I, Guayaquil) and Jenny Valencia (of barrios of Santo Domingo de los Colorados) presented in *Estudio de Casos Sobre la Realidad de la Mujer Ecuatoriana en Sectores Críticos del Desarrollo*, by Barbara Hess et al.

activities.[9] Finally, numerous studies have found that women's participation in the informal sector tends to rise as the economy falls.[10] Accordingly, there is reason to believe that women's involvement in the Ecuadorian informal sector has risen during the economic crisis-ridden 1980s.

The most influential conceptualization of the informal sector views it as representing excess labor supply which cannot be accommodated in the formal sector.[11] Women in Latin America have lower access to formal sector employment than their male counterparts yet are increasingly driven to generate income. Economic crisis, as well as high and growing numbers of households primarily supported by a female head (*de facto* or *de jure*), force women to earn their own living in the informal sector. The remainder of this paper concerns urban Ecuadorian women who have chosen to do so by becoming micro-entrepreneurs.

There are no nationwide statistics that reliably indicate just how many women micro-entrepreneurs there are or what they do for a living, but a variety of Ecuadorian studies find women micro-entrepreneurs to be most concentrated in commerce. Commerce, it should be noted, is also the largest single component of the country's informal sector: 49.1 percent of all people in the sector are engaged in commercial activities.[12] In Quito, for example, Farrell found women to comprise fully 70 percent of commerce micro-enterprises, although the proportion was much lower in Guayaquil.[13] Women also predominate in certain production branches, especially clothing/textiles, ceramics and some food activities, as well as in personal care services.

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[9]A large literature has emerged which shows how standard census and household survey definitions and methods for eliciting economic activity, including "occupation" or "primary/secondary activities" approaches, result in drastic undercounts of women in both the informal sector and low resource farming. This literature is cited and summarized in Rae Lesser Blumberg, *Making the Case for the Gender Variable: Women and the Wealth and Well-being of Nations.*

[10]See, for example, Berger, *op. cit.*, p. 15.

[11]Jaime Mazzera, "Excedente de Oferta de Trabajo y Sector Informal Urbano." In *La Mujer en el Sector Informal,* edited by Marguerite Berger and Mayra Buvinic.

[12]This is followed by 23.6 percent engaged in manufacturing activities, 16.8% in services and 9.3 percent in construction (Baca Carbo, *op. cit.*, p. 13, citing the November 1987 wave of the Permanent Household Survey of the National Institute of Employment, INEM, of the Ministry of Labor).

[13]Gilda Farrell, "Los Microcomerciantes del Sector Informal Urbano: Los Casos de Quito y Guayaquil." *El Sector Informal en los Países Andinos.*

THE CASE FOR DEALING WITH BOTH WOMEN AND MEN MICRO-ENTREPRENEURS

Two increasingly popular notions among those who design and/or study micro-enterprises tend to reduce the access of women micro-entrepreneurs to assistance. First is the idea that because women micro-entrepreneurs typically are smaller-scale than men, they are not as much business- or growth-oriented as their male counterparts. Second is the idea that it is the micro-enterprises with the highest growth potential — especially in employment generation — that merit the lion's share of the credit and other resources aimed at the micro-enterprise sector. Operationally, these two ideas often translate to a growing bias against supporting commerce micro-enterprises on the grounds that they create both less employment and less value added. The bias against supporting commercial micro-enterprises works to women's detriment because they are so preponderant in this sector. Donors and practitioners who hold these views generally advocate focusing resources on production activities located at higher levels of the micro-enterprise pyramid — where, indeed, fewer women are active. There are, however, overwhelming economic reasons for not unwittingly excluding women from assistance efforts.[14]

Employment, Income and Productivity

Most micro- and small-scale development projects are concerned with three related but distinct goals, namely employment generation and enhancement of incomes and productivity. Which of the goals is emphasized has strong gender implications.

Employment

With respect to the data on employment generation, the picture is mixed as to whether micro-enterprise credit and/or training projects create significant numbers of jobs in businesses run by either sex. Where employment generation does occur, it is not always men's businesses that create the most jobs. For example, in a 1985 study of the ADEMI micro-enterprise credit project in the Dominican Republic, it was found that women micro-entrepreneurs[15] created an average of 1.5 jobs while male respondents created an average of 1.3. Moreover, in the clothing sector, which was both the largest

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[14]Empirical information for this report was drawn from several sources, including (a) a survey of 582 microentrepreneurs conducted specifically for this sector assessment that will be referred to as the "Microenterprise Survey," (b) a study of the UNEPROM program that will be referred to as the "UNEPROM Survey," (c) an evaluation of the CARE program that will be referred to as the "CARE Survey," and (d) a "rapid rural appraisal" of microenterprises and programs that was carried out by the author in four separate locations in Ecuador. In addition, information was gleaned from the worldwide microenterprise literature. For a description of the methodology, see Annex 1 at the end of this chapter.

[15]Women comprised 150 of the 847 recipients of individual (as opposed to group) loans then made by the program.

sector (150 of the 847 firms) and the one with the most women (almost half of all female loan clients were in this sector), women micro-entrepreneurs created 1.4 additional jobs versus only .64 for men.[16]

In the three surveys analyzed in the present research, the evidence is mixed with respect to gender and job creation. On the one hand, some of the evidence shows women to have higher rates of employment generation. Most dramatically so, the CARE Survey found that of clients of the four foundations following the Fundación Carvajal model, women micro-entrepreneurs, who accounted for just under one-third of the sample, created fully two-thirds of all new jobs.[17] Women's rate of employment growth also proved somewhat higher than men's in two of the subsamples in the UNEPROM study: those who had received training with no credit and the control group. In both of these subsamples, women and men had similar initial employment levels. In the third subsample, those who had received both training and credit, there was no significant difference by sex in rate of employment growth although men had more employees.

Conversely, men tended to create somewhat more jobs in the two ACCION-assisted "minimalist" credit foundations included in the CARE Survey, FED in Quito and Fundación Eugenio Espejo (FEE) in Guayaquil. Similarly, in the micro-enterprise survey carried out by the present team, men reported significantly more current employees as well as higher employment growth since starting their businesses.

Income

In the literature on micro-enterprise, income growth is measured less often than employment growth. Ecuadorian micro-enterprise data show the same pattern: whereas all three national surveys measured employment changes, only one of the three included explicit measures for income growth, namely the Microenterprise Survey, which found no significant difference between men and women. In the other two surveys, the closest approximation to an income measure is obtained by inferring from questions on business growth.

For example, the UNEPROM Survey found that about 85 percent of both men and women who had received credit reported that their business grew as a result; however, 29.6 percent of men versus 18.2 percent of women reported that their business grew "a lot."

In the CARE Survey, about 90 percent of both male and female recipients of FEE credit reported that their business had grown since 1988; there was also little difference in reported growth among male and female clients of the Carvajal-model foundations (82 percent versus 77 percent). However, fewer women than men recipients of FED loans reported business growth since 1988 (77 percent of women, versus 93 percent of men). Beneficiaries in the CARE Survey were also asked whether their current sales

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[16]Rae Lesser Blumberg, "Entrepreneurship, Credit and Gender in the Informal Sector of the Dominican Republic: the ADEMI Story." In *Women in Development: A.I.D.'s Experience 1973-1985, Vol. II. Ten Field Studies*, edited by Paula Goddard.

[17]Margaret Hagen and Tamara Tiffany, *Small Enterprise Development Project Credit Strategy Study*, p. 29. The Foundation Carvajal model emphasizes training in business administration, accounting, marketing and the like, and provides credit for only a small fraction of those trained.

covered their costs more, equally or less than in 1988. Among both FEE clients and beneficiaries of foundations using the Carvajal model, there was little difference by gender: among FEE clients, 51 percent of both men and women reported better coverage of costs, as did 38 percent of men versus 33 percent of women from Carvajal model foundations. Among FED clients, however, men's businesses once again did better: 50 percent of men versus 39 percent of women reported better coverage of costs now than in 1988. In short, there seems to be no simple pattern of men's income growing more than women's.

Particularly relevant is the evidence from the UNEPROM study concerning what men and women micro-entrepreneurs do with their income. Specifically, in all three subsamples (credit and training, training only, and controls) women showed a higher propensity to reinvest in the business than men. In the credit and training subsample, women spent 14.6 percent of income on business reinvestment, versus 8.1 percent for men. Among training only recipients, women reinvested 18.3 percent of income, versus 9.5 percent for men. And in the nonbeneficiary "control" group, women spent 14.5 percent versus men's 9.1 percent on business reinvestment.

There is considerable evidence that women with provider responsibilities focus expenditures on children's nutrition, with a secondary concentration on children's schooling, health, and clothing. Women also tend to withhold less income for personal spending than do men.[18] The UNEPROM data do not distinguish between women who are heads of household or primary providers and those with lesser provider obligations. The latter group might be expected to have more available income for other expenditures — such as reinvestment in the business. The data do show that women are as likely as men to be in a marital union: 81 percent of women, versus 83 percent of men, are married or in a consensual union. Although by cultural expectations these married women should have only secondary provider obligations, there are no data on how many of their husbands indeed are primary providers. Yet the data show that women, despite their high marriage rate and higher propensity to reinvest, spend almost as much on food as men: among the credit and training subsample, men spent 55.8 percent versus women's 47.0 percent. Of those receiving only training, men spent 54.0 percent versus women's 48.9 percent. And among nonbeneficiaries, men spent 68.2 percent versus women's 65.5 percent.

Productivity

A 1988 study of FED[19] showed that women borrowers increased their hourly incomes significantly more than men borrowers, as compared to nonborrowers of the same sex, once several extreme values were removed. These female beneficiaries of FED credit increased their productivity: they made more money while working fewer hours. Given that these women had between 5 and 6 children per household, and thus were obliged to work a "double day" of both economic and domestic activities, it is relevant that they chose to cut business hours. Women micro-entrepreneurs, for example, reduced their business

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[18]See Rae Lesser Blumberg, "Income Under Female vs. Male Control: Hypotheses from a Theory of Gender Stratification and Data from the Third World," *Journal of Family Issues*, Vol. 9, No. 1 and Blumberg, *Making the Case for the Gender Variable, op. cit.* for reviews of the male/female spending data.

[19]Buvinic, Berger and Jaramillo, *op. cit.*

workday from 10.3 hours in 1984 to 9.3 hours in 1985.[20] Presumably, much of this extra time was devoted to childrearing (i.e., "human capital formation").

To generalize, to the extent that women micro-entrepreneurs are as business-oriented as their male counterparts, while bearing greater responsibility for their children's welfare, we can speak of a "synergy effect" in channelling funds to women — the women combine the economic impacts of the funds with an added bonus of human capital formation.

Men and Women's Entrepreneurial Characteristics

In examining whether women micro-entrepreneurs are as business-minded as men, it must be kept in mind that the micro-enterprise foundation clients in the various studies are not representative of the micro-enterprise universe at large. Rather, they tend to be a self-selected group of individuals who have chosen to grow. The micro-entrepreneurs interviewed in the present "rapid rural appraisal" (RRA) are an even more selected group: except in the Cuenca Microenterprise Survey follow-up sample (see Annex B), foundation staff heavily influenced the selection of clients who came to group meetings and/or were interviewed in their business premises. While a few of these men and women were not very successful, more often than not, they were enthusiastic people who had benefitted from the assistance they had received. This was especially true of those who had received credit in addition to training. The women interviewed in the RRA proved no less business-minded than the men.

The Microenterprise Survey, however, provides the richest lode of data comparing men and women's business orientation. In general, the findings from this survey show women micro-entrepreneurs to be at least as entrepreneurial as men. Some of the areas in which men and women entrepreneurs indicated similar levels of commitment and business orientation include:

- Perception that they could sell more;
- Desire to export;
- Satisfaction with the business;
- Desire for expansion;
- Perceived ability to compete with larger businesses; and
- Perception that their greatest need for growth is working capital.

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[20] *Ibid.*

With respect to the scale of their businesses, although men had more employees and a larger monthly payroll, male and female entrepreneurs proved alike with respect to:

- Level of fixed assets;
- Change in income from 1989-1990;
- Profit/loss of the business;
- Keeping a general ledger;
- Applying for business loans in the last year; and
- Keeping a bank account.

In some areas, women exceeded men in business-related attributes, reporting:

- Less problems with selling their product;
- Less problems with marketing and competition;
- More optimistic views of their firm's future;
- More credit from suppliers;
- More use of a daily ledger; and
- A tendency to like competition and risk-taking more.

Some of the differences between men and women micro-entrepreneurs have to do with their strong gender segregation into different sectors of the micro-enterprise world. As noted, women predominate in commerce and in the production of clothing. This may explain, for example, women's greater use of supplier credit, which is more prevalent there, particularly in commerce. There also seems to be strong growth potential for women's clothing: demand was not reported as a problem by any woman clothing producer interviewed, for example.

Gender segregation of the micro-enterprise world also seems to explain the finding that female micro-entrepreneurs are more likely to hire women and male micro-entrepreneurs are more likely to hire men. Also, women's jobs pay much less: a recent INSOTEC sample survey of small and micro- enterprise in five Ecuadorian coastal cities found that men earned fully 250 percent more than women.[21]

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[21]Pablo Samaniego, and Lincoln Mayguashca, *Situación y Perspectivas de la Micro y Pequeña Industria en Cinco Ciudades Secundarias de la Costa Ecuatoriana: Esmeraldas, Quevedo, Manta, Portoviejo y Santo Domingo de los Colorados*, p. 56.

Other differences in micro-enterprise performance are caused by women's situation as women. For example, both the Microenterprise Survey and the rapid appraisal found female businesses more likely to be home-based than men's. The survey also reported interesting gender differences in use of family members in the business: male micro-entrepreneurs were more likely to have spouses work in the business than were women micro-entrepreneurs, while women were more likely than men to mobilize their children's labor — but, significantly, more on a part-time than a full-time basis[22]. Women interviewed in the rapid appraisal attributed this pattern to their insistence that children's business involvement not come at the expense of their studies — that is, they claimed that their children worked only when not in school.

A further notable gender difference that emerged in the Microenterprise Survey concerns reason for starting their business: women stressed their greater economic necessity to earn, whereas men stressed the independence motive. Women have less access to better paying jobs in the formal sector, and more and more of them must assume provider responsibilities as male contributions fall short or are altogether absent. For women entrepreneurs, earning a living in the informal sector is the only viable way to survive.

Loan Repayment by Gender

Most studies of micro-enterprise credit worldwide have found women to be as good or better in loan repayment than their male counterparts. Only partial data on arrearage was available for the present research, but once again, with one complex exception, women proved to have lower rates of arrears. The CARE survey data show that FED women's arrears rate is 6.8 percent versus 12.2 percent for men, while FEE women's rate is 0 percent versus 4 percent for men. The aggregate arrears figure for the four Carvajal-model foundations provided the only exception — an arrears rate of 13 percent for women versus 7 percent for men. Since the CARE data available for the present analysis lumped together the four Carvajal-model foundations, it was not possible to check the data to see where women's reported higher arrears rate was coming from. However, data obtained during the rapid appraisal from one of the Carvajal-model foundations (CIPEP in Manta) showed 0 percent of women in arrears, as opposed to 10 percent of the men. Interviews with FADEMI indicated that, in one credit line, slightly fewer women were in arrears (7 percent of women versus 9 percent of men); in another, women comprised 39 percent of the borrowers, but only 33 percent of those in arrears.

Summarizing the above, it appears that the women micro-entrepreneurs who seek out micro-enterprise assistance programs are as dedicated to their businesses as are men, even though their firms tend to be smaller in scale. They are also more constrained by home, children and economic

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[22]In part, this may reflect cultural values and relative availability of employment by gender. Men would less often be comfortable working in a business run by their wife, and are more likely to have access to better employment in the formal sector. In part, the lower participation of men in wives' businesses may also reflect the significant proportions of female heads of household among women microentrepreneurs reported in the literature and found in the tiny rapid appraisal sample; unfortunately, household headship was not included as a variable in any of the sample surveys included in this paper so this possibility could not be assessed.

necessity.[23] In addition, female micro-entrepreneurs are apparently somewhat better at loan repayment. In short, there seems to be no economic basis to give preferential treatment to male micro-entrepreneurs.

WHAT WORKS BEST FOR FOUNDATIONS WORKS BEST FOR WOMEN

One of the objectives of the rapid appraisal was to learn whether the procedures followed by the micro-enterprise assistance foundations facilitate or hinder their reaching women beneficiaries. The literature on micro-enterprise development consistently reveals several factors that lead to successful micro-enterprise credit programs — factors that concomitantly result in higher proportions of women being served as beneficiaries:

1. One of the most important of these success factors is charging positive real rates of interest so that the foundation does not decapitalize and the well-known "trickle up" effect of subsidized credit does not occur.[24] A clear relationship can be seen in the foundations surveyed between the rate of interest charged and the proportion of women loan beneficiaries. The foundation charging the highest interest is FED, which charges the market rate, and then adds fees for training, insurance, and other items that are amortized with the loan. FED is also the only foundation requiring weekly payments, which leads to a very rapid turnover on its funds. As the result of this strategy, it is at 170 percent of self-sufficiency, according to its report to the Inter-American Development Bank.[25] It also has the highest proportion of women clients — fully 60 percent. In contrast, UNEPROM, which offers a subsidized interest rate, has 54.1 percent women clients, but only 35.6 percent of these women received credit.

2. Successful foundations do not impose high transaction costs in order to get a loan, such as long waits, numerous trips to a distant office or bank, intimidating contacts with disdainful bureaucrats of a higher social class, lengthy and complex forms, and other bureaucratic impediments. Again, FED's paperwork and "up-front" requirements seemed the least onerous of the foundations visited.

3. Not imposing high collateral requirements or complex co-signer procedures for a loan is another factor associated with successful micro-enterprise credit projects. In the FEE program, a "solidarity group" mechanism is used for the poorer clients, who are largely female and

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[23]These are discussed in greater detail later in this chapter.

[24]"Trickle up" refers to the tendency for the more influential and better off within a target group to get a disproportionate share of subsidized valuable and scarce resources, such as credit.

[25]Fundación Ecuatoriana de Desarrollo, *Programa de Desarrollo de la Microempresa Formal: 25 Meses de Trabajo, Junio 1988-Junio 1990.*

engaged in commerce.[26] Under a solidarity group program, the group gives a collective guarantee and provides social pressure to keep up loan payments. This eliminates the need for collateral, co-signers and the like, and typically results in very low arrears. While most of the individual loans go to men, women are more likely to be involved in the solidarity groups. FED also used to have a solidarity group component, which was eliminated as part of a reorganization in which the main advocate of the solidarity group approach was replaced. Current management believes that solidarity groups are not culturally appropriate in Ecuador, FEE's experience to the contrary. According to the Buvinic et al. study[27], 65 percent of the microvendors in FED's 1984-86 solidarity groups were women, versus 35 percent of microproducers receiving individual loans. FED's other loan-facilitating procedures, even in the current absence of solidarity groups, give it a plus on this point, as well as a 60 percent female clientele.

In general, collateral and co-signer requirements tend to depress female clientele more than male, since women are less likely to have access to the kinds of property accepted for collateral[28], or the leverage and contacts to get solvent co-signers. One problem with requiring co-signers, revealed in the course of the rapid appraisal, involved a newly-superseded Ecuadorian law requiring both spouses to sign for loans or as guarantors. This special constraint on women micro-entrepreneurs in discussed in more detail in Section IV below.

4. The most successful programs typically offer frequent payments that correspond to the business cycle of micro-enterprises. In the rapid appraisal, it was found that FED has switched from monthly to weekly payments, FEE continues with monthly payments, and the other foundations request monthly payments but often have a confusing system in which the private bank forwards payments only quarterly to the Banco Central. In effect, then, payments are quarterly for many micro-enterprise clients of the other foundations. The rates of arrears appear to be substantially lower for clients bound to monthly or more frequent payments. The FED micro-entrepreneurs interviewed had no complaints about the weekly payments, although according to FED staff, micro-entrepreneurs in a few long-business-cycle sectors — such as carpenters — sometimes find weekly payments difficult. Overall, FED has a very low rate of arrearage. Lower arrearage rates were also found for USAID/CFN credit lines, which require monthly payments, than for credit lines run through local banks that emphasized quarterly forwarding

[26]According to Robert Kramer, Deputy Director of USAID/Ecuador, FEE's solidarity group approach has been exceptionally successful.

[27]Buvinic, Berger, and Jaramillo, *op. cit.*

[28]Jewelry, for example, is almost never accepted by anyone except informal moneylenders and pawnshops.

of money to the Banco Central. FADEMI, for example, has both USAID/CFN monthly payment credit lines and local bank/Banco Central quarterly credit lines — and a much lower rate of arrears in the former.[29]

5. Many of the more successful credit programs do not arbitrarily exclude certain kinds of micro-enterprises, such as commercial ventures, and they typically have more women beneficiaries as a result.[30] Programs that restrict commerce participation tend to freeze out a large proportion of potential female beneficiaries. While small commerce micro-enterprises do create fewer jobs than such labor-intensive production sectors as clothing, and less value added than such capital-intensive sectors as metal working, there is no evidence that commerce micro-enterprises make worse loan clients. They report increases in sales, sometimes at a higher rate than production businesses,[31] and to the extent that commerce micro-entrepreneurs are likely to be poorer and/or women, they may have lower loan delinquency rates. This is in keeping with the findings in Guatemala and elsewhere[32] that most foundation fieldworkers (*asesores*) firmly believe that the poorer the micro-entrepreneur, the better the payment record.

Since foundations do not collect social class data on clients, the better loan performance of the poorer micro-entrepreneurs is based on impressions. But similar impressions were gained from interviews with both sets of asesores questioned during the rapid appraisal, namely FED's and CIPEP/Manta's. Asesores also felt that women were as good or better than men in loan repayments, in spite of the fact that they were poorer and generally had smaller businesses than their male counterparts.

In general, the Ecuadorian data generated through the present research is in line with the worldwide micro-enterprise literature in finding that what works best for foundations works best to enhance the proportion of women credit beneficiaries.

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[29]In fact, the most bizarre, confusing and unwieldy system encountered in the rapid appraisal involved FADEMI's non-USAID/CFN credit lines. The system is due to the policy of the local branch of the bank handling the money. But since this seems to be having a more negative impact on women than men, it is discussed later in this chapter.

[30]Therefore, it is perhaps counterproductive that the Inter-American Development Bank frequently has imposed a restriction that ME loans using its money must be for "transformative activities" (mainly, production). While some Ecuadorean recipients have managed to renegotiate this requirement (for example, CONAUPE), others (for example, FED) are hampered by it. Fortunately, FED also has access to ACCION funds for a bank guarantee fund that permits it to continue to service the commercial sector of MEs to an extent. FED's proportion of women is very high even with only limited commerce clients because many of its production clients are in the largely female clothing sector.

[31]Arelis Gómez, *Informe de Evaluación de Impacto Programa USAID/MTRH.*

[32]Rae Blumberg and Jaime Reibel, *Guatemala's Urban Microenterprise Multiplier System (SIMME): Program Appraisal.* See also Rae Blumberg and Elspeth Revere, *Evaluation of Guatemala's Urban Microenterprise Multiplier System (SIMME).*

SPECIAL CONSTRAINTS ON FEMALE ENTREPRENEURS

Women and the Need for the Spouse's Signature

Two years ago, at the beginning of the Borja administration, Ecuador's Congress passed some reforms aimed at eliminating structural and legal obstacles to female equality — which already is guaranteed by the Constitution. Paragraph 5, Article 19 states: "Women, whatever their civil status, have equal rights and opportunities to men in the aspect of public, private and family life . . . ."[33] Nevertheless, many policies and laws continued to discriminate against women, hence the recent Borja reforms.

One of these reforms was to require both spouses' signatures (for common law couples as well as the legally married) for a loan or loan guarantee. The rationale was that the woman should not be obligated by a loan action undertaken by her spouse unless she was a party to it. Many women had long complained that their husbands failed to let them know when they were incurring debt obligations. Despite the good intentions, this reform has boomeranged and has had severe and negative consequences for women.

As emerged clearly in the rapid appraisal, when a man wants a loan, he has more leverage to compel his wife to sign than in the opposite case. Among other things, men's superior social position, economic power and physical force give them more clout. Also, even if a couple has separated, the law requires both signatures. Again, a man has more power to compel a separated spouse to sign than in the contrary case. For financial reasons, some separated men with children by the prior spouse and a new liaison may keep in contact with the family and contribute sporadically but may not reveal their new whereabouts. This further hinders a woman's ability to get her former partner's signature on a loan application.

An analogous situation exists with respect to co-signers. Typically, the agreements (*convenios*) between foundations and banks call for one guarantor. But some banks require two. And every guarantor means two signatures if that person is, or has been, in a live-in union. This makes it harder for women, with their lesser social power and contacts with solvent people acceptable to banks, to get micro-enterprise loans. In one situation, absurd levels of difficulty ensued. Some of FADEMI's credit lines are run through a local branch of one of the country's major banks.[34] The local bank manager has decided that one-year loans to micro-enterprises would have to be rolled over every three months (when the quarterly payments are forwarded to the Banco Central). In addition, there is a policy that two guarantors, rather than one, are needed for a loan. Therefore, every three months, the typical FADEMI client of the affected credit lines must bring six people to the FADEMI offices for a signing ceremony: the loan recipient and spouse, and each guarantor and spouse. The system has resulted in confusion and hardship, with women especially complaining about the burden. Worse, if one of the parties is absent, the paperwork cannot be completed and the quarterly payment cannot be forwarded. This puts the client

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[33]Rae Lesser Blumberg, and Dale Colyer, *Social Institutions, Gender and Rural Living Conditions*, Working Paper 12-89.

[34]In contrast, their USAID/CFN line is run under a special, streamlined agreement that avoids some of these pitfalls.

at great risk of falling into arrears and having to pay the high penalty interest for delinquency. The rapid appraisal uncovered several concrete cases in which a single absent member of the sextet caused precisely this to occur.

Fortunately, on August 21, 1990, the Ecuadorian Congress passed — and published in the official legislative digest — a modification of the law. Now, only one spouse's signature is needed — except for such "big ticket" indebtedness as that involving the purchase of cars, houses and land.[35] It will be some time before the legal change comes to the attention of the relevant banks and foundations. Until then, the dual signature requirement remains a big hurdle for women.

Women Micro-entrepreneurs as Health-Care Providers

When a family member gets sick, it is typically the woman who is expected to assume the burden of care, regardless of consequences to her other economic endeavors. While there is much mention in the literature of women's "double day" of domestic and economic activities, little has been noted in the gender-and-microenterprise literature about women's special problems with health care obligations.

Most micro-entrepreneurs have no access to the publicly subsidized Social Security health system and may be hard-pressed to afford private health care, given the much lower income levels that characterize informal and micro-enterprise activities. Average income in the Ecuadorian public and private formal sector is 60 percent higher than informal sector income, according to studies using the Permanent Household Survey data.[36] Also, one study of people working in micro- and small enterprises in five coastal cities found men to make 250 percent more than women.[37] So there is no doubt that women micro-entrepreneurs in the informal sector have difficulties with health care access, unless they happen to be married to men with formal sector jobs covered by Social Security.

Accordingly, it is significant that two of the foundations visited, FED and FADEMI, have instituted medical and dental plans. The FED plan involves about 80 percent of the roughly 2,500 current beneficiaries, each of whom currently pays just over $2.00 every six months. This gives them and their family the right to visit the afternoon medical clinic FED maintains right on the premises. The FED doctor believes that the plan, which has been operating nearly a year, is carrying much of its costs, since not everyone uses it. FED also maintains a dental plan and clinic on the premises. All beneficiaries interviewed at FED were appreciative of the health plan — even those who had joined but had not yet used it. Indeed, several women were quite emotional in their appreciation of the easing of their special burden.

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[35]Interviews with Susana Balarezo, Technical Director of CONAUPE and Tatiana Cisneros, Director, Women's Program, Ministry of Social Welfare.

[36]Raúl Baca Carbo, *op. cit.* p. 14.

[37]Pablo Samaniego, and Lincoln Mayguashca, *op. cit*, p. 56.

Women's Access to Training versus the Local Level of Machismo

The Carvajal model involves a substantial cash outlay for intensive training in business administration (accounting, costs, marketing, human relations and the like). The model calls for access to credit for a good proportion of the graduates. As it happens, however, the four coastal city foundations using the Carvajal model have had a variety of problems that have precluded their giving credit to more than a minuscule proportion of their training graduates. These problems have included (a) decapitalization due to too few, too large, too long-term loans at less than positive real interest rates, (b) difficulties with banks in freeing funds already "in the pipeline," and (c) lags on the part of donors. In fact, CIPEP/Manta, where 74 loans have been disbursed, and CIPEP/Portoviejo, with 77 loans, top the list. Yet these represent a paltry 3.8 percent and 3.3 percent, respectively, of the 1967 and 2299 people trained at each site. Only 1.8 percent of the program participants in Quevedo (54 of the 3069 trained) and a mere 1.4 percent of the Esmeraldas foundation clients have received loans. The Santo Domingo foundation has been suspended from the program and is currently engaged in a legal battle with CARE.

Women CIPEP beneficiaries in Manta revealed that they knew of other women who had borrowed money to take the training, based on the lure of credit offered by the promotores/asesores who signed people up. When no loan was forthcoming, they were in trouble. One woman admitted borrowing the money from her husband; she is still hoping to get a loan.

The coastal cities of Ecuador are considered to be lower in economic opportunities for women and higher in female subjugation than cities in the Sierra.[38] The province of Manabi, in which both Manta and Portoviejo are located, is reputed to be the most "*machista*" in the country, and has one of the most male-dominated formal sectors. It is significant that CIPEP informants reported that husbands have opposed some women's attempts to sign up for Carvajal-model training. They cite both cultural reasons ("the woman is for the house") and the increasingly notorious futility of taking the training in hopes of getting a loan. Word travels fast in the small coastal cities where the Carvajal-model foundations operate. And, asesores agreed, unless the husbands see some fairly immediate economic benefit, they often are reluctant to let their wives participate.

Accordingly, CIPEP asesores' subjective impression is that their female trainees have for the most part been heads of household, divorced, widowed, or separated. In fact, there have not been many women in CIPEP's courses: 21 percent at Manta and 22 percent at Portoviejo — the lowest proportion among the Carvajal-model coastal city foundations. This very low proportion of women trained by CIPEP in Manabi is probably related to the local perception that the training, in and of itself (that is, without credit), does not lead to significantly increased income.[39]

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[38]Blumberg and Dale Colyer, *op. cit.*; Rae Lesser Blumberg, "Gender and Development in Ecuador."

[39]This does not mean that the training is not perceived as valuable in nonincome ways: All 10 CIPEP/Manta trainees interviewed in the rapid appraisal expressed appreciation for the courses and felt that they had been helped to varying degrees. Interestingly, more mentioned applying the human relations they'd learned and stated that this helped them with customers, than mentioned keeping some kind of ledger — the most emphasized point.

The proportion of INSOTEC women trainees has been much higher than the proportion of female trainees in CIPEP's Carvajal-model courses. 47 percent of the 915 people trained by INSOTEC between June 1987 and December 31, 1989 were women, as were 66 percent of the 170 trained in the first six months of 1990. In part this higher participation can be explained by the greater immediate relevance of the courses offered. The INSOTEC courses focus on increasing expertise in four fields of production — clothing, food, metal working and wood products. The largest and fastest-growing group of courses have been in clothing and are attended almost exclusively by women. Apparently, it is possible for graduates to put their knowledge to immediate use to increase income — and this seems to affect their own and their husband's attitude toward their taking the training. It is also significant that this skills training is much cheaper than the Carvajal-model general business administration package. A vignette from one INSOTEC-trained woman in Santo Domingo — another city with a *machista* reputation — illustrates the point:

> Alejandra is a 30-year old married seamstress with a lively four-year old daughter, a spotless workshop/apartment, and a usually unemployed husband who works only sporadically as a *chofer*, despite his *bachillerato* degree. She produces mainly made-to-measure clothes but she has a *bachillerato* as a secretary. She learned dressmaking on her own (without childcare and, given her husband's attitude, it is not feasible for her to work outside the home at this stage of her life). But she was not skilled enough to do very complex or sophisticated touches. She therefore had to limit herself to poorer customers, basic designs and low prices. She then took four courses from INSOTEC and refined and expanded her skills. She now is able to do higher quality work for a better-off, more demanding clientele — and charge them higher prices. The rise in her income, she notes, was just in time. Until her training, she estimates that she contributed 70 percent of the household maintenance. Then her husband lost even his occasional work and now she maintains the household "virtually 100 percent." Moreover, her increased income and demand ("I never lack for clients") has increased her self-confidence. She also feels her husband respects her more and that she has more weight (*voz y voto*) in household decisions.

In short, if an immediate payoff is perceived, "machista" husbands seem to temper their opposition to their wives' paying for training "outside the house." More generally, however, the proportion of women in the Carvajal-model foundation courses varies by the degree of *machismo* and male domination of the local economy in each of the cities. Thus, although women are only about one-fifth of trainees in the Manabi Province cities of Manta and Portoviejo, they are 37 percent of trainees in Quevedo and fully 43 percent in Esmeraldas — which has a large African population and more of a tradition of women's economic activity.

The example of the contrasting proportions of female enrollments in the Manta CIPEP versus INSOTEC courses alerts us to the fact that local patriarchal attitudes can act as a constraint on women's involvement in training, to the extent that this is not seen as something of immediate economic payoff for the household. In short, this constraint is not irremediable. It merely needs to be taken into account in future micro-enterprise activities planned for coastal cities.

ADDITIONAL RELEVANT FINDINGS FROM THE SURVEY

Time and space considerations will limit this section to five of the most interesting additional findings that emerged from the rapid appraisal.

1. First, no pure cases emerged of micro-entrepreneurs who could be clearly characterized as single-activity producers, commerce or service specialists. Instead, micro-entrepreneurs resorted to a variety of activities in order to balance the yearly ups and downs in their primary activity. These often crossed the much-cited "production versus commerce versus services" breakdown of micro-enterprises used by many foundations, donors and specialists working with the informal sector. For example, a FED shoe producer and repairer also sold, for example, school supplies and stationery out of one glass counter on the left side of his shop and women's and children's clothes out of another glass counter on the right. The shoe business occupied the center counter and the back room. In this way, he explained, he increased his income and helped smooth out seasonal fluctuations.

This finding further undermines the case for discriminating against commerce: many of those classified as "production micro-enterprises" also engage in commercial activities, and many of those categorized as "commerce micro-enterprises" do — or contract out — some production of at least their principal line on the side. The linkages and interdependencies encountered proved that the micro-enterprise world is more complex and variable than the categories that have arisen to classify and assist it.

2. The rapid appraisal revealed interesting examples of both "thresholds" and "plateaus." A threshold involves reaching a loan size that permits a business to make a quantum leap in growth; amounts below this may bring smaller improvements but nothing dramatic. It is very clear that this threshold varies by economic activity. A jeweler has a vastly higher threshold, given the price of gold, than a clothes vendor at a public market. The following vignette illustrates the experience of such a vendor:

> Yolanda is a woman in her 40s who has raised five children as their primary support. Her husband rarely contributed to the household and finally abandoned the family. Now her oldest daughter, 19, takes care of the house and younger children while the second daughter, 17, works with Yolanda at her permanent stall on the street approaching Quito's Ipiales Market. She has been a FED client for six years ("I think I've had 20 loans!"), but until a year ago, these gradually escalating loans were too small to make a dramatic difference in her business. Then she reached S/.200,000 (about $335 at that time). This was the minimum purchase at a factory which sold seconds and remnants. For the first time, she was able to buy there — and at such a cheap price, comparatively speaking, that "I was able to fill my whole stall." Sales spurted and she began making regular weekly trips to Colombia to buy and sell additional merchandise while her 17-year-old daughter took charge of the stall. Her next loan was for S/.400,000 for a shorter period, and her current loan is for S/.600,000 for the same period. She buys in quantity more cheaply than ever before, adds to earnings with her Colombia buying/selling trips, and is able to support her own family and offer occasional work and meals to two unemployed nephews, 18 and 20. Her income has doubled, and in addition to reinvestment, she has been able to buy dishes, a stove, furniture, and a black and white TV — all in the last year since her business finally reached that "threshold level" loan and took off.

Another FED client illustrates the *plateau* effect, which is posited to occur when acquisition of additional machinery raises productive capacity, at least for the short term, above what the micro-entrepreneur has been accustomed to selling. For example:

> Manuel is a manufacturer of men's shirts, one of a family of eight brothers and sisters from Loja who entered the business in the wake of the oldest sister's learning how to make shirts at a factory job. She started her own business, brought in her siblings and then helped to spin them off by ones and twos into independent manufacturers. But all eight still pool resources for group purchases of raw materials. Manuel's workshop looks like a single activity manufacturer: nothing but men's shirts are in evidence. Thanks to FED and bank loans, Manuel has acquired enough additional sewing machines to increase employment from 6 to 9, and boost his production 50 percent — beyond his ability to market. (This, he hopes, is a temporary problem.) He leaves a sister in charge two days a week while he sells his shirts from a permanent stall in the Ipiales Market. According to his asesor, he even sells shirts and ties to newly arriving Congressmen from a strategic street location. He wants help with marketing in order to get over the hump.

3. Micro-entrepreneurs almost invariably cited insufficient working capital as their biggest obstacle to expansion. In line with this finding, it was not surprising to find that two of the biggest "success stories" of the INSOTEC/Santo Domingo women's program got their big push not from training, per se, but from earnings accumulated after they were made paid instructors. The following accounts illustrate this case:

> Grima, a 29-year-old single mother of two, now has a booming business making elegant, hand-embroidered clothing for children. She used to have a tiny business with no employees. Then she began taking clothing courses from INSOTEC and became one of five women chosen to be trained as instructors. As an instructor, she has taught 8 courses, in Santo Domingo, Manta, Esmeraldas and Quevedo, for S/.40,000 each. She saved this money and used it to capitalize a greatly expanded business that has soared from that point on. Now, at a peak just before an order is due, she has up to 10 people helping her, including four younger sisters at home whom she largely supports. She has even hired two of her own students from INSOTEC courses. She now has distributors who sell her output in major cities, and business, she beams, is "fabulous." Currently she is thinking of a bank loan of S/.7-8,000,000, exporting her line, and continuing to grow. She has just moved the business into spacious and expensive rented quarters out of the house. Despite all her business reinvestment, she has also managed to furnish her house with living room, dining room and bedroom furniture, and a color TV; buy clothing for the entire family; and even "just a very little bit" of jewelry for herself.
>
> Jessie, a second woman student-turned-instructor, also is using her earnings to launch a vastly increased clothing business in partnership with a teacher friend. Between them, they have five standard sewing machines and one domestic-model Overlock, and intend to produce children's clothes. Already Jessie provides 70 percent of household income with her own current, modest dressmaking business. She and her friend feel they have the equipment and sufficient market to create a fine business, something she never would have been able to do without the nest egg she earned from her work as an INSOTEC instructor.

4. There are clear differences in the extent to which micro-entrepreneurs in different businesses and cities have been able to transform small loans into growth and profits. For example, women's clothing producers and seamstresses seemed to do better than, say, those running small restaurants or home-based mini-groceries. Growth clearly was more dynamic in Quito and fast-growing Santo Domingo than in Cuenca or Manta and Portoviejo. All in all, however, there were few instances of "market saturation" that were encountered. A major impression of the rapid appraisal is that there is considerable potential for growth in much of the micro-enterprise sector.

5. It seems clear that people at different points along the "micro-enterprise pyramid" have different kinds of needs and that the foundations visited have positioned themselves to provide specific services to micro-enterprises at different levels. In theory, foundations working with the different levels seem to be offering a resource much needed by that stratum of micro-entrepreneurs, but not all are doing so in an optimal manner. Basically, there are different needs in four strata of the "micro-enterprise pyramid":

(a) At the bottom, there is great need for small infusions of working capital, along with the most rudimentary business skills in managing credit and calculating a break-even point and better prices. This is the most populous stratum of the "pyramid." Many of those given low levels of assistance may stabilize employment, sales and income rather than experiencing sharply increased growth But the loans here are small, short-term and compete with moneylenders' rates, so self-sufficient programs can be built taking a "minimalist" approach. FED and FEE are examples of foundations which have learned many of the key "lessons learned" on how to deal successfully with this level of the micro-enterprise world. It also is the level with the most female micro-entrepreneurs.

(b) A bit higher up the pyramid — through the "lower middle" micro-enterprises — practical technical skills training can result in income and, sometimes, business scale enhancement. However, if the course is abstract and theoretical, it may have no such effect. For example, a carpentry class of 20 boys and young men observed in INSOTEC's Santo Domingo office revealed students sitting at desks and writing down lecture notes about classification of wood, diseases of wood, and so forth. They noted that they were already half-way into the second course in the sequence and had not yet picked up a hammer. While they are supposed to get down to the "hammer and nails" before the end of this second course, not one student mentioned that his income had been enhanced. This was in sharp contrast to the reports of women who took the extremely practical, "hands on" courses in the clothing sequence. It would appear that the best approach is to offer courses that are not only practical but also cover both male- and female-dominated sectors (*ramas*) in Ecuador's highly gender-stratified micro-enterprise sector.

(c) There does seem to be a need for more general business administration training for middle level micro-entrepreneurs who may need to better organize their operations in order to stabilize and then increase their businesses. But given the weak evidence that this training provides short-term returns in income in and of itself, such training seems better tied to a viable credit program. Credit will have a great impact on student demand. In both CIPEP/Manta and Portoviejo, enrollments dropped drastically after word got out that long-promised loan funds once again would be further delayed. For the first time in their history, for example, in August 1990, CIPEP/Portoviejo had to cancel an ongoing course due to attrition by the end of the first week. Enrollment had dropped from 14 to 2. While a few middle level micro-

entrepreneurs will pay for training even without the "carrot" of a possible loan, the message that emerged during the study was clear: "The training was excellent and we now believe in an integrated package of training and credit. But we really enrolled for the possible money."

The CIPEP/Manta micro-entrepreneurs interviewed in the survey also made clear their preference that the up-front cost of the training should be reduced. They suggested spreading it out more, and/or tacking some or all of the cost onto any ensuing loan. In this way, they felt, more micro-entrepreneurs would be able to afford the training.

(d) Finally, there does seem to be a niche for expensive one-on-one technical assistance aimed at the top of the micro-enterprise pyramid. These people can better afford to pay, but even here, program success would probably be much better if the foundation helped the newly assisted micro-entrepreneur get a loan. The size of the loan, however, means a longer repayment period, so these programs will have greater problems achieving self-sufficiency.

IMPLICATIONS FOR FUTURE DONOR ASSISTANCE

1. Resources are pouring in from international donors for Ecuador's micro-enterprise sector. The Inter-American Development Bank and the World Bank, in particular, have become major players. They are supporting evolving public and private sector micro-enterprise programs, which often involve creating or strengthening large numbers of weak foundations. Yet there are still so many obstacles: relationships with banks have not been smoothed out and foundations are busily "reinventing the wheel." They seem not to have a firm idea that many of the characteristics of successful micro-enterprise programs already have been codified in the burgeoning micro-enterprise literature.

Under these circumstances, a critically important service would be to work with the foundations and with public sector agencies (such as CONAUPE) that are getting so much new funding. Designing programs to train all key actors in "what works and what does not work" in micro-enterprise credit and training programs could multiply the effectiveness of assistance to the whole sector.

Such a program would also have the effect of enhancing women's access to benefits. This is because the most successful programs have adopted mechanisms that eliminate the up-front and other constraints that otherwise limit women's participation. Dissemination of this information would help Ecuadorian foundations adopt more efficacious procedures that would also benefit women.

In addition to success factors mentioned above that specifically also benefitted women, two other points should be noted here:

(a) The more successful foundations tend to do their own collections, and in a no-nonsense, timely manner; and

(b) The more successful foundations also tend to use street-wise but compassionate asesores who are geographically assigned. They soon learn who in their area is a good risk and who is not and are more likely to ultimately penetrate the hidden recesses of the home-based micro-entrepreneurs who work "behind closed doors."

Research needs to be carried out to test the generalizability of these two "success factors" in Ecuador and to identify additional factors that have an impact on women-owned businesses. Then, intensified efforts to make these factors known could be aimed at the relevant institutional actors.

2. Computerization of all levels of the system aimed at helping micro-enterprises, as well as training people to operate those computers and to analyze critical parameters, should be supported. Some specialized software that tracks micro-enterprise credit projects, such as that designed by ACCION, already exists and should be promoted. Data requested for the present study were received more or less on time and more or less in full only from INSOTEC; others, even the most computerized, lagged considerably or had difficulty in producing the data.

This suggestion also includes the strong recommendation that all computerized systems should be set up, and people trained, to automatically provide all pertinent data in a gender-disaggregated form.

3. Once the foundations and public sector institutions have been made aware of the "lessons learned" (that is, the factors associated with successful programs), it is time to work with the banks. Incentives and smoother procedures must be worked out. This would help end the current situation of cooperative executives at the national headquarters and capriciously supportive or hostile managers at local branches.[40] Some banks have had very bad experiences with weak foundations that resulted in high delinquency rates on micro-enterprise loans. This history must be dealt with in future work with banks.

4. Both the foundations and the banks would benefit by charging positive real rates of interest. Promoting this goal should increase incentives, earnings, and the proportion of women served. As noted, subsidized credit undercuts the participation of women and the poor and jeopardizes the survival of the credit-granting entity.

5. Considerable work needs to be done on sorting out what mix of credit and specific types of training works best at different levels of the "micro-enterprise pyramid." Donors should support additional research, followed by pilot programs to field test the elusive combination best suited for the various strata of the pyramid. One consideration in this field work would be to see that women's participation is equally facilitated at every level, and in every section of the country.

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[40]The idiosyncratic support or enmity of individual local bank executives was mentioned by directors of several foundations. For example, one woman assistant manager in Manta strongly believes in her bank giving credit to microentrepreneurs and faithfully calls all 27 of her bank's loan recipients just before each payment is due. Unfortunately, that bank no longer provides new loans for CIPEP clients. Negative examples also were detailed (and are recounted in the Hagen and Tiffany report, for example) of bank managers who were indifferent or hostile to micro-enterprise credit, and who acted in ways designed to torpedo their bank's participation. One scenario involved the replacement of the manager who had initiated the program with another who had a different agenda.

The immediate utility of training must be greater as its price, and local cultural constraints against women's economic autonomy, increase. In other words, it will take a bigger, sweeter "carrot" of low-cost training and perceived short-term economic benefits to get a high proportion of female trainees in a coastal city in Manabi.

It also means that various strategies for spreading out or deferring up-front costs should be developed so as to expand the segments of the "micro-enterprise pyramid" suitable for more training-oriented programs.

6. There is evidence that the best programs address all three goals of enhanced employment, income and productivity. Stressing all three goals should result in a more balanced and cost-effective program that will reach more lower stratum micro-entrepreneurs as well as more women. There are two sub-recommendations that follow from this:

(a) Donor-financed programs should not exclude commercial activities. The complex interrelationships among "production, commercial and service" micro-enterprise activity categories make these categories rather arbitrary and artificial, at any rate. Not excluding commerce will also mean that women, who are so important in this sphere, will not have their participation undercut.

(b) Similarly, formal micro-enterprise programs should not forget about solidarity groups. The utility of a well-run solidarity group component lies in its ability to reach women, the poorest, and the commercial segments of the micro-enterprise world inexpensively and effectively.

7. Self-sufficiency in foundations should be encouraged. The means needed to achieve this goal are similar to the "lessons learned" about successful micro-enterprise programs discussed in Part III above. These include positive real rates of interest, a short payment interval (weekly or, at most, monthly), and a fast turnover of the portfolio. Women who previously used money lenders will not find such interest rates high. Nor will most of them be inconvenienced by a short payment interval, even if this means more trips to the foundation's offices: the frequent payments are more in accord with most women's production/business cycles.

8. There should be a continued focus on both Quito and Guayaquil and the secondary cities. Quito and Guayaquil's economic mix includes a higher proportion of formal sector activities whereas that of the secondary cities contains a higher proportion of informal activities. According to the national household survey, the urban informal sector averages 35.5 percent of the economically active population in the three main cities — Quito, Guayaquil and Cuenca. In contrast, the urban informal sector in intermediate cities averages 44.3 percent and that in the smaller cities 42.7 percent of the somewhat narrowly defined "economically active population."[41] One must be mindful that programs in secondary cities are under much greater public scrutiny in case something goes wrong: the smaller city means that word of success or failure will diffuse more quickly and thoroughly than in the large cities.

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[41]René Calderón, *op. cit*, p. 36. As noted, however, these INEM estimates tend to be too low because they overlook many women active in the informal sector, given their definitions and procedures.

9. Health programs are a new and potentially exciting development in micro-enterprise assistance, especially when these are "pay as you go" arrangements that operate like a Health Management Organization (HMO) with fixed payments for access to services. Their special utility for women micro-entrepreneurs already has been discussed. More work needs to be done on the location and level of payment and services that make for the most cost-effective mix that still achieves the objective of providing a health "safety net" for the unserved micro-entrepreneur population.

10. Finally, local regulations weigh harder and more directly on many micro-enterprises, especially those unregistered enterprises operating in food preparation/sale or in commerce outside of stores. As it happens, women are disproportionately involved in the businesses that seem to be most affected by local regulations. There are appropriate "second degree" organizations that represent these municipios[42], so this could provide an entree for a possible new form of assistance to the micro-enterprise sector: Donor-assisted programs should include activities to influence local municipal regulations and practices.

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[42]Interview with Lucia Carrion, a specialist in local government and the second-degree organizations representing them.

ANNEX B

METHODOLOGY

This paper is based on a combination of data from two distinctively different methodologies. First, tables disaggregated by gender were commissioned from three national random sample surveys of micro-entrepreneurs. All three included both a larger sample of micro-entrepreneurs assisted by a particular group of foundations and a smaller "control group" of micro-entrepreneurs who were not involved in these foundations' activities.[43] The three surveys are:

1. The survey carried out July-September 1990 as part of the USAID/Ecuador-sponsored assessment of the Ecuadorian informal sector. It included 430 micro-entrepreneurs assisted by foundations (151 women, 35.1 percent, and 279 men, 64.9 percent). It also included a group of 152 micro-entrepreneurs, nominated by members of the sample, who were not beneficiaries of the foundations (51 women, 33.6 percent, and 101 men, 66.4 percent). This study will be referred to as the Microenterprise Survey;

2. The survey carried out around March 1990 for USAID concerning the impact of the Ministry of Labor's UNEPROM training and credit program involving nine private foundations. The study was formulated by Arelis Gomez and carried out by CEDATOS. It involved a beneficiary group of 673 (358 women, 53.2 percent, and 315 men, 46.8 percent), as well as a nonbeneficiary group of 134 (sex information was available for 121, 55 women, 45.5 percent, and 66 men, 54.5 percent). It will be referred to as the UNEPROM Survey.

3. The survey carried out around February 1990 for USAID concerning the six foundations supported by USAID's Small Enterprise Development Project. (Four of the six foundations, it should be noted, are assisted directly by CARE and emphasize Carvajal-model training of micro-entrepreneurs; two are assisted via a sub-contract with ACCION and emphasize credit for micro-entrepreneurs.) The study was prepared by Margaret Hagen and Tamara Tiffany and carried out by VALINMER. It involved a beneficiary group of 447 (168 women, 37.6 percent, and 279 men, 62.4 percent), and a tiny group of 15 nonbeneficiaries (7 women, 46.7 percent and 8 men, 53.3 percent). It will be referred to as the CARE Survey.

The second methodology is commonly known as "Rapid Rural Appraisal" (RRA), even though it is equally applicable in an urban milieu. Named at a conference at the University of Sussex, U.K., in 1978,

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[43]As noted in the body of the chapter, clients of foundations aiding microentrepreneurs (MEs) may represent an atypical subpopulation of the "ME universe." Most importantly, ME foundation clients are (1) self-selected, and (2) "those who are trying to grow." Thus, even random samples of ME clients of foundations are not representative of MEs in general. It is impossible to get a random sample of MEs who are not clients of such foundations, since the "ME universe" has never been censused.

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it has evolved to encompass a sizeable bibliography.[44] Its basic cross-validation technique is "triangulation," in which a limited number of variables are explored by multiple methods. These range from secondary analysis of existing statistics to key informant interviews to participant observation to "mini-surveys," generally involving purposive samples.

In the present rapid appraisal, fieldwork was undertaken in foundations chosen because they deal with different levels of the micro-entrepreneurial "pyramid" in urban Ecuador, and offer different mixes of credit and training. The fieldwork began with two foundations primarily focused on providing credit (with just a little training) to mainly poorer, smaller-scale micro-entrepreneurs. It then concluded with two foundations emphasizing training to somewhat better-off micro-entrepreneurs.

- First, in Quito, the Fundación Ecuatoriana de Desarrollo (FED) was chosen to represent a credit program aimed at the poorer micro-entrepreneurs. FED is one of the six foundations in the CARE/USAID Small Enterprise Development Project — specifically, one of the two focusing primarily on credit and assisted by ACCION. It offers small amounts of training, which is not paid for up-front by the micro-entrepreneur, but rather, added to the market rate of interest charged and amortized over the life of the loan. Of 2360 FED beneficiaries, 60 percent are women and 40 percent men.

- Second, in Cuenca, the Fundación Austral (FADEMI) was visited. Like FED, it also uses a relatively "minimalist" credit approach aimed at poorer and middle level micro-entrepreneurs, and does not charge up-front for its fairly basic training. Unlike FED, however, it has no connection with ACCION. Recipients of the first 1200 credits include 64 percent men and 36 percent women.

- Third, in Santo Domingo, two programs of INSOTEC were studied. One was their excellent pilot project for women and the other was their regular program. INSOTEC mainly provides "income enhancing" technical training in production skills for "lower middle"-level micro-entrepreneurs in the clothing, food, metalworking and wood products sectors. These courses are provided at fairly modest cost. Training is increasingly focusing on clothing, in which women predominate. Hence, female students have risen from 29 percent of 725 trained in 1987 through 1989 to 88 percent of the 140 trainees in the first half of 1990.[45]

- Fourth, the Manta and Portoviejo programs of CIPEP were visited. CIPEP is one of the six foundations aided by the CARE/USAID Small Enterprise Development Project. However, it is not one of the two using the ACCION approach. Rather, CIPEP was chosen to represent the second major emphasis of the CARE/USAID project, one emphasizing training over credit. Specifically, CIPEP is one of the four foundations (all in coastal cities) using the Fundación

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[44]Summarized in Rae Lesser Blumberg, "Work, Wealth and a Women in Development 'Natural Experiment' in Guatemala: The ALCOSA Agribusiness Project in 1980 and 1985." In *Women in Development: A.I.D.'s Experience 1973-1985, Vol. II. Ten Field Studies*, edited by Paula Goddard.

[45]Adding in INSOTEC's programs in other coastal cities, women were 47 percent of 915 1987-89 trainees and 66 percent of 170 1990 trainees, i.e., women initially were a lower proportion of trainees in Santo Domingo than in INSOTEC's other coastal cities and now are a higher proportion.

Carvajal model. This model involves fairly extensive training in business administration skills, after which a good proportion of the micro-entrepreneurs trained are supposed to be given credit. The training is costlier than INSOTEC's production skills approach, and reaches mainly middle level micro-entrepreneurs. But to date, only a tiny proportion of Carvajal-approach trainees — under 4 percent — actually have received credit. For CIPEP, as discussed below, the failure to provide more credit has greatly damaged its credibility. In Manta, women comprise 21 percent of 1967 trained; in Portoviejo, women are 22 percent of 2299 trained. In general, women have accounted for a little over a fifth of the minuscule number of CIPEP credit recipients, that is, more or less in proportion to their representation among the trainees.

In all instances, foundation officials and different staff members were interviewed. Group meetings were held with the corps of asesores in FED-Quito (10 men) and CIPEP-Portoviejo (3 men, 1 woman). A participant observation also was undertaken in FED-Quito: it showed high demand for credit, with 102 people waiting on the premises for loan information and applications one week-day afternoon (68 women, 67 percent, and 34 men, 33 percent).

Beneficiaries were interviewed individually and/or in group meetings, using a topic list as a semi-structured guide (see Annex C). In all locations except Cuenca, samples of beneficiaries interviewed were purposive. In Cuenca, however, an attempt was made to locate and reinterview the 14 FADEMI clients who had been included in the Microenterprise Survey, in order to cross-validate those cases. Nine were successfully revisited, one of whom failed to remember being interviewed two weeks earlier by the Microenterprise Survey.[46] All in all, the breakdown of beneficiaries interviewed[47], by gender and location, is as follows:

RRA Interviewees by Gender and Location

Foundation/city	Female	Male	Total
FED/Quito	9	7	16
FADEMI/Cuenca	12	8	20
INSOTEC/Sto. Domingo	5	0	5
CIPEP/Manta	5	5	10
Total	31	20	51

[46]Of the five missing cases, four were located but their businesses were closed (in two cases, second visits also proved fruitless). The fifth was in a rural area at the farthest reaches of FADEMI's coverage and staff members declined to make the trip, given our tight schedule.

[47]The totals include microenterpreneurs interviewed in group meetings in foundation offices as well as those interviewed in their business sites, since individual data also were gathered on group meeting attendees.

ANNEX C

TOPIC LIST FOR INFORMAL SECTOR ASSESSMENT

I. BACKGROUND DATA ON MICRO-ENTREPRENEURS (MEs)

(business=? production, commerce, services; rama; years of experience; alone or w/ spouse; had loan? if yes, how many? has loan helped?)

II. BUSINESS IMPACT OF THE ASSISTANCE

A. Credit (vs. Training)

1. Credit. Use of credit (working capital, fixed assets=explore buying of machines, tools, etc.). [Ask about increases in production, employment, income in order suggested by the interview.]

   a. Production. Get idea of how much/ME fixed assets were increased and whether this increased production, productivity.

   b. Employment. Get initial employment by sex, age, family member vs. other, full vs. part-time, including seasonal vs. essentially year-round. Get current employment by same parameters. Check for home workers or outside sales agents and get data on sex, full/part-time, piecework, commission, etc. payment. Ascertain extent to which existing employment was (i) stabilized, vs. (ii) increased, and which categories were stabilized and/or increased.

   c. Sales and Income. First try to estimate if sales increased and by how much/day, week, month, etc. Check for seasonality of sales. Then ask about relative increase in income. Distinguish income used for the business (propensity to reinvest, etc.) vs. income taken home. Was more taken home after credit? How much more, proportionately?

2. Training. Establish how much training received, how well regarded, are they using it, especially accounting? perceived relative importance vs. credit if they had to choose; otherwise, preference for integrated package. How much more they think they would like. Willingness to pay.

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III. HOUSEHOLD IMPACT OF CREDIT

A. Expenditures

1. More now on higher quantity, quality (proteins, fruits, vegetables) of food? How much more proportionately?

2. School expenditures for children: get info on how many, ages of children, how many going to school, how many working in business for what proportion of time. Estimate that spend more on books, uniforms, etc.? Estimate that any of their children able to stay in school longer? (sex of child)

3. Health expenditures: more now? family members healthier? additional services used? (for women: if good rapport, discuss family planning: need, type preferred, problems with husband, costs vs. benefits of children). [FED=health plan member? Used services? Which, how often, for whom? Satisfied?]

4. Other expenditures for children: clothes, etc.

5. Household goods/consumer durables. Go through list of (a) household basics: pots & pans, dishes, tables, chairs, beds, bedding, etc. (b) communications: TV, stereo, tape, etc.; (c) household appliances, (d) other "bigger ticket" expenditures, up to cars.

6. Personal expenditures. Clothes, recreation, etc.

7. Overall assessment if living better, and if so how - food, material goods, time saved, etc.

8. Head of household=? If spouse, rel. contribution of ME, spouse=X% vs. Y%.

IV. CONSTRAINTS

A. Business

9. All in all, how is it going?

10. Biggest problem. Discuss.

11. Helped by NGO? Discuss extent.

B. Time

1. How long work? How many hours reproductive activities? Difficult to attend classes, make payments, etc. because of time constraints?

2. If had more income, would they use it to reduce working hours? What would they use extra time for?

C. **Prior Experience with Credit**

1. Use/used prestamistas (chulqueros)?

2. Problems w/"

3. Attempted to use formal sector?

4. Problems w/formal sector

5. Special "up front" (transaction costs) problems = repeated visits, delays, condescension, difficulty with forms, difficulty with guarantors, problem of spousal co-signature, other.

D. **Employment Constraints** (to extent not dealt with in A.) e.g., difficult to get skilled employees? problems using own children as workers, including problems w/ school attendance.

E. **Women: Additional Constraints**

1. Explore any leads that emerged in previous topics.

2. Special legal difficulties (persona juridica problems, etc.)

3. Health problems: is she responsible for taking care of ill family members, and if so, does family members' illness affect her ability to run her business.

CHAPTER THREE

LOCAL MARKET CONSTRAINTS AND OPPORTUNITIES FOR MICRO- AND SMALL-SCALE ENTERPRISES IN ECUADOR

by

Robert G. Blayney
National Cooperative Business Association

INTRODUCTION

With between 250,000 and 350,000 firms, the micro- and small-scale enterprise (MSE) sector in Ecuador provides employment to between 700,000 and 1,000,000 workers — nearly half of economically active urban population (EAUP). This sector also absorbs most of the new entrants to the urban labor force in low-productivity jobs.

Given the relatively large number of firms, apparently concentrated in relatively few economic sectors, a key question for any MSE support program is whether or not there is, or is likely to be, market saturation in areas supported by the program. In other words, efforts to promote growth and expansion in the MSE sector must take into consideration whether existing domestic markets can support the successful entrance of additional firms or the profitable expansion of existing ones. Where market saturation is present, expanding existing firms or establishing new ones will inevitably result in the displacement of others. Sustainable employment generation can only occur when there is sufficient market demand to absorb additional products and services.

This chapter examines domestic market opportunities and constraints for MSEs in Ecuador. These opportunities and constraints are determined by a complex set of factors, including key Government of Ecuador (GOE) policy issues, socioeconomic factors, the characteristics of the entrepreneurs themselves, adequacy of market infrastructure, and the availability of market support systems.

The most direct way to determine market opportunities and constraints is through in-depth subsector analyses and market studies. This was not possible within the conceptual framework of the current study — which was intended to provide a broad overview of the sector rather than an exhaustive, in-depth analysis of individual subsectors — and the resource and time limitations that focus implied. Instead, this study focuses on a series of broader indicators of market capacity, including:

- The entrepreneurs' perceptions of market saturation;
- Indicators of sales growth;

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- Indicators of profitability, return on investment and return to labor;
- Levels of competition; and
- Business optimism, including the entrepreneur's future plans for the business.

A final way to measure domestic market viability is to develop an indicator of value added to determine whether or not the goods and services supplied by MSEs translate into positive value added for the sector. Negative findings (either overall or for specific subsectors), would suggest that all or some of the participants do not have sufficient demand for their goods or services and, further, that they are realizing zero or negative real incomes for their efforts. Positive findings would indicate sufficient market capacity to sustain business expansion. Understanding the characteristics — type, size, location, factor inputs, profitability, and the management capacity of the proprietors — of those MSEs with potential for growth will assist the targeting of resources aimed to support the sector.

The concept of marketing utilized in this paper includes all the steps a given entrepreneur must undertake to operate a business, from acquiring inputs to moving a product to the domestic consumer. The coordination of these steps is achieved largely through market forces, though government intervention can and does have significant impact on the process. Viewing these marketing activities in relation to each other facilitates the identification of constraints and possible opportunities for improving overall system performance. There is an interdependence among the sequential steps in the production to distribution process, and dynamic interactions will occur in response to changes in government policy, socioeconomic conditions, and the business environment (external factors). Market potential also depends on the capacity of the operator, including his or her productive capacity, access to information, capital, management capability, and market savvy.

Information and data utilized in this chapter are derived from four principal sources: a field survey of approximately 600 micro- and small-scale entrepreneurs, discussions with the field survey interviewers, secondary source information, and follow-up meetings in Quito, Ambato, and Guayaquil with members of small industry and artisan associations, NGO support institutions and specific micro- and small-scale businesses. The on-site visits were useful for discussing marketing issues with the proprietors and for better understanding the management style and market savvy of the entrepreneur — factors which contribute significantly to success or failure in the market place.

GOE POLICIES AND THEIR IMPACT ON DOMESTIC MARKETS

Government policies have two significant impacts on the marketing potential of Ecuadorean small-scale producers: they tend to raise the price of MSE-produced goods and they afford protection against the competition of less costly foreign-produced goods.

The industrial policy framework has been characterized by a high level of import protection and by policies that subsidize the cost of capital and raise the cost of labor. The tariff code and the industrial

promotion law (which grant tariff exemptions for industrial inputs and capital goods, and give income tax deductions for investment purposes) have resulted in higher effective protection for consumer goods (higher costs on the local market) and lower protection for intermediate and capital goods. These discriminate against small-scale producers in that large-scale firms are granted tariff exemptions on the inputs they purchase, while MSEs typically purchase raw materials and intermediate inputs from large domestic industries (monopolistic in some instances) or from retail outlets, where an intermediate good (such as an electric motor) would be classified as a consumer good and therefore be subject to higher tariff rates.[1] Large firms also receive tax exonerations for investment purposes, a benefit that MSEs do not qualify for. Both of these factors tend to increase the cost of MSE-produced goods.

Nearly 85 percent of the MSEs surveyed by the research team used only domestically-produced raw materials for their products, while the remaining 15 percent imported some of their raw materials.[2] As might be expected, the largest MSEs were the most likely to use imported raw materials. The respondents were generally unaware of the tariff rates applied to imported goods that they had purchased from local retailers.

The government is presently in the process of reforming its industrial incentive system. An improved policy framework would liberalize trade and reduce factor market distortions. Under such a framework, the relative price of capital and the real exchange rate would be higher than they are today. The combination of devaluation and reduced protection will increase the prices of imported inputs and reduce the anti-MSE policy bias that currently exists. A potential outcome is that large as well as small domestic companies will increasingly look to domestic sources for intermediate goods as the real costs of imports increase. At the same time, high tariffs on consumer products benefit MSEs in the production sector by restricting the entry of less-expensive competing goods from countries like Columbia, Venezuela and Peru. Ecuador's entry into the Andean common market could result in large-scale importation of low-cost consumer items that would displace goods produced by Ecuadorean MSEs.

In addition to the above changes, the Government of Ecuador has been taking other steps to support microenterprise. In November 1988, the GOE created a "Frente Social" comprised of four social sector ministries. Six priority programs were announced of which only one, literacy, was implemented.[3] The next important statement about sectoral policy appeared in the 1989-1992 Development Plan, issued in May 1989. In this plan the original "Frente Social" initiatives evolved into the following priority action areas: a) productive employment, b) emergency employment, c) microenterprises, d) recovery of real salaries, e) nutrition and health care services for children under five and pregnant women, f) sanitation and water for the rural and urban poor, g) strengthening of social security, h) improvement of coverage and quality of basic education, and i) low-income housing. Because of other priorities in an environment of fiscal austerity, only limited funding was approved for these programs in 1989.

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[1]Just under 88 percent of the respondents to the survey purchase goods from retail outlets.

[2]The respondents did not distinguish between locally purchased inputs that were manufactured locally, and those that were, in fact, imported. The use of imported materials is probably understated in the responses.

[3]The other five — employment, informal sector, nutrition, rural development, and sanitation -- are still in varying stages of design.

KEY SOCIOECONOMIC FACTORS AND MSE DOMESTIC MARKETS

The demand for goods and services produced by MSEs is derived from four sources. Foremost among these is the domestic demand for consumer goods and services stemming from the incomes of rural and urban households. A second source of demand arises from the backward and forward production linkages between small enterprises and other nongovernment producing units of the domestic economy. The government and foreign sectors provide the other two sources of demand for MSE goods and services.[4]

The import substitution model of development followed by Ecuador from the 1960s through the mid-1980s led to rapid urban growth and rapidly expanding demand for wage goods, especially food. Agriculture generally became more commercial for all sizes of farms, both because of rapidly expanding domestic demand and because of increased export demand for agricultural products. A large share of the country's small farms shifted from subsistence to commercial production, with even the smallest marketing over 60 percent of their production.[5] Demand for unskilled labor increased rapidly in urban areas, especially in the construction and service sectors. This resulted in greatly increased rural to urban migration, and rising rural wages.

Population growth in Ecuador is averaging 2.6 percent annually, with urban areas growing much more rapidly during the last three decades, due mainly to rural-urban migration. In 1982, the date of the most recent census, the agricultural sector was the largest employer with 1.2 million workers, but its share had declined from over 59.0 percent in 1970 to 44.7 percent of the total. Manufacturing employed 16.7 percent in 1982 with the service and government sector at 38.6 percent, up from 26.0 percent in 1962.

By 1988 the urban informal sector made up an estimated 41.4 percent of the economically active urban population of the country. This sector is comprised of self-employed individuals, owners of businesses with employees, salaried employees, and unpaid workers. Seventy percent of the informal sector is in commerce and services, with the remainder in the manufacturing sector.

Following a period of economic expansion in the 1970s, due primarily to oil exports, Ecuador's economy stagnated in the 1980's. Inflation has been rampant, reaching as high as 86 percent per year in recent years. The Sucre was devalued from 20 per U.S. dollar in the early 1970s to its present level of 850 to 900 per U.S. dollar. Poverty is widespread and income distribution highly skewed. While a few benefits of the oil boom trickled down to the poor — mostly in the form of increased access to social services — poverty and income distribution problems present in 1980 persist today. The reduction of real incomes during the eighties appears to have hit the poor and lower-middle incomes groups the hardest. The lowest 48 percent income group was worse off in 1985 than in 1978 and the lowest 20 percent income share had retrogressed to levels of the early seventies. Average per-capita income in 1989 was

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[4]Foreign demand for MSE-produced goods and services is discussed in Chapter Four.

[5]Information provided by the Ministry of Agriculture.

about the same as in 1978. The labor share of gross domestic product (GDP), according to national accounts, decreased between 1983 and 1988, and the minimum wage, measured in real terms, by mid-1989, was about three-fourths of its level in 1983.[6]

Empirical studies reveal a strong positive relationship between changes in household income and changes in demand for small-scale enterprise goods and services. Simply stated, as wages increase, demand remains high for MSE goods and services.[7] As the buying power of wages fall, as they have in Ecuador, demand for MSE goods shifts, with the demand for food remaining high (low-income families utilize ever higher proportions of monetary incomes for food). However, the type of food demanded changes among the low-income households, with an stable consumption of basic foods and a declined in processed or manufactured food products. Purchases of manufactured goods drop. The composition of services demanded also changes, with repair and maintenance demand increasing and personal services declining.

The continued economic stagnation of the Ecuadorean economy places constraints on the potential market for MSE-produced goods and services.

ENTERPRISE TRANSACTIONS AND MARKET LINKAGES

In Ecuador, as in most other countries, a strong source of demand for MSE goods and services stems from their linkages to other sectors of the economy as well as linkages through transactions within a given subsector. Strong intersectoral linkages are demonstrated in the forward linkages from agriculture to MSE manufacturing and service activities, reflected in food processing, transport, machinery maintenance and marketing services. Backward linkages from large-scale enterprise and government to MSEs (subcontracting arrangements) are nearly nonexistent in Ecuador. Large-scale enterprise is, to a high degree, vertically integrated and strongly dependent on low-cost imports.

Among the strongest backward linkages in Ecuador are the transactions within given subsectors of MSE activity. Examples of this include: piece work arrangements among MSE clothing operations (one MSE enterprise just bleaches denim material for all clothing MSEs in Ambato); metal workers producing specific parts in the manufacture of agricultural equipment (Guayaquil); leather goods manufacturers receiving hides from many sources, who rely on one tanner and a few establishments to dye all the prepared hides for the numerous leather goods clothiers in and around Ambato.

These inter- and intra-sectoral transaction linkages occur for a variety of reasons, including economies of scale realized among larger producers, improved quality enabled through specialization, and financial incentives. While the labor law in Ecuador is generally seen as providing an incentive for

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[6]World Bank, 1990.

[7]Liedholm, Mead, 1987.

private enterprise to subcontract work and minimize its in-house labor requirements (by avoiding the added social costs for labor in establishments with over 15 employees), the fact is that intra-sectoral cooperation is often more efficient, saves money, and is positive for all parties involved.

KEY MARKET CHARACTERISTICS

Input Markets

The availability and cost of factor inputs affect the viability of any private enterprise. The MSEs surveyed by this research team are no exception. Necessary inputs include raw materials and intermediate goods, capital, labor, transport, and other marketing factors and their associated costs such as storage, packaging, and sales promotion.

Respondents to the survey did not perceive major problems in obtaining the materials needed for their business, as 456 of the 582 respondents said it was easy to obtain needed inputs. Responses were consistent throughout the sample: male and female responses were similar, as were responses by beneficiaries and nonbeneficiaries. Likewise, responses across subsectors were similar, with artisans and repairs hops reporting slightly more difficuity in obtaining inputs than other subsectors.

The significance of the problem appears to increase for entrepreneurs in the production and commerce subsectors, with almost 50 percent stating that obtaining factor inputs is at least somewhat of a problem. Follow-up questions revealed that the critical issues are input costs, import restrictions, and transport costs (which affect both input and sales transaction costs), rather than obtaining inputs per se.

Respondents also did not perceive major problems with the quality of inputs, and 523 percent of the respondents (93.7 percent of those responded) said the quality of inputs was good. Less than .5 percent of the respondents said that inputs were of poor quality.

Micro- and small-scale entrepreneurs purchase almost all of their inputs — only 9 percent said they produced any of the raw materials used in their businesses. Most of these inputs are purchased from domestic sources.[8] Only 91 respondents (16.3 percent of those who responded) actually purchased imported raw materials. Female respondents were more likely than male respondents to purchase goods domestically (86 versus 80.6 percent) or from contraband importers (3 compared to 1.3 percent). Reliance on contraband is probably greater in the commerce sector — such as small stores and street vendors — which tend to have more female participants. There was no difference in source of raw materials between beneficiaries and nonbeneficiaries.

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[8]It is not possible to tell the actual source (domestic or imported) of raw materials from the responses to the survey. The respondents tended to answer where they had bought the materials rather than where they were produced.

There were, however, strong subsector differences. Firms in textiles, basic products, metalworking, artisanry, repairs and large stores depend most on imports. Food products, woodworking and leather products manufacturers depend almost exclusively on locally produced raw materials.

Only 5.4 percent of the respondents indicated an inability to import the raw materials they needed. This contradicts a conclusion reached in Chapter Four that poor quality raw materials hamper export market opportunities for small-scale producers, but it may merely reflect an unawareness on the part of the producer on quality limitations.

The real difficulty, as presented by artisan association and small industry chamber members, lies in obtaining intermediate goods when they are needed, at affordable costs. MSEs purchase most of their intermediate goods from larger-scale industry (monopolistic in some cases, with high prices, due mainly to the GOE trade law). Examples of manufactured intermediate goods available from only a few sources at high cost are glass jars used in the food processing industry, and good grades of kiln-dried, finished lumber used by cabinetmakers and furniture manufacturers. Many of the large companies that supply these intermediate inputs are vertically integrated and will sell their goods to outside firms only if and when the parent company's input needs are satisfied. Small food processing and woodworking companies also experience considerable difficulty in obtaining their raw material inputs for similar reasons.

The impact of import restrictions on the availability of inputs was not adequately understood by almost half of the MSE entrepreneurs interviewed. Nevertheless, just over one third of the respondents, concentrated in the production subsector and the larger MSEs, pointed to import restrictions as a significant problem. The small industry chamber members were openly agitated by the current trade laws (favoring large-scale, import substitution industry), agreeing among themselves that the trade and tariff laws added 30 percent or more to their costs of intermediate goods produced locally, and more than doubled their costs on imported replacement parts and goods listed by the GOE as consumer goods.

Internal Organization for Marketing

Very few of the respondents develop marketing plans. More than three-fourths (76.3 percent) made use of such plans. Another 20.6 percent said they had informal plans. Only 3.1 percent claimed to have formal marketing plans.

Most of the respondents (72.4 percent) price their product on the basis of how much it cost them to produce it. Sixteen percent said they based pricing decisions on the competition, while another 2.6 percent said that everybody sells at the same prices. Substantial numbers of food products and small stores indicated that prices were fixed by the government.

Most of the respondents either do not promote their products (36.1 percent) or rely on word-of-mouth promotion (35.7 percent). Only 96 respondents, 16.7 percent of the sample used any form of formal promotion. Most of these relied exclusively on signs or placards, although 35 did claim to advertise in newspapers or on the radio.

Marketing is not a highly structured activity in the business. The vast majority of the respondents (427 of 562 who responded to the question) performed marketing tasks themselves, while another 97 said

that various employees in the firm did marketing from time to time. Only 23 said their spouse did the marketing, and 11 said that a specific employee had responsibility for marketing. Female respondents were more likely than male respondents to handle the marketing functions themselves, but were no more or less likely to have their spouse or a specific employee engaged in marketing.

Clients

Micro- and small-scale enterprises sell primarily to final consumers. More than 82 percent (476 of the 579 who responded to the question) gave the general public as their first response. This is true for 70.0 percent of MSEs in the production subsector, 89.5 percent in commerce, and 92.6 percent in services. In Ecuador, the smallest-scale entrepreneurs do not use intermediaries to sell their product or service but handle all marketing and sales internally. In many instances, one or more family members will sell production items or goods in other than "home base" locations. Most of the micro-scale manufacturers (such as those in woodworking, or metal workers producing iron gates, doors and windows) sell directly to a customer because customer down payments finance the cost of their inputs.

A substantial number do sell to retailers or wholesalers, however, indicating that there are some vertical linkages tying micro- and small-scale enterprises into established marketing chains.

MAJOR CLIENTS

Client	First Response	Second Response	Third Response	Total Responses
Public	476	50	15	541
Retailers	60	80	7	147
Wholesalers	19	12	13	44
On Contract	12	7	4	23
Institutions	10	2	2	14
Government	0	0	1	1
Other	2	20	2	24
Totals	579	172	45	796

Very few produce on subcontract for other firms, however, indicating that this form of decentralized production is not widely practiced or available. Sixty-five percent of those who responded to the question said they were unaware of firms that subcontracted production.

The overwhelming majority say there is no opportunity to subcontract to larger firms. Where there is some potential is seen in production enterprises (28.4 percent say yes, they could sell to other firms, as opposed to 12.7 for commerce — and only 15.3 for service-sector firms). Subcontracting

arrangements were most prevalent in the woodworking, basic products and artisanry subsectors. Lack of sufficient production, poor product quality, and too much competition were the three major reasons respondents who were aware of subcontracting arrangements believed they were unable to obtain contracts.

Market Potential

Respondents to the survey were quite optimistic about the capacity of their markets to absorb more production, as 78.5 percent said they could sell much more if they had the capacity to produce more. Only 9.6 percent said they would be unable to expand sales. Female respondents were generally more optimistic about their ability to increase sales than their male counterparts.
Small and large stores, and firms in the woodworking and basic products subsectors were the most optimistic about their ability to increase sales. Firms in the food, leather, artisanry, barber and beauty, and repairs subsectors were the most pessimistic, even though a large majority of even these believed that sales could be increased significantly.

Beneficiaries were much more likely to believe they could expand sales than nonbeneficiaries. This difference cannot be attributed to the impact of the programs, however, as the data do not indicate if the two groups were similar prior to program participation. In other words, the beneficiaries may have chosen to affiliate with a program precisely because they were more optimistic about their prospects for expanding their businesses.

Coinciding with this, the larger MSE owners state that they provide a "more unique service or product." The perception that the enterprise provides the market with a more unique service or product jumps from 6.2 percent among the smallest MSEs to 18.8 percent among the largest, indicating that larger MSEs convey more market savvy and confidence about "keeping up" with market shifts.

The major impediments to increased sales for the respondents who reported difficulty in selling their products were the existence of much competition (cited by 31.7 percent of the respondents), lack of product demand (cited by 20.6 percent) and the relatively high cost of their product (cited by 11.1 percent). Most respondents perceive competition with other producers and vendors to be a significant problem, as more than 71 percent said they faced much competition. The greatest levels of competition were felt by firms in the textiles, leather metalworking barber and beauty and small store subsectors. Firms in food products and repairs reported the least. Female respondents perceived slightly more competition than male respondents.

Competition comes almost exclusively from other small producers. Eighty-two percent of the respondents cited small national producers as their major competitors. Another 13.6 percent said their principal competition came from large national companies. As might be expected, among the smallest MSEs the most competition is perceived to exist among other small entrepreneurs. As the size of MSEs increases, the entrepreneurs view the larger national companies as tougher competition.

Very few perceived significant competition from imported products, whether legally imported or contraband. In fact, when asked directly if contraband activities had an impact on their business, only 12.1 percent said it had a large impact and another 4.5 percent said it had some impact.

Other Factors

Very little is known about the transport problem in Ecuador and how it contributes to MSE market transaction (input and output) costs. Small industry chamber members cite transport as a problem, as did over 40 percent of the enterprises in the sample involved in production and commerce activities.

Likewise, little is known about the market infrastructure system in Ecuador. Small industry chamber and artisan association members point to the lack of adequate storage facilities (warehousing) and refrigeration, especially in the secondary cities and secondary market centers. Refrigeration is crucial in the local markets, as well as in transport, to ensure hygiene and reduce spoilage — and its associated costs — for many basic commodities as well as meats, fish and some fruits and prepared foods.

Nearly all businesses experience variations in market share or sales volume according to the season of the year. For example, food product enterprises' input costs are affected by the season, with implications for the resulting amount and quality of supply. Demand for clothing in Ecuador is also affected by seasonal changes and by holidays. The tourist season has a direct impact on sales of leather goods, handicrafts, commerce and services. MSEs are no exception to this general trend. Food processing and woodworking are the two subsectors least affected by seasonality on the demand side (sales performance), with 64.6 percent and 74.4 percent of their proprietors stating that they are not affected — the highest levels within the field sample. The service subsectors (notably barber shops, beauticians, and repair shops) were among the MSEs second-least affected by seasonality, at 61.5 and 59.4 percent respectively. Artisans, producers of shoes and leather products, and clothing proprietors stated that they were the most affected by seasonal sale fluctuations.

Value Added as an Indicator of Market Potential

Some professionals working in support of the MSE sector in Ecuador are concerned that MSEs do not have sufficient market demand to remain in business, let alone expand. There are also questions concerning the profitability of MSEs and the viability of the sector in bad economic times. An attempt was made to answer some of these questions by calculating value added based on the data obtained through the field survey.[9] Positive value added indicates a) market acceptance, and b) profit. While profit can theoretically be used for a variety of ends, it is assumed here (and supported by the survey results) that profit is utilized to a) reinvest in the enterprise, b) go into the pocket of the proprietors, and c) pay business fees and taxes.

For purposes of these calculations, value added is defined as monthly sales (known from the field survey); less the opportunity cost of capital (total fixed assets utilized in the firm — known — invested at market rates); less costs of raw materials and intermediate goods (estimated at 70 percent of monthly sales*); and finally, less the cost of workers — known. This figure (sales, less costs of capital and inputs) yields a best estimate of value added.

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[9]Value added (VA) is defined as sales less the cost of inputs to produce the goods or services, including labor. If an enterprise or sector of activity registers positive value added it can be assumed that there is a market for the goods or services and that the enterprise or sector is profitable.

Evidence of value added by subsector and size of MSE is mixed. Value added (VA) is positive for all MSEs by size (in the first four of five asset size categories). It is negative for the largest enterprise size category (over $6,000 equivalent). It was suggested that utilizing 70 percent of monthly sales for costs of inputs for all sizes of MSEs effectively eliminates any economies of scale being realized by the larger MSEs. When this was tested, it was discovered that VA continues to increase through the largest MSEs.[10] VA was found to be highest among food processing MSEs and lowest among metalworkers.

As MSEs increase in total asset size, the proprietors' own estimation of profit to VA goes up dramatically. Actual profit to VA is lowest among the low sales group and highest among the highest sales group, and also shares a positive correlation with the entrepreneurs' time in business (lowest for the newest proprietors and highest for those in business for seven years — although those in business the longest begin to demonstrate lower ratios of profit to VA). Finally, proprietors' estimates of profit to VA are lowest among those enterprises with the lowest employment levels and the highest among those with higher employment levels. Interestingly, entrepreneurs who never applied for a loan also demonstrated high profit to VA ratios.

Of those MSEs involved in food products, 43.9 percent (the largest proportion) sell more than $700 per month (the largest monthly sales category. 21.1 percent fall in the $300 to $700 category. MSEs in clothing and metal-working are next with 35.7 percent and 48.0 percent of respective monthly sales in the $300 to $700 category, followed by 24.1 percent and 28.0 percent in the over $700 category, respectively. Wood-working ranks third in monthly sales, while artisans, barbers/beauticians and repair service enterprises rank at the bottom with the lowest proportion of each group (50.0, 65.2 and 48.3 percent respectively) selling up to $150 each month (the lowest sales category).

Grouping the subsectors, commerce had the largest proportion selling more than $700 per month, at just under 40 percent, followed by production enterprises with their highest proportion of respondents claiming monthly sales of $300-700 per month, while the largest proportion of service MSEs (39.4 percent) only achieved sales up to $150 per month.

These data indicate that MSEs are surviving in Ecuador and that some are even expanding. It also appears that profits are being made, albeit low in most cases, and that MSE employees earn very low salaries. The data also show that MSEs involved in some subsectors and activities do better than others. Generally, the larger enterprises create higher value added and have a higher ratio of profits to value added than the smaller ones. On average, production activities produce the highest levels of profit to value added, followed by commerce, with both subsectors generally doing better than service enterprises. Among manufacturing activities, food products lead, followed by clothing, metal-working, and woodworking. Moreover, for all enterprises there is considerable variation in performance according to location, with the most pronounced effect on manufacturing. It is not known which commercial activities lead, in terms of value added and profits. In the service subsector barber shops/beauticians and repair services rank at the bottom of the scale.

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[10]Utilizing 70 percent of monthly sales to represent cost of inputs for all size MSEs overstates the cost of goods/services sold for the largest category of MSEs. The bias was tested by examining VA against a ratio of profit to VA. The largest MSEs have higher profit-to-VA ratios, suggesting economies of scale for input costs among these MSEs.

MSEs appear to produce positive value added and profit; however "take-home" income appears very low for most MSE proprietors and employees alike. The sector does promote income generation among low-income households and recent entrants to the urban labor market, especially that portion of the population with the lowest education levels. In addition, the sector provides alternative sources of income for the rural population as well as for a significant portion of the economically active population of the informal sector.

LOCATIONAL FACTORS AND MSE MARKET SHARE

Locational factors play an extremely important role in determining the concentration of subsector activities and their potential for economic and financial viability. Key determinants include urban-rural linkages (commodity flows and market periodicity); local population concentrations and areas with surplus agriculture output; availability of raw materials; transportation systems (the railroad system is not utilized by MSEs, so that road access and conditions are key factors); market infrastructure, such as warehousing and refrigeration facilities; and institutional systems involving GOE and nongovernment support services, such as information and capital availability, market data banks, and political representation.

Many MSE proprietors, especially those in the informal sector, tend to operate in or around the family residence, in which case location is primarily influenced by family tradition and settlement patterns. However, for those entrepreneurs establishing a new business or expanding an existing MSE, locational factors need to be entered into their feasibility and design study.

For the most part, proximity to one of the major cities (Quito or Guayaquil) or to strategically located secondary market centers (such as Ambato, Latacunga, and Manta, located within key inter-city and cantonal flows) generally combines the greatest number of positive locational factors to support private enterprise. There remain, nevertheless, varying degrees of locational advantage for MSEs depending on their size, subsector of activity and type of production or sales output.

For example, the leading micro- and small-scale industry in the province of Tungurahua is quite different from that in the province of Chimborazo. Each of these provinces has particular raw material resource advantages. Tungurahua, with a slightly better locational advantage (that is, proximity to Quito and a highly developed inter-zonal marketing system) has a comparative advantage in textiles (clothing, including leather products), food products and distribution services, followed by wood products and metal products (including machinery and equipment).

The table below illustrates the leading productive activities of MSEs in Chimborazo. The table shows annual average production and sales performance in 1989 for each subsector and size of enterprise. The data were obtained through a 1989 field survey carried out by INSOTEC and serve as a straightforward measure of supply and domestic demand by subsector. With the exception of food and wood processing, the other small-scale enterprise subsectors experienced slight overproduction to sales during the year.

LEADING MSE PRODUCTIVE ACTIVITIES IN CHIMBORAZO
(Annual Average Production and Sales by Subsector)
(000s of sucres – 1989)

	Micro-Scale Industry		Small-scale Industry	
SUBSECTOR	Production	Sales	Production	Sales
Food Processing	11.7	9.9	56.2	56.0
Clothing	11.2	10.9	12.2	10.7
Wood Products	1.2	1.2	12.0	12.0
Minerals	6.6	5.2	12.4	11.7
Metal Products	8.0	8.6	14.4	16.1

The figures for micro-scale manufacturing demonstrate, in the case of food, clothing and nonmetallic minerals, a similar — if not larger — tendency toward overproduction. However, the micro-scale metal products enterprises demonstrate 1989 sales that exceed production. INSOTEC staff in Ambato explained that larger sales than production figures could represent sales of finished inventories brought forward from an earlier accounting period. Overall, the figures are quite remarkable in demonstrating the ability of these particular entrepreneurs to "read the market" and sell, in most cases, nearly all or more than was produced during 1989. Unfortunately, there are not corresponding value added or profitability figures available from the survey.

A MARKET CLASSIFICATION OF MSE FIRMS

Based on the MSE field survey, follow-up contacts made in MSE establishments, and secondary research data, a number of broad generalizations can be made that characterize Ecuador's micro- and small-scale entrepreneurs. These more qualitative characteristics, such as entrepreneurial attitudes, education levels, management capacity and market aggressiveness, can be correlated with more quantitative measures, such as enterprise size, level of sales, and overall enterprise viability, in order to come up with a profile of the attributes of those enterprises that are most successful in the MSE sector in Ecuador.

MSE entrepreneurs included in the field sample are classified into three categories here, to help organize the qualitative characterizations about MSEs in Ecuador. The three categories are subsistence, conformist, and progressive MSE entrepreneurs.

The subsistence category, estimated to contain 45 percent of the field sample, consists primarily of micro-scale, informal sector entrepreneurs, who look upon their enterprise as an economic activity for survival. Practitioners in the field suggest that, of the total number of micro-scale enterprises in Ecuador, approximately 45 percent fit into this category. There are secondary cities where this proportion would be much higher and, conversely, other communities where it seems everyone is a "true entrepreneur" — such as Cuenca and Ambato. Entrepreneurs in the subsistence group are set in their ways, often have

low self-esteem, have very low levels of formal education and on-the-job training only. They tend to be concentrated in the in commerce and personal service subsectors, and also account for the highest concentration of women entrepreneurs.

Many of the MSEs in the subsistence category are not generating enough income to support the proprietors and family workers at GOE established minimum intake levels. The market women in this category are at their "puesto" for reasons that include cultural conformity ("my grandmother did this") as well as the necessity and possibility of feeding themselves and their children. Enterprise plant capacity, regardless of subsector of activity, is extremely low, and the plant or store technology is the most basic. The enterprise proprietor takes care of clients as they come in the door (walk-in-trade). They do not seek out clients, nor do they have market strategies for increasing enterprise market share and productivity or for coping better during bad economic times.

KEY CHARACTERISTICS OF SMALL-SCALE ENTERPRISES

Traits of The Entrepreneur and Enterprise	Categories of Entrepreneurs		
	Subsistence	Conformist	Progressive
Purpose of enterprise	Survival	Status quo	Growth
Majority of Scale	Micro-scale	Micro/small	Small-scale
Percent of Total MSEs	45	35	20
Education Levels	Very low	Low/Moderate	Moderate/high
Main subsector	Comm./Serv.	Comm./Repair	Prod./Comm.
Income Levels	Very low	Low	Mod./high
Plant/Store Capacity	Very Low	Low	Mod./good
Info./Technology	Low	Low/Moderate	Appropriate
Marketing Strategy	Walk-in	Direct	Market Plan
Location	Markets/Home	Home/Plant	Plant/several

Locations are generally poor for those MSEs at the lowest end of the spectrum in terms of asset size and sales output. The neighborhood "comedores" and "abestimentos" are most often located in the home, not well situated to capture the large number of people who eat out each day. Studies carried out by the International Labour Office (ILO) have suggested that upwards of 60 percent of people involved in the informal sector eat at least one meal per day away from home. Although market women are most often at the lowest end of the income scale among MSEs, the fact that they often offer their goods and (food preparation) services within the central markets is an instance where they have maximized their

locational advantage over the local community-based home outlets, although increased competition in the market place may offset the gains of more central location.
Entrepreneurs in the conformist category often express a desire to grow, but typically do very little to bring this about. The survey interviewers characterized them as "stuck in their ways." These entrepreneurs tend to be involved in central market sales, construction and repair services. This category is thought to account for approximately 35 percent of the total number of MSEs in Ecuador. Education and on-the-job experience levels are somewhat higher than for entrepreneurs in the subsistence category. Plant or store levels of installed capacity are low to moderate, and income levels are low. More of the entrepreneurs in this category are attuned to market information, and a larger proportion base their product or service prices on actual costs incurred, rather than just on what their neighbor is charging. The majority of sales are directly to the client, with more sales occurring at locations outside the home.

Conformist entrepreneurs still tend to have inadequate knowledge of where to buy inputs at the best prices. The price of inputs (raw materials and intermediate goods) changes radically, often on a weekly basis. The smallest-scale MSE entrepreneurs said they bought their inputs from whatever supplier "was closest" and/or those that provided materials on credit ("crédito del provedor").

The survey data revealed that both subsistence and conformist entrepreneur had very limited ability to determine per-unit costs and break-even points (sales necessary to cover fixed costs). Of the nearly 70 percent of the survey respondents who said they establish their product or service price based on costs and desired profit, the majority were the larger-scale MSEs, owned by entrepreneurs who would be characterized as progressive.

The progressive MSE entrepreneur is taking active steps to expand his or her enterprise, and is willing to take considerable risk. The majority in this category have more than one enterprise type, and/or are able to vary their product line/service during slack economic periods. In addition, the producers purposely enter at least two quality/price level markets to broaden their client base. Most are small-scale rather than microenterprise operators, accounting for about 20 percent of the total MSE population. These entrepreneurs have made tremendous sacrifices to obtain professional training and generally have higher education levels than the other entrepreneurs. Progressive entrepreneurs are concentrated in manufacturing and commerce and are represented in the upper profit to value added categories. They tend to possess moderate to good plant capacity and appropriate levels of technology. They also tend to have a clear idea of the costs and proper mix of factor inputs to achieve profitable growth.

In addition to direct sales to customers, many of these progressive entrepreneurs sell products through intermediaries, and some participate in the export market. While profit margins per unit of production/item sold are usually less when the proprietor utilizes an intermediary, the entrepreneurs concentrate on what they know best and count on what they consider to be the most reliable marketing of their products. The fortunate participants in this category often have more than one plant or outlet location.

While the categorizations of entrepreneur characteristics resulting from the present field survey may not always coincide exactly with other practitioners' observations, these findings may still be useful for targeting MSE beneficiaries for specific types of support programs. For example, classes on entering export markets might not be the most useful type of assistance for entrepreneurs in the conformist category.

MARKET SUPPORT SERVICES FOR MSEs

During the past five years, Ecuador has witnessed a tremendous increase in the number of public and private sector programs aimed at providing training, technical assistance, and credit to the MSE sector. There are over forty foundations that have received approval from various ministries to work with micro- and small-scale enterprise in Ecuador. However, coverage of MSE demand for support is extremely low, and costs of programming are high.

Only a handful of the institutions have significant experience in delivering a full range of training, technical assistance and credit to the sector[1], and even fewer have expertise in marketing. Market support activities, regional project coordination and MSE market development tie-ins (domestic or export) are particularly weak.

There is a need for improved targeting of MSE support services, to take into consideration the size and characteristics of particular MSE entrepreneurs. For example, micro-scale entrepreneurs need more courses on the basics of marketing, to learn about per-unit cost measurement, and market timing and (asking) price correlations.

The chambers of small industry, artisans, and credit unions have delivered important support services to their MSE membership, but tend to be overlooked by the Government and donor community as vehicles or conduits for support to the sector. In Guayaquil and Ambato, at least a third of the small industry chamber membership qualifies as micro- or small-scale enterprise, and of course all of the artisan chamber members are MSEs. As one might expect, the artisan chambers have fewer resources to draw upon and are organizationally weaker. One small industry chamber offers its membership political representation; computerized information banks that include type, location, output, and size of member firms; and current price information on raw materials. It has also developed a buying club to purchase input materials in large quantities. This same chamber is now in the process of organizing a savings and loan cooperative, that will also offer a variety of credit insurance features.

CONCLUSIONS AND RECOMMENDATIONS

General

Population growth, rural and urban household income levels, income distribution, and location factors that impact upon inter- and intra-sectoral transaction linkages and efficiencies are the key market determinants for MSE products and services. During economic bad times the products and services that share the highest income elasticities of demand are the most basic to survival. The moderate and low-income household population in Ecuador, urban and rural, constitute the major domestic market demand for MSE products and services. With low income levels and poor income distribution among the largest

portion of the Ecuadorean population, domestic markets for MSE goods and services will continue to experience trying times and periods of consolidation.

Micro- and small-scale entrepreneurs produce and sell goods and services that find a primary market in individual final consumers. Most of these consumers are of low to middle income, though in certain subsectors (leather and handicrafts) products may be destined toward a more affluent audience. These goods and services tend to be undifferentiated, of poor quality

Most of the micro- and small-scale entrepreneurs interviewed for the study believed that domestic markets provided ample opportunity for business expansion. The overwhelming majority believed they could expand sales if they could only produce more.

In fact, however, competition is high, and there is strong evidence (see Chapter One of this report) that the domestic market environment does place constraints on the potential for growth in the micro- and small-scale enterprise. The economy is contracting, signifying less disposable income for potential consumers of MSE-produced goods and services. Profit margins are thin (especially for older and larger firms), most of the firms have negative social benefit-cost ratios, and sales growth for most firms was negative in real terms. All of these indicate a deteriorating market condition.

Government Policy

The government is reforming its industrial incentive system and should continue to pursue trade, monetary and labor law reforms that remove the current anti-MSE bias. One potential outcome is that small domestic companies will increasingly become more price competitive and realize improved domestic market shares, with the more progressive enterprises opening markets internationally. At the same time many small-scale enterprises will suffer from increased competition as import restrictions are eased.

Among the programs proposed by the GOE in the areas of socio-economic reform, there is a need for some that use public expenditures to redistribute income to the poor. In the short-term, steps need to be taken to improve MSE's access to factor inputs, including training, technology and credit. In the longer-term, it is necessary to promote employment through growth-oriented, productive activities. The GOE needs to support a more agile administrative environment in which financial resources flow to the proven, capable executing agencies, including NGOs, credit unions and chambers with MSE membership.

There are two programs proposed by the Government which, if targeted to the most vulnerable, low-income groups, could be financed under the GOE Social Sector program, and should be. One program involves training for informal sector employees that would make use of the existing facilities of SECAP. In order to maximize the opportunities associated with this approach, SECAP should adjust its training policy to make it more responsive to market needs. The second program provides female heads of household with competitive access to credit. The two programs complement the microenterprise credit program currently financed by USAID/Ecuador as well as the one to be financed by the IDB.

While the large price margins reportedly obtained by intermediaries and the extreme variations in seasonal production suggest several areas for market reform, simply reducing monopolies or oligopolies, or encouraging the public sector to invest in market infrastructure, is not enough. Market reform in Ecuador will require coordination between the GOE and donors, urban and rural interests, and

development project design and investments. Small-scale industrialists emphasize the need for the Government and development community to support regional economic development, with the focus on secondary cities. Efforts suggested include municipal market upgrading projects, provision of public, up-to-date price information banks, improved control of weights and measures, and development of municipal and MSE partnership opportunities in managing public enterprise such as the publicly operated "cases de campesinos."

Micro- and Small-Scale Enterprise Support

One high priority should be to better ensure MSE access to needed short- and long-term financial support. Microenterprise support projects are plentiful in Ecuador, so there does not appear to be a need to organize additional government programs or NGOs to work in the sector. Nonetheless, coverage of MSE demand for support remains extremely low, while costs of programming are high. Market support project design and implementation is reported as particularly weak by the MSE entrepreneurs and GOE officials in the field.

Funding should be made available to help transform many of the NGOs from social service support programs to more businesslike organizations with market-driven projects, with tighter cost controls and greater project cost recovery.

The Government and donor community should sponsor studies to investigate the feasibility of developing a private credit guarantee corporation to encourage private sector banks to lend to MSEs. As part of the study, the prerequisites for savings and loan cooperatives becoming more active partners in financing MSE short- and long-term credit needs should be ascertained. One or more of the largest credit cooperatives could be examined to determine the feasibility of converting it into secondary-level lending and discount facility for credit cooperatives, both independent and inside small industry chambers.

GOE agencies and NGOs in the MSE support field should improve targeting of MSE support services with the size and characteristics of the MSE entrepreneur. As an example, more (market) courses need to be developed for the micro-scale entrepreneur on the basics. Per-unit cost measurement exercises and market timing and (asking) price correlations need to be discussed.

The Government and NGOs should target MSE support resources to the secondary cities and regional growth centers. Donors need to manage their MSE project support portfolios in an integrated fashion. There appears to be duplication of activities and resources because one project is rural oriented, while another is urban or human development oriented. Within a given donor agency, rural and urban development projects should be integrated to take advantage of natural complementarities.

There are a number of active, well organized small industry chambers which should be examined as direct recipients of funding to organize their own MSE support (market expansion) projects. A preliminary idea, that came out of discussions at more than one of the small industry and artisan chambers involved providing funds to launch a pilot project to bring to the chamber(s) one or more experts to put on a marketing seminar. The approach should be the training of trainers (TOT) model, aimed directly at the chamber leadership (made up of the most progressive MSE entrepreneurs) so that these members in turn could train other chamber members. The training would be directed in key market

development (domestic) projects by subsector and activity, providing manuals and teaching aids. Topics of these marketing classes or seminars should include:

- Grading, marking, and packing to uniform standards;
- Quality control, what does it mean and how can an MSE entrepreneur improve QC at low-cost;
- Identification of (all) costs related to (good) marketing practices;
- Evaluation procedures of competitive advantage in a wide variety of (receiving) markets domestic and export;
- Sales and marketing strategy and business development;
- Invoicing to clients;
- Transaction analysis and how to improve its efficiency; and
- What's required to export?

ANNEX D

SMALL-SCALE INDUSTRY (SSI) MARKET PERFORMANCE IN ECUADOR

Based on national accounts presented in an INSOTEC study carried out in 1987, all of small-scale industry (SSI) subsectors experienced growth in value added between 1975 and 1980. The subsequent years between 1980 and 1987 demonstrate a period of consolidation and lower demand for all of the illustrated subsectors. The strongest activities during the 1980's are found in food processing, and nonmetallic mineral products, including ceramics. Although, their performances were less than a fourth and sixth of the earlier period respectively. In addition to high consumer demand for food processing output, this particular subsector has a very high (intermediate goods) demand from other subsectors of manufacturing or inter-industry linkage.

Value Added by Subsector of Small-scale Industry
(millions of sucres, at 1975 prices)

	Subsector by Standard Industrial Code (SIC)						
Year	(31)	(32)	(33)	(34)	(36)	(37)	(38)
1975	444.9	445.4	144.9	157.7	71.7	17.0	411.7
1980	890.4	689.6	342.1	254.2	214.6	32.8	759.2
1987	1,161.6	450.9	266.7	189.5	274.1	27.2	476.8
Annual Growth							
1975-80	14.9	9.1	18.7	10.0	24.5	14.0	13.0
1980-87	3.9	-5.9	-3.5	-4.1	3.6	-2.6	-6.4

Standard Industrial Classification (SIC) code: (31) food products including, drinks and tobacco; (32) textiles, clothing including leather products; (33) wood products including furniture; (34) paper products and printing; (36) nonmetallic mineral products including ceramics; (37) basic metal products such as iron gates; (38) production of metal products, machinery and equipment.

Although the 1987 VA growth rates are considerably lower than previous years, small-scale industry responded well, during this period of consolidation. Small-scale industry was lead by food products up S/.271.2 million in VA over the 1975-1980 period, nonmetallic mineral products including ceramics up S/.59.5 million, and although below 1980 figures metal products, clothing, and wood products had respectable performances. Of total value added by industry in 1987 (32.1 percent), small-scale manufacturing led with 33.1 percent followed by large-scale industry at 32.8 percent and medium-scale at 29.6 percent. During the difficult economic times between 1980 and 1987, small-scale enterprises maintained high real values of intermediate goods consumption. Again, pointing to both strong consumer demand for these specific products and strong market links between and within subsectors of manufacturing (INSOTEC, 1987).

1. Haven, et al., 1990.

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CHAPTER FOUR

EXPORT CONSTRAINTS AND OPPORTUNITIES FOR ECUADOREAN MICRO- AND SMALL-SCALE ENTERPRISES

by

Joseph F. Burke
Independent Consultant
Development Alternatives, Inc.

EXECUTIVE SUMMARY

General Setting

Ecuador's traditional exports of oil, fresh agricultural products and fresh sea food comprise the vast majority of the country's annual exports. Export opportunities for micro- and small-scale enterprises (MSEs) in Ecuador lie primarily in the area of manufactured and processed goods, which constitute less than 10 percent — approximately $200 million per year — of all exports. Ecuador's exports in these manufactured and processed goods have declined in both absolute and relative terms in recent years, dropping from $231.8 (10.6 percent of total) in 1986 to $207.7 (8.8 percent) in 1989.

External Constraints on Exports

Exports of nontraditional products — particularly manufactured ones — are constrained by the country's long-standing import substitution (or industrial protection) policies. These policies — which include low or no duty on protected-industry imports, high duties on competing imported products, and the imposition of a variety of nontariff controls[1] — have resulted in both the unavailability of needed imported inputs and a low quality of local inputs from which to manufacture products. As a consequence, many potential exporters are at a competitive disadvantage in terms of both quality and cost.

Several other Government of Ecuador trade policies have a similar negative impact on potential exports. The anti-export bias of current exchange rate policies, for example, forces exporters to receive about 12 percent less than the free market rate for each dollar, which forces them to increase prices, resulting in a further loss of competitiveness. The state airlines and maritime line are protected against "excessive" foreign competition, again fostering inferior service and servicing of market destinations. Finally, export transactions are wrapped in a red tape regulatory ambience that stymies the entrance of prospective exporters.

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[1]Ranging from advance deposits for import licenses to outright prohibition of certain products.

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The Government of Ecuador has recently taken steps towards liberalizing trade policies, which could eventually create new export opportunities for micro- and small-scale enterprises.

Internal Constraints on MSE Export

While the general policy environment has a negative impact on all exports, inherent sectoral problems provide additional constraints for micro- and small-scale enterprises. Among these are poor access to financing and credit, lack of adequate production technologies, lack of management capability, and lack of access to market contacts and information.

Export Opportunities for MSEs

With a more neutral trade policy and a simplification of regulatory controls, MSEs will find increased opportunities to export manufactured and processed products to Peru, Colombia, the USA, and other markets. Ecuador is included in the Bush Administration's "Initiative for the Americas," which encourages free trade and has already made tariff concessions to the country. The five members of the Andean Pact are scheduled to become a free-trade zone by the end of 1995. Ample opportunities should exist to export hand-crafted products, textiles and processed agricultural goods to these markets.

Export Structures for MSEs

Individual small-scale enterprises generally lack the scale and sophistication necessary to compete successfully in export markets. Group exporting arrangements, therefore, may provide advantages and opportunities for micro- and small-scale enterprises. Among the structures that might prove feasible are:

- Marketing through established exporters;
- Production of specific intermediate or finished goods on contract;
- Establishment of specialized cooperatives (a technique that has been very successful in northern Europe);
- Incorporation of group companies; and
- Establishment of duty-free zones (maquila).

The specific nature of individual markets (for instance, the U.S.A. or Colombia), and whether exporting must be direct or through delivery to an exporter, will largely determine the feasibility of the various alternatives.

INTRODUCTION

Objective of the Report

This report attempts to identify constraints to the off-farm, off-wharf export potential of Ecuador's micro- and small-scale enterprises. Recommendations will be put forth proposing ways to increase the export of goods manufactured by this sector. It is hoped to enlist the support of Ecuadorean and international institutions interested in the betterment of Ecuador's economy in general and the micro- and small-scale enterprise in particular, taking into account that it is the bedrock of the country's productive power and employment.

Export Classifications

Ecuadorean exports are normally classified by the three major headings of Traditional, Oil and Derivatives, and Nontraditional. Traditional products include banana, coffee beans, cacao beans and sugar. Nontraditional products are divided between primary (fresh sea and agricultural produce) and manufactured goods. The division of exports by classification and value for the last two calendar years was:

TABLE 30

EXPORTS BY MAJOR CATEGORY

Classification	1988 FOB US$(000)	% of Total	1989 FOB US$(000)	% of Total
TOTAL	2,192.9	100.0	2,353.9	100.0
1. Traditional	532.9	24.3	572.3	24.3
2. Oil and Derivatives	976.1	44.5	1,147.4	48.7
3. Non-Traditional	683.9	31.2	634.2	27.0
a. Primary	457.7	20.9	426.5	18.1
-Shrimp	387.0	17.6	328.2	13.9
-Other	70.7	3.2	98.3	4.3
b. Manufactured	226.2	10.3	207.7	8.8

Source: FEDEXPOR/Banco Central, Re-exports and Waste Materials Exports Omitted.

Manufactured Exports, by Product

The potential focus for current and potential micro- and small-scale enterprise participation in export trade is in the (off-farm, off-wharf) manufactured sector which shows the following five-year export behavior:

TABLE 31

MANUFACTURED EXPORTS

Year	FOB US$(000)	% of Total Exports
1985	228.4	7.8
1986	231.2	10.6
1987	209.4	10.9
1988	226.2	10.3
1989	207.7	8.8

Source: FEDEXPOR/Banco Central. Re-exports and Waste Materials Removed.

The breakdown of manufactured exports for the past two calendar years can be seen in Table 32.

TABLE 32

MANUFACTURED EXPORTS DETAIL

Category	1988 FOB US$(000)	% of Total	1989 FOB US$(000)	% of Total
TOTAL	226.2	100.0	207.7	100.0
Metal manufactures	10.7	4.7	17.5	8.4
Chem/Pharm products	10.1	4.4	6.9	3.3
Processed coffee	17.5	7.7	19.9	9.6
Processed sea products	86.6	38.3	56.7	27.3
-Fish meal	59.5	26.3	29.6	14.3
-Other	27.1	12.0	27.1	13.0
Cocoa products	47.7	21.1	52.8	25.5
Panama hats	3.8	1.7	7.1	3.4
Electric appliances	0.5	0.2	0.2	0.1
Fruit juices/conserves	1.8	0.8	1.6	0.8
Banana products	12.6	5.6	6.3	3.1
Vegetable conserves	0.4	0.2	0.6	0.3
Flour/cereal products	1.1	0.5	1.7	0.8
Meat & milk products	0.1	0.0	0.0	0.0
Drinks	0.2	0.0	0.1	0.0
Vegetable oils/extracts	1.9	0.8	2.7	1.3
Other foods	3.3	1.4	2.7	1.3
Animal feeds	0.5	0.2	0.3	0.1
Pyrethrum extracts	0.1	0.0	0.1	0.0
Plywood	9.2	4.0	7.7	3.7
Wood products	2.2	1.0	2.2	1.2
Electrical products	0.4	0.2	0.4	0.2
Basketry	0.0	0.0	0.1	0.0
Paper products	0.6	0.3	0.7	0.4
Fiber textile articles	2.8	1.2	4.4	2.1
Leather & Plastic items	3.4	1.5	2.1	1.0
Sundry Handicrafts	1.0	0.4	2.3	1.1
Others	8.0	3.8	10.3	5.0

Source: FEDEXPOR/Banco Central. Net of Re-exports and Waste Materials.

Direction of Exports

The U.S. is the primary market for Ecuadorean exports, as nearly 46 percent of all exports are marketed to the U.S. Countries of Asia, the European Economic Community, and the Andean Pact, and "other" American countries collectively account for another 45 percent, although no single country in these categories represents a major export market.

TABLE 33

DIRECTION OF EXPORTS

Country/Area	1988 FOB US$(000)	% of Total	1989 FOB US$(000)	% of Total
TOTAL WORLD	2,192.9	100.0	2,353.9	100.0
TOTAL AMERICAS	1,602.5	73.1	1,937.5	82.3
Canada	2.3	0.1	4.1	0.2
U. S. A.	1,006.2	45.9	1,367.6	58.1
Central America	14.0	0.6	44.9	1.9
Caribbean FTA	0.0	0.0	0.0	0.0
Panama	34.8	1.6	61.7	2.6
Asoc. L.A. Integ.	95.8*	4.4	130.0	5.5
Andean Pact	177.1	8.1	183.0	7.8
Other Americas	272.3	12.4	146.1	6.2
TOTAL EUROPE	232.1	10.6	236.5	10.0
EEC	202.6	9.2	208.4	8.8
EFTA	4.5	0.2	4.8	0.2
Comecon	23.6	1.1	16.9	0.7
Yugoslavia	1.3	0.1	3.5	0.1
Other Europe	0.1	0.0	2.9	0.1
TOTAL ASIA	338.4	15.4	156.0	6.6
TOTAL AFRICA	9.7	0.4	10.8	0.5
TOTAL OCEANIA	10.2	0.5	10.4	0.5
UNCLASSIFIED	0.0	0.0	2.8	0.1

Source: Central Bank of Ecuador, Boletín Anuario No. 12 1989-1990
*Andean Pact portion omitted

Statistics available from the Central Bank do not cross-tabulate categories of exports by country of destination. Ecuador's exports lack stability and continuity, making proper cross-tracking all the more desirable. For instance, in August the state oil concern Petroecuador exported 300 thousand barrels of oil to Peru.[2] That was 6.5 percent of the month's export total. Based on 1989 prices, this would equal

[2] *Hoy*, Quito, "Facturación obsta venta de crudo," 9/10/90.

approximately $67.5 million, or approximately half of Ecuador's 1989 export to Peru. Projections are speculative, however, because of the country's unpredictable export pattern.

Raw statistics are available through the Central Bank and the Ministry of Finances. It would be helpful both to those interested in export promotion and to the exporters themselves if these entities were to refine further their statistical tabulations to produce more guiding and insightful information.

The Federación Ecuatoriana de Exportadores (FEDEXPOR) is already receiving international donor support to enhance tabulation of statistics on nontraditional crop exports. Increasing this funding could allow FEDEXPOR to include processed and manufactured goods in its tabulations — areas in which micro- and small-scale enterprises are well represented.

EXPORT OPPORTUNITIES FOR MSEs

Current Participation

Official export statistics in Ecuador do not include classification by size of producer, making it impossible to determine micro- and small-scale enterprise participation from these sources. Including tabulation of this information within the program support to FEDEXPOR (Federación Ecuatoriana de Exportadores) would help generate needed statistics on the sector. With improved export opportunities expected in the coming years through trade liberalization and simplification of export procedures, the time is right to establish a baseline data and systems for making these comparisons.

Very little information has been collected on small company export participation. In the baseline survey of micro-enterprises carried out as a part of this study, only 3.8 percent of 625 interviewed indicated that they took part in export either directly (1.0 percent) or as suppliers to an exporter (2.8 percent). It is not known how much of this participation in export is via registered channels and how much is contraband trade. Likewise, it is not known what proportion of the 22.9 percent who said they produce under contract are involved in export.

A separate study conducted by USAID/Ecuador in 1984 showed that 13 of 20 small manufacturing firms in Guayaquil were involved in export. Three of them (15 percent of the total) were exporting more than 40 percent of their production. Metal products manufacturers were the most involved in export.

An export "consortium"[3] of seven small manufacturers of furniture and wood products in Quito says that it has reached an average export volume of US$ 125,000 per month. This represents nearly 70 percent of the amount registered in official export statistics for that category in 1989.

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[3] In Ecuador, the word *consorcio*, or consortium, is used to describe a grouping of companies or individuals for the specific purpose of exporting.

Registered exports in 1989 totaled US$ 41.4 million to Colombia and US$ 135.1 million to Peru. Contraband trade, which represents a major portion of international trade among these three countries, fluctuates greatly from year to year, depending mainly on shifts in monetary and price control policy and other trade controls. Demand for contraband versus legal import and export items should dissolve under the Andean Pact liberalization of trade if this does, in fact, result in the scheduled simplification of procedures and zero duties for 1995. Micro-enterprises can take an active part in export to Colombia and Peru, since the needs for specialized market, technical, business, and cultural knowledge are far less than for export outside the area, especially to non-Hispanic countries.

Product Areas of Export Opportunity

Export opportunities for micro- and small-scale enterprises are limited to the "production" sector. MSEs in the commerce and service sectors are unlikely to participate in export markets. Although there are as many as 60 to 84 thousand small-scale firms in the so-called "productive" sector, however, the number of these that might be able to produce a product for export is much more limited.[4]

A review of the categories of manufactured exports (Table 32) indicates that those most likely to accommodate small enterprise participation are metal products, Panama hats, food products, processed wood products, basketry, textile products, leather products, and handicrafts. Personal shopping expeditions by project team members underscored the attractiveness of leather products, jewelry and artisan handicrafts. Nevertheless, there is no reason to discount small enterprise participation in traditional products such as processed coffee and cacao products. As an example, a small producer in Costa Rica successfully custom roasts and packs premium presentations of coffee under the brand name of Britts.

Handicrafts and crafts industry goods (such as leather products, textile articles, and woodcrafts) are areas that could involve large numbers of small-scale producers, even when the dynamics of trade policy, credit availability, and red tape are against them. Out of a population of 10.7 million people, some 200,000 are involved in crafts activities, a high percentage of them rural, indigenous women. By stimulating export, there is great potential for raising the standard of living of many of these people, preserving and propagating their unique skills while offering them the opportunity to avoid emigration to the city.

The high demand for wood and wood products in Japan, the U.S. and Europe also indicates a potential market for Ecuadorean products. The wood products sector is a highly dynamic and diversified sector characterized by small-scale operations. Cutting, drying, transporting, fabricating and commercializing wood products is largely carried out by small-scale producers.

Another area offering great potential is the processing of agricultural products for export. More than two million people are involved in agriculture, and Ecuador has demonstrated its potential to produce a wide range of agricultural products. This area (including growth and export of such nontraditional fresh products as cut flowers) has received considerable assistance from both national and international development institutions, as well as a great deal of promotional lip-service from the government —

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[4]The absence of a small-scale enterprise sector census hampers a more detailed analysis of the firms.

although, in practice, import substitution policies have been maintained. While it is frequently stated by those involved in promotion of these activities that "(export) results have not been up to expectations," in fact, success in the face of so many adverse factors would be the real surprise. Nevertheless, given proper government policy stimulation and removal of barriers, this sector may be assisted to perform "up to and beyond expectations." Medium-size and large exporters will undoubtedly play the most important role in the direct export mechanisms, but room to participate should open up for small exporters, too, resulting in substantial increases in gainful off-farm employment.

Within these categories of manufactured and processed goods, there is ample room for small- and even micro-enterprises to expand their participation in the export field. In order for them to do so, export controls (with their complicated procedures and high costs), cost and quality constraints of raw and intermediate materials, and anti-export biases (exchange, tariff, nontariff) must be whittled down to levels within which opportunity costs are a motivation rather than a disincentive for micro- and small-scale entrepreneurs to engage in export. Once the stifling external constraints to export and import are lessened, cost-effective and quality-appropriate intermediate materials could reach the MSE producers' hands. At that point, development assistance to resolve the internal constraints of finance, technology, management know-how, and market information and access can be effective.

MAJOR CONSTRAINTS TO INCREASING MSE EXPORTS

External Constraints

The long-standing Government of Ecuador policy of import substitution has built-in anti-export biases that have largely defeated countervailing policies to promote the export of nontraditional products — particularly the export of those off-farm, off-wharf products in which small producers, processors, and intermediaries would be likely to participate. The exchange rate and import/export procedures also tend to keep the export of manufactured products stagnant.

The principal export and trade constraints faced by entrepreneurs in the country are:

- Low duties on importation of raw materials and capital goods for protected industries;
- High import duties and surcharges on finished products that compete with those of protected industries;
- Import controls ranging from advance deposits to import prohibitions;
- Exemptions from import duties for protected industries;
- Unfavorable exchange rates for exporters (As of August 1990 exporters were receiving about 12 percent less under the obligatory controlled rate than they would have received on the free market);

- Favorable exchange rates for importers. Protected industry is the principal approved importer[5] and, therefore, the prime beneficiary in terms of acquiring "cheap" dollars generated by exports from other sectors of the economy; and

- Confusing, time-consuming and expensive import/export red tape. Large (protected) industries have the material and human resources to cope with this, but micro- and small enterprises do not.

The direct results of these policies and procedures on prospective exporters are:

- Low quality domestic inputs;

- High cost domestic inputs;

- Unavailable domestic inputs;

- Limited access to imported inputs;

- High cost and limited selection of imported inputs; and

- Lower than free market sucre return on obligatory dollar sales to Central Bank.

Ecuadorean exporters of a manufactured products, then, are likely to encounter the following:

- Inadequate quality, in part due to local inputs;

- Overpricing due to input costs and exchange rates;

- Delivery difficulties, in part due to lack of availability of inputs;

- Pricing instability due to exchange rate and input supply uncertainties.

In addition, Ecuador protects its state air and maritime cargo carriers by tightly controlling competition, with the result that supply of space does not meet demand for it. This situation is aggravated by inadequacies in scheduling, destinations offered and competitive pricing. Small exporters are likely to be more affected than large exporters, who have leverage with the shipper. Liberalization of protection and increased competition among carriers is needed so that exporters will be stimulated to sell into new markets.

Taken together, these policies and procedures have contributed heavily to a 24 percent constant value drop in nontraditional exports from 1979 to 1989.[6]

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[5] Two-thirds of the country's imports by value are for industrial raw materials and capital goods.

[6] *Reforma Estructural al Sistema Arancelario 1990*, Ministry of Finance, Quito, p. 14.

The Government of Ecuador has committed itself on paper and in tentative initial steps to trade liberalization and simplification of export procedures. If it carries through on scheduled reforms, the environment for exporters can be expected to develop favorably. However, powerful industries in the protected sector will exert strong pressures to water down the effectiveness of policies designed to revitalize international and domestic commerce, competitiveness, and the efficiency and quality of production.

Barriers to small enterprise export growth, import substitution policy and the current transition away from it are all reviewed thoroughly in the chapter on "Trade Policy and Regulatory Environment" in the separate Policy Framework Report.

Internal Constraints

The constraints that small enterprises must overcome to enter and succeed in export are more weighty than those they face for domestic production and sales. In addition to the external and policy constraints reviewed in the previous section, there are complexities caused by markets being unfamiliar and more demanding. Moreover, tariffs and regulations vary in each country and must be studied on an *ad hoc* basis.

The carrot held out to entice an enterprise into export is market potential. Ecuador has less than eleven million inhabitants. Most of them are poor. Neighboring countries have much larger populations than Ecuador — but are also poor. The U.S. has a huge population and is rich — but competition is severe.

Before reviewing ways for micro- and small-scale enterprises to go beyond their limited local markets, it is necessary to identify their business and market constraints. This will provide an understanding of the obstacles to be overcome as a prerequisite for success in export.

Finance and Credit

In addition to the difficulties encountered in qualifying for operating and investment capital loans (also experienced by firms involved in purely domestic enterprise),[7] exporters frequently require working capital for longer periods to cover stock build-up and extended payment terms; investment capital to cover special product/production requirements; and/or financing for raw materials or import of intermediate inputs.

FOPEX (Fondo de Promoción de Exportaciones) is constituted for the exclusive purpose of providing support to export operations. However, it is not particularly responsive to the needs of small exporters. While it does supply loans at favorable, "preferred" (sub-commercial) rates, the requisites for qualification are similar to those of commercial banks, i.e., acceptable financial statements and loan guarantees are needed. This makes qualification extremely difficult for small enterprises. The FOPEX

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[7]See separate report on finance and credit for micro- and small-scale enterprises produced by Richard Meyer, John Porges, Martha Rose and Jean Gilson.

official interviewed did speak of "walking" one indigenous, handicrafts exporter through to loan approval, but the story was anecdotal. More typical is the case of a medium-sized, fresh produce exporter interviewed, who applied for 45 million sucres (approximately $55,000) six months in advance of the loan requirement. By the time approval came nine months later, he could only utilize somewhat more than half the sum.

FOPEX did approve loans for some $9 million[8] in 1989; however, little seems to have been destined for use by micro- and small-scale enterprises. A wood products export group and a handicrafts exporter interviewed did not have access to FOPEX loans due to their failure to meet financial statements and guarantee prerequisites.

FOPINAR (Fondo de la Pequeña Industria y Artesanía) is a loan guarantee fund administered by the CFN. While it is dedicated to loan support for micro- and small-scale enterprise, it has not backed export schemes to any apparent significant degree. During 1989 FOPINAR extended approximately $4.5 million in new loans.[9]

The Banco Popular de Fomento is also a source of loans for micro- and small-scale enterprise; but, again, loans for export-related activities are insignificant.

Production and Technology

Overseas markets are generally much more competitive and discerning than the Ecuadorean market, where production efficiency and quality control suffer under an industrial protection policy that has resulted in a more docile market. Furthermore, products for export not only need to be of competitive quality, but of marketable design for the countries of destination. This is true even for exports to Colombia, which, given its market size, has more industrial competition even though it also has followed import substitution policies for many years. Therefore, it is only in rare cases that a product made for the home market will be acceptable "as is" for export.

A major problem encountered by one member of a furniture consortium was the importation of suitable hinges for baby cribs, as those made locally (and protected by high duties) were of unacceptable quality for export. Leather goods manufacturers in the town of Cotacachi complained of a problem in obtaining high-quality snaps, zippers and specialized fasteners needed for producing acceptable "fashion" garments. These examples exemplify two of the ways that import substitution policy curtails export: low quality local intermediary inputs, and difficulty in procuring the needed imported input at a cost-effective price. The local environment, in which shoddily-produced goods can be kept functional because repairs are inexpensive, has tended to produce production technologies that are not particularly careful of product quality and durability.

The quality constraint goes beyond the problem of inadequate inputs. Even when top quality raw materials are used, design and workmanship tend to be outmoded and sloppy. This can readily be seen

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[8] Memoria 1989, Corporación Financiera Nacional, Quito, p. 31.

[9] *Idem*, p. 35.

in handicrafts work. A wool sweater may be called "rustic" - or it may be called ill-fitting or *passé de mode*. Shoes designed from European patterns are not marketable in the U.S. Leather jackets made in Ecuador use "unisex" zippers, which are on the wrong side for U.S. males; market potential into the U.S. is therefore limited.

Ability to anticipate market demand changes is difficult for any producer. Micro- and small-scale producers, most of whom have not traveled outside of the country, are at an even greater disadvantage, because they have no concept of consumer tastes, competitive products, and no way to anticipate changes. Bright-colored wool sweaters may be fashionable one season, to be replaced by earth-tone designs the next. Leather jackets may be soft- or hard-finished; most jackets currently on sale in Ecuador have a hard finish, yet the prevailing style in the U.S. favors soft-finished jackets. Micro- and small-scale entrepreneurs are at a significant disadvantage in trying to understand and anticipate these changes.

Artisan handicrafts are subject to even more "faddish" demand trends. For the most part, items that are popular one year are not the next. Catering to demand in this area is a highly risky business that requires an ability to change product lines almost immediately. Commercial buyers do that by selecting from different sources, not by waiting for an existing supplier to change his or her product offerings. Micro- and small-scale entrepreneurs generally lack the market knowledge, production skills and capacity to absorb the risk of making such changes.

In short, in order to succeed in international markets, Ecuadorean manufacturers, from large-scale to micro, must focus more on quality and design if they are to make the most of their comparative advantages — notably, handiwork skills at modest cost. For that matter, they must do so to continue to succeed in their home market as trade liberalization progresses and as tariff and nontariff protection is reduced. What is called for is not "high tech" production, but efficient and imaginative use of the material and human resources available domestically.

Production Volumes

Another impediment to successful participation in export markets is the inability of small producers to produce sufficient quantities of standardized products to meet customer demand. Even small, independent and specialized retail outlets in the U.S. and Europe require sufficient items to fill a product line. Larger chains, mail-order stores and firms importing to fill mass orders, require even larger volumes to fill individual retail outlets or respond to nationally generated mail-order requests. Shoe retailing in the U.S., for example, which imports under standard brand labels, routinely places orders for thousands of pairs of shoes. Small producers, acting independently, cannot develop the volume of production needed to gain entrance into these markets.

Management Know-How

The low level of entrepreneurial skills among micro-entrepreneurs is clearly an impediment to participation in export markets. Of the 285 survey respondents who were interested in exporting, 216 said they did not know how to get involved.

Dealing with export markets and clients requires business knowledge and personal skills beyond those used in the local marketplace. These include knowledge of regulations and required documentation (in Ecuador and the country of destination); knowledge of foreign exchange transactions, pricing, terms and instruments of payment, packing, shipping variables and costs, and communications. The latter refers not only to knowledge of the English language (necessary for export beyond Latin America), but to the ability to provide clear and rapid responses. Fulfillment of delivery promises, in terms of time and product quality, is of premium value in industrialized export markets, while failure to live up to agreements offsets other efforts to gain orders and client loyalty.

While the management complexity of exporting is evident, it is not necessary for every micro- or small-scale entrepreneur to master it in order to participate. A variety of frameworks for facilitating micro- and small-scale enterprise involvement in export activities are discussed later in this chapter.

Market Access and Information

Lack of market information and effective access to potential buyers are major impediments to small-scale producer participation in export activities.

As in the case of the domestic marketplace, the exporter must be able to identify the products his target markets want, the appropriate distribution channels for approaching those markets, and the terms and conditions under which the competition operates within the target marketplaces. Questions to be answered include:

- Who participates in what proportion of sales?
- What are their prices and presentations?
- What advertising and promotion methods do they use?
- What are the retail prices?
- What are the adjustment policies?
- How do the pricing and costs structures operate throughout the channels, from Quito or Guayaquil all the way to the retail client in Los Angeles?

This is far more complex and expensive to ascertain than in the domestic market. The more refined a product is, and the larger the market for it, the more detailed the marketing knowledge required. For instance, the sale of bottled and labeled guavas to the U.S. will entail a great deal more marketing finesse than the export of fresh guavas.

Carrying out practical market studies on likely export products for micro- and small-scale enterprise is a valuable function that can be performed by support organizations. In addition to the United States, Colombia (looking towards a 1995 zero-duty Andean Pact), Western Europe and Japan are all appropriate target markets.

As discussed in the section on external constraints, the Government of Ecuador's controls, and their complicated and costly procedures, together with the anti-export policy and exchange biases, have crippled MSE export growth incentives. A telling statistic in this regard is that the 1989 nonoil exports were 24.4 percent below those of 1979 in 1979 constant dollar values.[10] Furthermore, while total Ecuadorean exports increased by 7.3 percent from 1988 to 1989 (Table 33), the manufactured portion (in which primary MSE export potential lies) decreased by 8.2 percent (Table 32).

EXPORT STRUCTURES FOR MICRO- AND SMALL-SCALE ENTERPRISES

Given the external and internal constraints reviewed above, the opportunities for both micro- and small-scale enterprises to succeed are greater through joint and collaborative approaches than through direct, individual, independent efforts. The main types of structures that could be used include:

- Established exporters;
- Contract supply;
- Cooperatives;
- Group companies;
- Duty-free zones;
- Individual companies.

The most effective ways for micro-enterprises and small enterprises to participate in export trade normally differ from each other. This is due to differences in sophistication of business culture, differences in access to capital, and the informal structure of one versus the formal structure of the other.

Micro-enterprise Export Approaches

The channels and methods best suited for micro-enterprises include sales through established exporters or buyers, production on contract for established producers, export-oriented cooperatives, and sales through individual small-scale traders.

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[10]See footnote 3.

Established Exporters/Buyers

Among the categories of products of interest in this study, handicrafts and other hand-crafted articles are the most common and viable category for direct and indirect micro-enterprise export participation. Producers sell to both locally established firms and to buyers who come from abroad, the latter typically owners of gift shop businesses in the United States. An important part of this trade involves the buyer taking the merchandise as accompanying air cargo. However, Central Bank insistence on having export forms and exchange restrictions strictly obeyed has limited expansion of this sales channel.

Procedures (*trámites*) and exchange controls also constrain Ecuador-based handicrafts exporters. Since handicrafts shipments are typically small, repeat orders, motivation to invest in this trade goes down as the cost (in time and money) of regulation compliance go up, eating up the profit margins.

Contract Supply

The mechanism for this method is no different than for the supply of a given article or component for domestic sale. However, the Ley de Maquila (Assembly Law) enacted in August 1990 may create opportunities for micro-entrepreneurs in designated second-level cities to supply by contract to new firms established in the Duty Free Zone to take advantage of piece work status.

As duties become lower and more uniform, there should be increased opportunities to supply by contract to non-DFZ concerns involved in export. For instance, a leather worker may contract to make the straps for sisal bags.

Cooperatives

Though, in theory, the cooperative structure may be appropriate for facilitating local sales and exports of handicrafts, in fact it does not have a history of success in Ecuador. Problems of favoritism in purchasing, corruption in management, quality control, and order fulfillment have occurred frequently. Cooperatives have mixed results in other respects as well: sales promotion of members' products has generated internal competition for the cooperative's services. On the other hand, purchasing cooperatives that buy and stock local and imported inputs allow members to buy retail quantities at wholesale prices. For instance, leather workers in the town of Cotocachi are banding together for this exact purpose.

Lack of access by micro- and small-scale producers to imported inputs is both an export and an internal trade constraint. Credit and organizational assistance to enterprises in this field will help increase their competitiveness in terms of price and quality for both international and domestic trade.

Individual Commercial People

Though Otovaleño indigenous people do occasionally fly to the United States to sell their wool sweaters and wall hangings, this practice is the exception rather than the rule. More micro-exporters conduct their business at the borders with Colombia and Peru. Much of this trade is unaccounted for

statistically as it is contraband trade. It is hoped that the governments of the Andean Pact countries will follow through on the steps required to bring about a duty free market by December 1995. Then this illicit cross-border trade can become respectable export trade. Free trade will give a great boost to micro--traders as there are many food, textile and basic manufacture items that can be marketed within the member countries.

Small Enterprise Export Approaches

Because of relative scale advantages, small enterprises in the formal sector of the economy have more avenues than micro-enterprises in the informal sector through which to enter directly into export trade. Among the more important of these alternatives are export groups, duty-free zones, and direct export as individual companies.

Export Groups

A woodworking products export group is operating in Quito with seven members, and is presently exporting to Puerto Rico. The group receives organizational and logistical support from the Chamber of Small Industries of Pichincha (CAPEIPI). Despite many constraints, this group is forging ahead and can serve as a model for groups in such sectors as food processing, hat making, and metal working.

The export group's major constraints, and attempted solutions, include:

- Transport. The cost of transport to San Juan is very high, $2,600 for a 40-foot container, versus $1,800 to Miami. The woodworkers, CAPEIPI and FEDEXPOR are lobbying for the Government to improve services for exporters.

- Input needs. Local procurement and import of inputs are both major constraints. In response, the woodworkers are starting a buying cooperative. By buying in quantity, they can obtain better prices on local inputs. For imports, they still face the licensing and advance deposit requirements. However, these controls should be phased out in coming months.

- Management. In order to be effective, the woodworkers require experienced export management; however, none of the seven companies is big enough to absorb the associated costs alone. Therefore, the companies have formed a limited company called CETRIMA for group marketing and export management.

Duty Free Zones (Maquilas) and Piece Work

Ecuador is a late-comer to Duty Free Zone (DFZ) assembly, which was pioneered in Ireland and Mauritius and later introduced to the Americas in Mexico, the Dominican Republic and Costa Rica among other places. The Ecuadorean law establishing DFZs was just passed in August, 1990. Related investment promotion has not taken off yet. To date DFZs have been established in Manta, Esmeraldas and on the Peruvian and Colombian borders. The law permits piece work ("obra cierta") and part-time work, as well as temporary duty-free entry of all components for re-export as part of the assembled

product. In addition, the full force of the Labor Law is not applied. Specifically, the heavy severance pay provisions are absent. The part-time work provision is not limited to the DFZs but applies throughout the country.

The cost and efficiency of Ecuadorean labor do not appear to present a particularly strong comparative advantage vis-à-vis other Latin American countries, nor vis-à-vis Far Eastern countries such as China, Thailand and the Philippines. However, given the large reservoir of Ecuadorean labor with artisan skills, opportunities may well be found. Small businessmen may be linked through contracts with overseas companies interested in DFZ assembly in Ecuador.

Individual Companies

With the liberalizing shifts being promulgated in trade policy and the trade environment (including export procedures and their associated costs), support to small companies with the product and management potential to succeed can yield very promising results. Firms with proven potential may qualify for program assistance in marketing to neighboring countries and/or to the United States, Europe, and Japan, if the owner/partner has the language-, cultural- and international trade expertise (see Recommendations).

RECOMMENDATIONS

In view of the Government of Ecuador's imminent liberalization of trade and the Andean Pact commitment to free trade for 1995, the export environment panorama is likely to improve in the coming years. Therefore, new export assistance initiatives to support small enterprises would expand trade opportunities for this sector.

Trade Policy

- Continuation of trade liberalization, unification of exchange rates at free market value, and simplification and cost reduction of export procedures are all prerequisites for small enterprises to succeed in export. Sweeping away the maze of tariff and nontariff controls and sector-biased impositions will be the most important steps for stimulating small enterprise participation in export. Supporters of economic growth and a wide-based, vital export sector must not hesitate in the face of opposition if their objectives are to be achieved.[11]

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[11]More detailed recommendations are contained in a separate report on policy constraints to micro- and small-scale enterprise development. Bruce Herrick, Gustavo Marquez, and Joseph Burke, *Policy Framework*, Washington, D.C.: Development Alternatives, Inc., 1990.

Encourage Central Bank and Ministry of Finance officials to make an exception that would allow handicrafts up to a certain value (for instance, $10,000) to be exported directly from Quito or Guayaquil airports, fulfilling only a minimum of export and foreign exchange controls. However, this export activity would be entered in official statistics, a process that occurs quite sporadically at the present time.

Management

- Establish separate entry-level criteria for micro- and small enterprises to qualify for potential program support.

Marketing

- Chart the comparative advantages of Ecuadorean small industries by category and product line (in terms of current costs), given various projected tariff and nontariff changes, and suitability for involvement in DFZ assembly.

- Carry out specific market studies in the United States and Andean Pact countries (and EEC and Japan at a second stage) for those product categories in which Ecuadorean micro- and small-scale businesses seem to have an advantage. These studies should include CIF landed costs needed to compete and should work back to FOB Quito or Guayaquil prices that producers must meet to compete. Disseminate the information through mailings and discussions with the applicable chambers of industry and commerce and their subsectoral interest groups.

- Bring in samples of products upon which market studies are based to demonstrate quality/fashion required for prices calculated. These samples may be displayed at cooperating chambers of industry and commerce with particular emphasis on the Cámaras de Pequeñas Industrias and the Cámaras Artesanales nationwide.

- Supply information on marketing channels in the United States, including industry gazette subscriptions and contacts with regional wholesalers or retailers, particularly those whose supply requirements may be within Ecuadorean small enterprise production capabilities.

- Finance the test marketing in the United States of qualifying products of qualifying clients, to assess opportunities for a potential support program. (See Annex E for list of qualified market consultants.)

- Match up potential United States and European contract buyers and co-investors with likely Ecuadorean small business partners using the DFZ/Maquila mechanism.

- Sponsor client participation in appropriate United States and European trade shows.

- Discuss with Ecuatoriana Airlines and Transnave issues related to service, rates and direct destinations or ports of call for beneficiaries of export programs. This could be done in

conjunction with the targeting of secondary marketplaces, such as Atlanta and Houston — depending on market investigation indications.[12]

Technical/Production

- Specifically for handicrafts: provide assistance on the design, production, and quality control of inputs. One form this might take would be for the Peace Corps to assign volunteers to schedule and oversee production and delivery of orders to middlemen and exporters.

- Supply technical, production, and design assistance to clients with export potential, using experts with current knowledge of foreign market requirements.

Credit

- Integrate credit component for operating capital and expansion investment capital, or coordinate with separate program source.

Training

Training programs should be designed for needs of cohesive groups and include the following elements in an integrated form at levels of sophistication appropriate to each group's status (see Training section of this study for wider detail):

- Principles of export management:
    - Project goals;
    - Organizational requirements;
    - Costs/returns projections;
    - Managing raw materials and inputs.

- Marketing:
    - Matching markets and products;
    - Comparisons with the competition (in terms of quality, design, price, packaging, presentation, promotion);

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[12]Also see recommendations in the separate report on trade policy concerning interactions with the Government of Ecuador on state transporters' protection levels and the forecasting of cargo space needs.

- Distribution channels and price structures;
- Packing and labeling for air, sea, and road shipment;
- Shipping (alternatives, costs, insurance, destinations, trans-shipments);
- Effective communications;
- Adjustment policies.

- Export Procedures:
  - Ecuadorean regulations (descriptions, approaches, time investments and costs);
  - Country-of-destination regulations and their fulfillment.
- Technical/Production:
  - Raw materials and inputs;
  - Production techniques;
  - Quality control.
- Credit and Finance:
  - Costing;
  - Pricing;
  - Financial projections;
  - Credit needs, sources and applications.

Project Framework

The time is propitious for revived and redirected support by domestic and international development organizations to Ecuadorean micro- and small-scale enterprise in nontraditional, off-farm, off-wharf export because:

- Ecuador's liberalization of trade policy and simplification of export procedures will create more opportunities for entering and succeeding in the export sector, as the anti-export bias of current policies lessens and as imported inputs of competitive price and quality become available;

- Government of Ecuador continuation of trade liberalization measures will be further encouraged by export success and related employment generation, which will offset mounting imports of finished goods and deterioration of previously protected industries which lack adequate comparative advantages to thrive, or even survive; and

- Success of the Bush America's Initiative and its long-term goal of a hemisphere-wide Free Trade Agreement is dependent in great part on progressive trade liberalization being advantageous to each country involved.

- Noteworthy Ecuadorean associations that support SSEs and merit consideration for involvement in support activities include: the Cámara de Pequeñas Industrias de Pichincha (CAPEIPI), Cámara de Pequeñas Industrias de Guayas, Cámara de Pequeñas Industrias de Azuay, Cámara de Pequeñas Industrias de Tungurahua, the Federación Nacional de la Pequeña Industria (FENAPI), and the Federación de Exportadores (FEDEXPOR).

- Project support to small-scale producers should focus on the following activities:

  - Improving product design and quality control, to improve marketability of products;

  - Improving production techniques and methods;

  - Increasing market contacts with potential buyers.

ANNEX E

SELECTED LIST OF U.S. MARKET CONSULTANTS

Business Trend Analysts. 2171 Jericho Turnpike, Conmack, NY 11725. (516) 462-5454.

Find/SVP. 625 Avenue of the Americas, New York, NY 10011. (800) 346-3787.

Market-Opinion-Research. 550 Washington Blvd., Detroit, MI 48226. (313) 963-2414.

Willmark Research Corporation. 561 Westchester Avenue, Rye, NY 10580. (914) 937-3200.

Georgetown Venture/Trading Co. P.O. Box 21662, Washington, DC 20009. (202) 462-8469.

TREICO. 93 Willets Drive, Syosset, NY 11791. (516) 496-8740.

International Technology Investment, Ltd. 131 Rollins Avenue, Rockville, MD 20852. (301) 984-9500.

Interworld Marketing Inc. 7720 Wisconsin Avenue, Bethesda, MD. (301) 951-0798.

IMCC. 1601 North Kent Street, Suite 904, Arlington, VA 22209. (703) 524-2600.

IPAC. 450 5th Street, N.W., 10th Floor, Washington, DC 20001. (202) 626-1300.

The Americas Group. 3 Bethesda Metro Center, Suite 700, Bethesda, MD 20814. (301) 493-5323.

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APPENDIX A

LIST OF INTERVIEWS

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Banco La Previsora
Juan Gortaire

Cámara de la Pequeña Industria de Pichincha (CAPEIPI)
Hernán Carrera
Daniel Hinojosa

Cámara de la Pequeña Industria del Guayas (CAPIG)
Martha Aguirre
Enrique Calderón
Lily Cevallos
Gerardo Larrea
Mauricio Pizarro
César Rodríguez
José Suscal

Cámara de la Pequeña Industria de Tungurahua (CAPIT)
Walter López
Marco Mayorga
José Moya
Patricio Navarrete
Enza Saraste de Arias

Cámara de la Pequeña Industria del Azuay
Gerardo Arevalo

Cámara de Artesanos de Pichincha
Hernán Mena

Cámara de Artesanos de Tungurahua
Jenny Kattan

CARE Internacional
Louis Alexander

Centro de Estudios Regionales de Guayaquil (CER-G)
Paul Velasco

Centro Nacional de la Pequeña Industria y Artesanía (CENAPIA)
Edgar Guevara
Gonzalo Herrero
Angela Pazmiño

CIPEP
Rafael Andrade

Federación Nacional de Comerciantes Minoristas del Ecuador (FENACOMI)
Angel Alvarez
Luis Erazo
José Yanez

Fundación Austral de la Microempresa (FADEMI)
Fernando Pozo
Hernán Toral

Fundación Guayaquil
Luis Orellana

Instituto de Estrategias Agropecuarias (IDEA)
Neptali Bonifaz
Edmundo Brown
Hugo Ramos
Pablo de la Torre

Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC)
Fernando Fernández
Isabel Murillo
Luis Bonilla
Jorge Epiza
Jorge Grijalva
Wimper Nissagran
Jenny Pérez

International Executive Service Corps (IESC)
Aldo B. Sparzani
Carmen Tobar de Carpio

Ministerio de Bienestar Social
Tatiana Cisneros

USAID/Ecuador
David Alverson
Maruska de Burbano

Others

Humberto Balarezo
Marcela Blacio
Lucía Carrión
Milton González
Gonzalo Larrea
Jenny Valencia

APPENDIX B

LIST OF ACRONYMS

APPENDIX B

LIST OF ACRONYMS

ADEMEC:	Apoyo al Desarrollo de la Microempresa Ecuatoriana -INSOTEC-
AICO:	Asociación Iberoamericana de Cámaras de Comercio.
AID:	Agency for International Development.
AITEC:	Acción Internacional Técnica.
AME:	Accion de Mujeres Ecuatorianas.
ANDE:	Asociación Nacional de Empresarios.
BCE:	Banco Central del Ecuador.
BEDE	Banco Ecuatoriano de Desarrollo
BID:	Banco Interamericano de Desarrollo.
BNF:	Banco Nacional de Fomento.
CARE:	Cooperative for American Relief Everywhere.
CAPEIPI:	Cámara de Pequeños Industriales de Pichincha.
CECIM:	Comisión Interamericana de Mujeres Ecuador.
CEBCA:	Comisión Ecuatoriana de Bienes de Capital.
CEDECO:	Corporación Ecuatoriana para el Desarrollo de la Comunicación.
CEDIME:	Centro de Documentación e Información de los Movimientos Sociales del Ecuador.
CEDOC:	Central Ecuatoriana de Organizaciones Clasistas.
CEDOIN:	Centro de Documentación e Información -INSOTEC-
CENAPIA:	Centro Nacional de la Pequeña Industria y Artesanía.
CENDES:	Centro de Desarrollo Industrial.
CEPAL:	Comisión Económica para América Latina y el Caribe.
CEPAM:	Centro Ecuatoriano para la Promoción y Acción de la Mujer.
CEPLAES:	Centro de Planificación y Estudios Sociales.
CEPSE:	Centro Empresarial de Perfeccionamiento Socio-Económico.
CEPESIU:	Centro de Promoción y Empleo para el Sector Informal Urbano.
CER-G:	Centro de Estudios Regionales del Guayas.
CFN:	Corporación Financiera Nacional.
CIDAP:	Centro Interamericano de Artesanías y Artes Populares.
CIDEM:	Compañía Ecuatoriana de Investigación de Mercados.
CIDER:	Centro Interdiciplinario de Estudios Regionales de la Universidad de los Andes.
CIE:	Centro de Investigaciones Económicas.
CIEDC:	Centro de Investigaciones Educativas y Culturales -INSOTEC-
CIEDLA:	Centro Interdisciplinario de Estudios sobre el Desarrollo Latinoamericano.
CIESE:	Centro de Investigaciones y Estudios Socioeconómicos.
CIPTE:	Centro de Investigación Planificación y Tecnología Educativa.
CISE:	Cuerpo Internacional de Servicios Ejecutivos.
CITA:	Centro de Investigación y Tecnologías Adecuadas.
CLADES:	Centro Latinoamericano de Documentación Económica y Social.
CLAT:	Confederación Latinoamericana de Trabajadores.
CONADE:	Consejo Nacional de Desarrollo.
CONAUPE:	Corporación Nacional de Apoyo a las Unidades Populares Económicas.
CONANPYMI:	Confederación Andina de la PYMI.

CRS:	Catholic Relief Services.
CYTED:	Ciencia y Tecnología para el Desarrollo.
ESPOL:	Escuela Politécnica del Litoral.
FEE:	Fundación Eugenio Espejo.
FED:	Fundación Ecuatoriana de Desarrollo.
FEDEXPORT:	Federación Ecuatoriana de Industrias Exportadoras.
FENAPI:	Federación Nacional de Cámaras de Pequeños Industriales.
FESO:	Fundación Ecuatoriana de Estudios Sociales.
FIAD:	Fundación de Investigación Acción para el Desarrollo.
FODERUMA:	Fondo de Desarrollo Rural Marginal.
FONAPRE:	Fondo Nacional de Preinversión.
FOPIAL:	Programa de Fomento a la Pequeña y Mediana Industria en América Latina - INSOTEC-.
FUNDAGRO:	Fundación para el Desarrollo Agropecuario.
FUNDES:	Fundación de Desarrollo Económico y Social.
FUNDESCOL:	Fundación para el Desarrollo de Santo Domingo de los Colorados.
FUNQUEVEDO:	Fundación Quevedo.
ICI:	Instituto de Cooperación Iberoamericana.
IDAMPEI:	Programa de Apoyo a la Pequeña y Mediana Empresa Industrial.
IDEA:	Instituto de Estrategias Agropecuarias.
IIE.UCG:	Instituto de Investigaciones Económicas. Universidad Católica de Guayaquil.
ILDIS:	Instituto Latinoamericano de Investigaciones Sociales.
INDDA:	Instituto Nacional de Desarrollo Agroindustrial.
INEDES:	Instituto Ecuatoriano para el Desarrollo Social.
INEM:	Instituto Nacional de Empleo.
INEN:	Instituto Nacional de Normalización.
INFOLAC:	Programa Regional para el Fortalecimiento de la Cooperación entre Redes y Sistemas Nacionales de Información para América Latina y el Caribe.
INSOTEC:	Instituto de Investigaciones Socio-Económicas y Tecnológicas
INTI:	Instituto Nacional de Tecnología Industrial.
KAS:	Fundación Konrad Adenauer.
MAG:	Ministerio de Agricultura y Ganadería.
MAS:	Movimiento Acción Social.
MEC:	Ministerio de Educación y Cultura.
MICIP:	Ministerio de Industrias, Comercio, Integración y Pesca.
OCEPA:	Oficina de Comercialización y Exportación de Producciones Artesanales.
OEA:	Organización de los Estados Americanos.
OIT:	Organización Internacional del Trabajo.
OLADE:	Organización Latinoamericana de Energía.
ONUDI:	Organización de las Naciones Unidas para el Desarrollo Industrial.
OSCUS:	Obra Social y Cultura Sopena. Ministerio de Industrias. Departamento de Promoción de Exportaciones.
SAIT:	Sistema Andino de Información Tecnológica.
SECAP:	Servicio de Capacitación Profesional.
SENA:	Servicio Nacional de Aprendizaje.
SERCOTEC:	Servicio de Cooperación Técnica.
UNESCO:	Fondo de las Naciones Unidas para la Educación y Cultura.

UNEPROM: Unidad Ejecutora del Programa de Microempresas.
UNICEF: Fondo de las Naciones Unidas para la Infancia.
UNIFEM: Fondo de Desarrollo de las Naciones Unidas para la Mujer.

APPENDIX C

SURVEY INSTRUMENT

ENCUESTA DE MICROEMPRESARIOS EN ECUADOR

_____[1] Número de Boleta

A. IDENTIFICACION DEL CUESTIONARIO

_____[1] Fecha de la Entrevista

_____[2] Número del Encuestador; Nombre _____

Nombre del supervisor _____

_____[3] Beneficiario de un programa para microempresarios ___(1), o no ____(2)

(En caso de ser beneficiario, ¿Con cuál programa?)

_____[4]

(1) INSOTEC-AID	(12) BCO. PACIFICO	(23) HUANCAVALICA
(2) INSOTEC-OTRO	(13) FUND. GUAYAQUIL	(24) ROCAFUERTE
(3) CIPEP	(14) IGLESIA CATOLICA	(25) FUMICRO
(4) FUNQUEVEDO	(15) CFN	(26) UNIV. CATOLICA
(5) FUNDESCOL	(16) CEPESIU-CTE	(27) FUNDAUSTRO
(6) FED	(17) BNF	(28) CENAPIA
(7) CONAUPE-ONGs	(18) FUNEC/CREA/SECAP	(29) FADEMI
(8) FEE	(19) BCO. POPULAR	(30) FUNDESA
(9) UNEPROM	(20) CORFE	(31) FUNDIEMPRESA
(10) FUNHABIT	(21) SIMON BOLIVAR	(99) NO DATA
(11) FUND. AUSTRAL	(22) QUITUS	

B. DATOS DEMOGRAFICOS

_____[1] Localidad: Quito ___(1), Guayaquil ___(2), Manta ___(3), Portoviejo ___(4), Santo Domingo ___(5), Esmeraldas ___ (6), Quevedo ___(7), Cuenca ___(8), Ambato ___(9), Otro ___(10), _____.

_____[2] Cargo específico que lleva en la empresa: Dueño ___(1); Socio ___(2); Gerente ___(3); Otro ___(4), _____. *(Nota: En caso de ser micro o pequeña empresa, solo se entrevista a dueños o socios principales. En sociedades anónimas se puede entrevistar al gerente. Si no tiene estas caracteristicas, abandone la entrevista.)*

_____[3] Edad (años) _____[4] Sexo: hombre ___(1); mujer___(2).

_____[5] Estado Civil: Soltero(a) ____(1); Casado(a) ___(2); Union Libre ___(3); Viudo(a) ___(4); Divorciado(a) ___(5); Otro ___(7), _____.

_____[6] Nivel de educación formal alcanzado *(Escoja el nivel más alto)*: No tiene ninguna educacion formal ___(0); Algo de primaria ___(1); Primaria ___(2); Escuela técnica ___(3); Algo de secundaria ___(4); Secundaria ___(5); Algo de universidad ___(6); Título universitario ___(7)

_____[7] ¿Cuántas personas viven normalmente (la mayor parte del año) en la casa.

_____[8] Es usted jefe de familia? sí ___(1); no ___(2).

_____[9] ¿Cuántas personas dependen económicamente de usted?

_____[10] ¿Es usted socio de un gremio o asociación relacionado con su negocio? Sí ___ (1); no ___(2). ¿Cuál? _____

_____[11] ¿Es usted socio de una cooperativa? sí ___(1); no ___(2).

(En caso de ser socio de una cooperativa, preguntele:)

_____[12] ¿Esta cooperativa se relaciona de alguna forma con su negocio, como una cooperativa de artesanos, o de producción, o de mercadeo? sí ___(1), no ___(2)

C. NATURALEZA DE LA EMPRESA

¿A qué se dedica en este negocio? _____

_____[1] ***(Nota al encuestador: escoja la clasificación que mejor corresponda al entrevistado. Si produce lo que vende es productor.)*** Sector económico principal: Industria/productor ____(1); Agropecuario/productor ___(2); Servicio ____(3); Comercio ___(4); otro ____(5), _____.

_____[2] ***(El encuestador debe calificar el negocio según la descripción más adequada. De no poder decidir, escriba exactamente lo que hace el entrevistado para que el supervisor puede tomar una decisión.)*** Clasificación por sector económico:

(1) Productos alimenticios, comidas y bebidas
(2) Textiles, ropa
(3) Zapatos, articulos de cuero
(4) Carpintería, ebanistería
(5) Productos de papel
(6) Productos quimicos
(7) Productos no-metálicos
(8) Metales Basicos
(9) Metal Mecánica
(10) Tapicería
(11) Joyería
(12) Artesanía en general
(13) Servicio de comida
(14) Peluquería/Salon de Belleza
(15) Reparaciones
(16) Tienda
(17) Vendedor de mercado
(18) Vendedor ambulante
(19) Agricultura/cría de animales
(20) Otro, _____

_____[3] ***(A criterio del encuestador)*** El local de este negocio está ubicado:
(1) En o junto a la casa del dueño
(2) En un local dedicado exclusivamente al negocio
(3) En un puesto permanente o semi-permanente en la calle o mercado
(4) Ambulante en la calle

_____[4] ¿Qué tipo de empresa tiene? Dueño, por si solo ___(1); dueño, junto con el conyuge u otro pariente ___(2); dueño, con socios no familiares ___(3); o sociedad anónima ____(4)

_____[5] En el caso de tener socios, ¿Cuántos socios tiene?

_____[6] ¿En que año se inició esta empresa (o negocio)?

_____[7] ¿Este negocio ya existía antes ___(1), o fue usted mismo quien lo fundó ____(2)?

_____[8] ¿En qué trabajaba usted antes de iniciar este negocio?
(1) No trabajaba, primer negocio
(2) Desempleado
(3) Trabajos domesticos
(4) Trabajo familiar, con o sin remuneración
(5) Trbajo particular
(6) Trabajos a jornal
(7) Trabajo remunerado en otro compañia o negocio
(8) Tenía otro negocio personal
(9) Otro: _____

_____[9] ¿Cuál fue su motivo principal en iniciar este negocio?
(1) Quería ser independiente
(2) Oportunidad de ganar más
(3) Continuó un negocio familiar
(4) No podía conseguir un empleo remunerado
(5) No tuvo más remedio
(6) Le ofrecía mejores oportunidades
(7) Continuó en negocio familiar
(8) Otro: _____

D. EMPLEO

_____[1] ¿El trabajo en este negocio es permanente durante todo el año ___(1), o se concentra en alguna época específica ___(2)?

_____[2] ¿Se dedica usted exclusivamente a trabajar en este negocio (empresa) ___(1), o se dedica también a otros trabajos o actividades rentables ___(2)?

Si se dedica a otras actividades, pregúntele:

_____[3] ¿A cuál otra actividad se dedica?

(0) NA
(1) Otro negocio
(2) Trabajo remunerado
(3) Trabajos ocasionales
(4) Agricultura
(5) Otro;_____

_____[4] ¿Cuál de estas le proporciona más ingresos durante el año?

(0) NA
(1) La empresa
(2) Trabajo en otro negocio
(3) Trabajos remunerados
(4) Trabajos ocasionales
(5) La agricultura
(6) Otro; _____

(En caso de que el entrevistado se dedique también a otra actividad, explíquele que esta entrevista solo abarcan sus trabajos en esta micro-empresa.)

_____[5] Cuando usted inició este negocio, ¿cuántas personas (incluyendose usted) trabajaban en él?

(1) Solo el entrevistado
(2) El entrevistado y 1 persona más
(3) El entrevistado y 2 o 3 personas más
(4) El entrevistado y 4 o 5 personas más
(5) El entrevistado y 6 a 9 personas más
(6) El entrevistado y 10 o más personas

_____[6] ¿Trabaja usted ahora por si solo(a) ____(1), o trabajan otras personas consigo ___(2)? ***(Sugiera posibilidades, tales como esposo, hijos, otros parientes, y otras personas no-familiares)***

Si dice que "no trabajan" otras personas, pase a la seccion "E. ACTIVOS FIJOS". Si dice que trabajan otras personas en el negocio, hágale las siguientes preguntas.

D.1. Empleo Familiar

_____[7] ¿Trabaja o ayuda su esposo (esposa o cónyuge) en las actividades de este negocio, o en forma permanente o parcial? NA ___(0), si ___(1), no ___(2).

(Si la respuesta es "sí") ¿Cuáles cargas o funciones desempeña? ***(Indique todos los que aplican)***

___[8] Ninguna
___[9] Participa en la elaboración del producto
___[10] Compra de materia prima
___[11] Vende o mercadea el producto
___[12] Mantiene la contabilidad
___[13] Cuida el taller (tienda, puesto, etc.)
___[14] Otro (especificar) _____

_____[15] ***(También, si la respuesta es "sí")*** ¿Este trabajo o ayuda de su cónyuge es permanente ___(1), parcial ___(2), o por temporada ___(3).

_____[16] ¿Trabaja o ayuda alguno de sus hijos en las actividades de este negocio, o en forma permanente o parcial? NA ___(0), si ___(1), no ___(2).

(Si la respuesta es "sí", que algún niño ayuda) ¿Cuáles cargas o funciones desempeña? ***(Indique todos los que aplican)***

____[17] Ninguna
____[18] Compra de materia prima
____[19] Participa en la elaboración del producto
____[20] Vende o mercadea el producto
____[21] Mantiene la contabilidad
____[22] Cuida el taller (tienda, puesto, etc.)
____[23] Otro (especificar) _____

_____[24] ***(También, si la respuesta es "sí")*** ¿Este trabajo es permanente ___(1), parcial, como cuando no tiene que asistir a la escuela ___(2), o por temporada ___(3).

D.2. Empleo No-Familiar

_____[25] ¿En esta empresa trabajan también personas ajenas a la familia? sí ___(1); no ___(2).

Si la respuesta es "sí", consiga los siguientes datos. Si la respuesta es "no," pase a la seccion E.

Número que trabaja:

A Tiempo Completo	A Tiempo Parcial o Ocasional
_____[26] Hombres	_____[27] Hombres
_____[28] Mujeres	_____[29] Mujeres

_____[30] ¿Diría usted que es facil ___(1) o dificil ___(2) conseguir mano de obra calificada?

En total, incluyendose a usted y sus familiares y también trabajadores no-familiares, ¿Cuántas personas trabajan a tiempo completo en este negocio actualmente?

_____[31] Hombres
_____[32] Mujeres

Y ¿más o menos cuantas personas, incluyendose a usted y sus familiares y también trabajadores no-familiares, trabajan a tiempo parcial -- o en epocas especiales o cuando hay mucho trabajo?

_____[33] Hombres
_____[34] Mujeres

_____[35] ¿Puede estimar cuánto paga normalmente en total cada mes en sueldos o jornales a sus empleados? _____ sucres

E. ACTIVOS

_____[1] Este local donde trabaja, ¿Es de su propiedad ___(1), es alquilado o arrendado ___(2), o solo se utiliza sin costo ___(3).

_____[2] ¿Aproximadamente cuánto valen los activos que tiene invertido en el negocio, si, por ejemplo tuviera que venderlos, cuánto valdrían?

_____ Valor del edificio, almacen, etc.
_____ Muebles
_____ Herramienta y equipos
_____ Vehículo
_____ Inventario
_____ Otro
_____ Total (en sucres)

_____[3] ***(El encuestador debe responder a esta pregunta según su propio juicio; no la presente como pregunta directa.)*** ¿En qué estado se encuentran los activos fijos que tiene? Muy bueno ___(1); bueno ___(2); regular ___(3); malo ___(4); malisimo ___(5).

F. INSUMOS (MATERIA PRIMA)

_____4 ¿Es fácil ___(1) o difícil ___(2) conseguir la materia prima que necesita?

_____5 La mayor parte de la materia prima que utiliza en su negocio ¿Es: Local, nacional ___(1); importada legalmente ___(2); de contrabando ___(3); N/A ____(0).

_____6 ***Si tiene materia prima importada, pregúntele:*** En cuanto a materia prima importada, ¿que porcentaje del costo de la materia prima corresponde a tarifas de importación?
(0) No sabe
(1) No es aplicable, no importa materias primas
(2) 0 a 20%
(3) 21 al 40%
(4) 41 al 60%
(5) 61 al 80%
(6) Mas de 80%

_____7 ¿Se puede importar materias primas en caso de que no haya en el país?
(0) No Sabe
(1) Si, es posible
(2) No, es dificil
(3) No es aplicable

_____8 ¿La materia prima que usted utiliza para elaborar su producto es suya ____(1) o comprada de otros ____(2)?

_____9 ¿Cómo considera usted la calidad de la materia prima que utiliza? No aplica, la suministra el cliente ___(0); No sabe, no opina ___(1); Buena ___(2); Regular ___(3); Mala ___(4).

G. PRODUCCION, VENTAS y MERCADEO

_____1 ¿Cómo han sido las ventas durante este año (1990) comparado con las del año pasado (1989)?
(0) NA, recién creada
(1) No opina, no sabe
(2) Han aumentado mucho
(3) Han aumentado un poco
(4) No ha habido cambio
(5) Han disminuido un poco
(6) Han disminuido mucho

_____2 ¿Cómo están sus ventas en relación con otras personas de esta localidad? ***(Nota: quizás haya que modificar las palabras un poco para incluir también a servicios)***
(0) No sabe
(1) Soy el único productor (vendedor) de este tipo en esta localidad
(2) Vendo más que cualquier otro negocio del mismo tipo en esta localidad
(3) Vendo igual que lo demás negocios de este tipo en la localidad
(4) Vendo menos que lo demás negocios de este tipo en la localidad

_____3 Las ventas de su negocio, ¿son más o menos constantes durante todo el año, o varían bastante de mes a mes o según la temporada?
(1) Constantes
(2) Varían

(Si dice que varían, hagale las siguientes tres preguntas; si no, pase a la pregunta No. 5)

¿En que meses son más altas las ventas? _____

Y ¿en que meses son más bajas las ventas? _____

_____[4] ¿Y qué hace usted en las épocas de ventas bajas?
(0) No sabe
(1) Prepara productos para la venta
(2) Mercadea o hace promoción
(3) Produce otro artículo
(4) Trabaja para otra persona o compañia
(5) Tiene otro negocio
(6) No tiene trabajo
(7) Otro _____

_____[5] ¿Cuánto estima que es su promedio mensual de ventas?
_____ sucres

_____[6] ¿Cuál fue el monto total de sus ventas durante el año pasado (1989)?

_____[7] ¿Existe buen mercado aquí para sus productos o servicios?. Es decir, ¿podria vender más si tuviera más producción o producto? ¿Cuál de las siguientes frases describe mejor sus posibilidades?
(1) Podría vender mucho más si tuviera más producto
(2) Quizas podría vender un poco más, pero no mucho
(3) Creo que no podría vender más, el mercado es limitado

_____[8] ¿Quién es el principal comprador de sus productos?
(1) Público
(2) Minoristas
(3) Mayoristas
(4) Otra empresa o negocio, bajo contrato
(5) Gobierno
(6) Instituciones
(7) Exportadores
(8) Otro _____

Si vende a más de uno de estos, indica cual es la segunda, y hasta tercera, por orden de importancia)
_____[9] Segunda
_____[10] Tercera

_____[11] ¿Participa su empresa en una forma directa o indirecta en la exportación? ¿En qué forma?
(0) No Sabe
(1) No, ninguna relación con la exportación
(2) Exporta directamente, o por medio de su cooperativa o asociación
(3) Vende servicios a otras empresas que exportan
(4) Produce materia prima que se utilize en productos destinados a la exportación
(5) Otro:_____

_____[12] ¿Tiene usted alguna idea de como se podría hacer factible la exportación de sus productos?
(1) No, no es factible porque el producto suyo no es exportable
(2) No, no tiene ninguna idea de como se podría hacer factible aunque tiene productos que podrían venderse
(3) Si, vendar a otros productores un producto terminado
(4) Si, sub-contratos con firmas más grandes para producir componentes de productos para ensamblar
(5) Otro: _____

_____[13] ¿Cuál es el factor que más le restringe en el campo de las exportaciones?
(0) No Aplicable
(1) Falta de información sobre posibilidades
(2) Falta de crédito para expandir
(3) Falta de administración gerencial
(4) Falta de operación o producción
(5) Burocracia u otro impedimiento similar
(6) Calidad del producto
(7) Otro: _____

_____[14] ¿Hay compañías que compran productos como los suyos bajo contrato, o para reventa o para usar en su propia producción? si ___(1); no ___(2).

(Si dice que sí, prosiga con la siguiente pregunta; si dice que no, pase a la pregunta No. 17)

_____[15] ¿Tiene contractos para vender a estas empresas? Sí ___(1); no ___(2). ***Si dice que no, pregúntele***

_____[16] ¿Por qué no?
(1) No Sabe
(2) No tiene contactos
(3) Calidad del producto
(4) No puede producir suficiente
(5) Hay mucha competencia
(6) Otro _____

_____[17] ¿Tiene problemas en vender todo lo que produce? Sí ___(1); no ___(2).

Si responde que "sí", pregúntele:

_____[18] ¿Cuál es el factor principal que le impide vender más?
(0) No sabe
(1) Falta de demanda
(2) Mucha Competencia
(3) Costo del producto
(4) Problemas de Calidad
(5) No sabe como venderlo
(6) Otro _____

_____[19] ¿Existe mucha ___(1), o poca ____(2) competencia en la venta de sus productos?

_____[20] ¿Con quién(es) compite principalmente?
(1) Grandes empresas nacionales
(2) Pequeños productores y vendedores locales
(3) Importadores legitimos
(4) Contrabandistas
(5) Otro _____.

_____[21] ¿Le afecta mucho el contrabando? Mucho ___(1), Regular ___(2), Poco ___(3), Nada ___(4), No Sabe ____(5).

_____[22] Tiene Ud. un plan de mercadeo?
(1) No es aplicable
(2) No, no tiene plan de mercadeo
(3) Si, plan muy informal y no escrito
(4) Si, un plan de mercadeo elaborado

_____[23] ¿Cómo determina el precio de sus productos o servicio?
(0) No sabe
(1) No es aplicable
(2) Precio fijado por el gobierno
(3) Todos venden al mismo precio
(4) Precios de acuerdo con el mercado y la competencia
(5) Por el costo del producto más ganancia deseada
(6) Otro_____

_____[24] ¿Cómo promociona su producto?
(0) No sabe
(1) No hace promoción
(2) Vendo pero no hay promoción formal; no hay promoción
(3) Promoción informal en la comunidad; clientes "corren la voz"
(4) Promoción informal (rótulos, etc.)
(5) Promoción formal (periódicos, radio)
(6) Promoción mediante un contrato
(7) Otro_____

_____[25] ¿Quién se encarga de la venta, mercadeo, transporte, y comercialización?
(0) No sabe
(1) El entrevistado hace todo
(2) El cónyuge hace estas tareas
(3) Un empleado específico se encarga
(4) Varias personas lo hacen, no hay tarea especifica

¿Qué es lo que más necesita para poder producir más (o para tener más producto)? ***(Acepta hasta tres respuestas. Es importante mantener el orden de importancia.)***

_____[26] Primera
_____[27] Segunda
_____[28] Tercera

(1) Crédito para capital de trabajo
(2) Crédito para activos fijos
(3) Más equipo
(4) Más espacio
(5) Mejor acceso a materia prima
(6) Más mano de obra
(7) Ayuda para mejorar la técnica
(8) Capacitación
(9) Asesoría o asistencia técnica
(10) Otro: _____

H. INGRESOS Y UTILIDADES

_____[1] ¿Cómo compara los ingresos que recibió de la empresa durante este año (1990) con los obtenidos en el año pasado (1989)? Diría usted que eran: Mucho mayores ____(1); mayores ___(2); más o menos igual ___(3); menores ___(4); mucho menores ___(5), NA, por ser nuevo ___(0).

(Si dice que eran mayores o menores, pregúntele):

_____[2] ¿En qué porcentaje?

_____[3] ¿Cómo considera lo que usted gana en su negocio en relación al trabajo o esfuerzo que hace? No sabe ___(0); Es poco ___(1); Es justo ___(2); Es mucho ___(3).

_____[4] ¿Cree usted que este negocio le da mejores ____(1) o peores ___(2) ingresos de lo que podría ganar en un puesto remunerado?

_____[5] ¿Esta operando actualmente con ganancia ___(1) o perdida ___(2)?

_____[6] ¿Más o menos cuáles son las ganancias o perdidas promedio de esta empresa? _____ sucres por mes.

_____[7] ¿Cómo compara las utilidades durante 1990 con las obtenidas en el 1989? Diría usted que eran: NA, nueva empresa ___(0); Mucho mayores ____(1); Mayores ___(2); más o menos igual ___(3); menores ___(4); mucho menores ___(5), No sabe/no responde ___(6).

(Si dice que eran mayores o menores, pregúntele):

_____[8] ¿En qué porcentaje?

I. PERCEPCION DE PROBLEMAS

_____[1] ¿Cuál es el mayor problema que confronta su negocio -- el problema que más le impide realizar sus metas con la empresa? ***(Nota: esta respuesta tiene que ser codificada después)*** _____

_____

_____

_____[2] ¿Le afecta mucho a su negocio el tipo de cambio? ¿Diría usted que:

(0) No Sabe
(1) Perjudica mucho
(2) Perjudica un poco
(3) Realmente no afecta, o no sabe
(4) Ayuda un poco
(5) Ayuda mucho

_____ 3 ¿Le afecta mucho a su negocio las tasas de interés? ¿Diría usted que:
(0) No Sabe
(1) Perjudican mucho
(2) Perjudican un poco
(3) Realmente no afecta, o no sabe
(4) Ayudan un poco
(5) Ayudan mucho

_____ 4 ¿Tiene problemas en conseguir materia prima? ¿Diría usted que:
(0) No Sabe
(1) Es problema sumamente grave
(2) Es problema bastante serio
(3) Es problema poco serio
(4) Realmente no importa
(5) NA

_____ 5 ¿Le afecta mucho a su negocio el código laboral? ¿Diría usted que:
(0) No Sabe
(1) Perjudica mucho
(2) Perjudica un poco
(3) Realmente no afecta
(4) Ayuda un poco
(5) Ayuda mucho
(6) No lo conoce

_____ 6 ¿Tiene problemas con el transporte? ¿Diría usted que:
(0) No Sabe
(1) Es problema sumamente grave
(2) Es problema bastante serio
(3) Es problema poco serio
(4) Realmente no es problema

_____ 7 ¿Le afectan mucho a su negocio las restricciones que pesan sobre las importaciones? ¿Diría usted que:
(1) Perjudica mucho
(2) Perjudica un poco
(3) Realmente no afecta
(4) Ayuda un poco
(5) Ayuda mucho
(6) No las conoce

_____ 8 ¿Tiene usted dificultad para conseguir divisas para compra de materia prima o mercadería? ¿Diría usted que:
(0) No Sabe
(1) No se aplica, no necesita divisas
(2) Es problema sumamente grave
(3) Es problema bastante serio
(4) Es problema poco serio
(5) Realmente no es problema

_____ 9 ¿Le afectan mucho a su negocio los trámites administrativos que usted tiene que hacer para cosas tales como pagar cuentas, conseguir licencias, pagar cargos, asentamientos u otros impuestos, etc.? ¿Diría que:
(0) No Sabe
(1) Es problema sumamente grave
(2) Es problema bastante serio
(3) Es problema poco serio
(4) Realmente no es problema
(5) No aplicable

_____ 10 ¿Tiene algun problema en conseguir los permisos necesarios? ¿Diría usted que:
(0) No Sabe
(1) Es problema sumamente grave
(2) Es problema bastante serio
(3) Es problema poco serio
(4) Realmente no es problema
(5) No aplicable

_____ 11 ¿Le afecta mucho a su negocio el sistema de impuestos? ¿Diría usted que:
(1) Es problema sumamente grave
(2) Es problema bastante serio
(3) Es problema poco serio
(4) Realmente no es problema
(5) No paga impuestos, no los conoce

_____[12] Reconociendo que los impuestos son un mal necesario, ¿creé usted que el actual sistema tributaria es justo? Si ___(1); no ___(2); no opina ___(3).

_____[13] ¿Tiene usted dificultad para <u>conseguir capital de trabajo</u>? ¿Diría usted que:
(0) No Sabe
(1) Es problema sumamente grave
(2) Es problema bastante serio
(3) Es problema poco serio
(4) Realmente no es problema

_____[14] ¿Tiene usted dificultad para <u>conseguir capital para activos fijos</u>? ¿Diría usted que:
(0) No Sabe
(1) Es problema sumamente grave
(2) Es problema bastante serio
(3) Es problema poco serio
(4) Realmente no es problema

_____[15] De los problemas que acabamos de mencionar, ¿cuál es el que le perjudica más a usted como empresario?

(1) Tipo de cambio
(2) Tasas de interés
(3) Falta de materia prima
(4) Controles sanitarios
(5) Código laboral
(6) Transporte
(7) Restricciones sobre importaciones
(8) Obtención de divisas
(9) Trámites administrativos
(10) Conseguir permisos
(11) Sistema de impuestos
(12) Capital de trabajo
(13) Capital para activos fijos
(14) Otro: _____

_____[16] ¿Cuál de estas es la segunda en importancia?
_____[17] ¿Y la tercera?

_____[18] ¿Está su negocio debidamente legalizado (registrado en la municipalidad, registrado en el impuesto a la renta, inscrito en seguro social y con número del RUC?)
Sí ___(1); no ___(2).

Si la respuesta anterior es "no" -- que no está legalizado -- pregúntele la siguiente:

_____[19] ¿Cuál es el motivo principal por el cual ha decidido no registrar su negocio?
(1) No ve la necesidad, no ve ningún beneficio
(2) No se le ocurrió
(3) El trámite es demasiado dificil
(4) El trámite cuesta demasiado
(5) No conviene tener que someterse al código de trabajo
(6) Tendría que pagar impuestos más altos
(7) Otro_____

_____[20] Segundo motivo _____[21] Tercer motivo

J. OPTIMISMO/PESIMISMO

_____ 1 En general ¿cuán satisfecho está usted con este negocio? ¿Diría que está:
(1) Muy satisfecho, anda muy bien
(2) Satisfecho, anda bastante bien
(3) Anda regular, ni bueno ni malo
(4) Insatisfecho, anda un poco mal
(5) Muy insatisfecho, anda bastante mal

_____ 2 Si tuviera usted la posibilidad, ¿cuál de las siguientes cosas haría usted?
(1) Abandonar este negocio e ir a trabajar en una compañia
(2) Abandonar este negocio y formar uno nuevo
(3) Continuar con este negocio tal como está
(4) Ampliar este negocio

_____ 3 ¿Cuál cree que va a ser el futuro de este negocio? Cree que va a ser muy bueno, que crecerá mucho ____(1); cree que va a ser regular, y quedar más o menos tal como está ahora ___(2); o cree que andará mal ___(3).

¿Que es lo que más necesita para ampliar su negocio?

_____ 4 Lo más necesario
_____ 5 Segunda en importancia
_____ 6 Tercera en importancia

(1) Acceso a materia prima
(2) Acceso a capital de trabajo
(3) Acceso a capital para activos fijos
(4) Acceso a nuevas técnicas
(5) Más conocimientos técnicos
(6) Capacitación en asuntos de negocios
(7) Apoyo técnico a través de un experto
(8) Asesoría
(9) Otro _____

_____ 7 En general, ¿piensa usted que tiene necesidad de entrenamiento para mejorar su empresa? No Sabe ___(0); sí ___(1); no ___(2)

(Si la respuesta es No, entonces prosiga con la pregunta No. J.13)

_____ 8 ¿Qué tipo de entrenamiento le ayudaría más en su empresa?
(0) No Sabe
(1) Contabilidad
(2) Administración General
(3) Producción
(4) Comercialización y Mercadeo
(5) Uso de Crédito; relaciones con financieras
(6) Manejo de la empresa
(7) Adquisición de suministros
(8) Leyes, regulaciones
(9) Otros: _____

_____ 9 ¿Qué tipo de entrenamiento es más apropriado para Ud? ***(Lea las opciones)***
(0) No Sabe
(1) Curso formal, corta duración, la misma afinidad
(2) Curso formal, corta duración, grupos mixtos
(3) Curso formal. larga duración, más de 80 horas
(4) Curso informal, esporádico
(5) Otro: _____

_____ 10 ¿Está usted dispuesto a pagar por este entrenamiento? No sabe ___(0); sí ___(1); no ___(2)

_____ 11 ¿Conoce usted a otra persona que haya recibido entrenamiento ultimamente y que ha manifestado que el entrenamiento ha ayudado para el mejoramiento de su empresa? No Sabe ___(0); sí ___(1); no ___(2)

_____ 12 En su opinión, ¿el entrenamiento debería estar relacionado con la asistencia técnica? O sea, debería tener uno u el otro, o los dos conjuntamente?
(0) No Sabe
(1) Solamente entrenamiento
(2) Los dos en relación y conjuntamente
(3) Solamente asistencia técnica

(J.13 Para las siguientes preguntas, indique al entrevistado que no precisa que sea él mismo quien tenga que llevar los libros. Puede ser otra persona, el programa, u otro.)

¿Lleva registros contables? Específicamente:

_____13 ¿Mantiene libro mayor? Sí___(1); no ___(2).

_____14 ¿Mantiene lista de ingresos y egresos (libro diario)? Sí___(1); no ___(2).

_____15 ¿Mantiene estados financieros (balances y resultados)? Sí___(1); no ___(2).

_____16 ¿Elabora planilla o recibo de pago de empleados? Sí ___(1); no ___(2).

K. PARTICIPACION EN MERCADOS FINANCIEROS

_____1 ¿Cómo acostumbra pagar por las materias primas que utiliza en fabricar su producto (o, en caso de un vendedor) que vende?
(0) NA
(1) Paga por adelantado
(2) Paga al contado
(3) Paga después, en fecha determinada
(4) Paga después de vender el producto
(5) Paga cuando tiene suficentes rentas
(6) Otro: _____

_____2 Los vendedores que le abastecen de insumos o materiales ¿acostumbran darle un plazo para pagarlos?
(0) No applicable
(1) Sí, frequentemente
(2) Raras veces
(3) Casi nunca

Durante el último año, ¿solicitó un préstamo por cualquier motivo, como para gastos familiares, uno de los siguientes motivos? *(Sí=1, No=2)*
_____3 Cosas personales (bienes, ropa, etc.)
_____4 Gastos familiares (médicos, ropa, educación, etc.)
_____5 Negocio

_____6 ¿Durante el último año (digamos, 1989 y 1990), ¿ha solicitado usted un credito (prestamo) para su negocio ante alguna de las siguientes instituciones o programas?

CUADRO A

¿Solicitó? sí=1,no=2	Institución o Programa	(Si solicitó) ¿Le fue concedido? (sí=1, no=2)
7	1. Un banco comercial	8
9	2. Un banco del estado (como el Banco de Fomento, Corporación Financiera Nacional)	10
11	3. Una cooperativa de ahorro y crédito	12
13	4. Otro tipo de cooperativa	14
15	5. Un programa o proyecto especial para microempresas	16
17	6. Otro programa o proyecto del gobierno	18
19	7. Otro	20

(Si no ha recibido un crédito de ninguna de estas fuentes, pase a la pregunta del Cuadro B)

_____21 En caso de haber más de un crédito, ¿Cuál de estos fue el crédito más importante? *(Use el número que corresponde a la institución del cuadro A.)*

_____22 ¿Cuál fue el monto de este préstamo, en sucres?

_____[23] ¿Qué opina usted del monto del crédito que recibió? Ha sido:
(1) Adecuado a sus necesidades
(2) Inadecuado a sus necesidades

_____[24] ¿Cuál fue el motivo principal para este préstamo?
(1) Comprar materia prima (o productos a vender)
(2) Comprar servicios
(3) Pagar otras deudas
(4) Pagar empleados
(5) Comprar equipos o herramientos
(6) Aumentar inventario
(7) Comprar o alquilar local
(8) Otro _____

_____[25] ¿Cuántas visitas tuvo que hacer a la oficina de esta institución para conseguir el crédito? _____número

_____[26] ¿Tuvo que asistir a un curso de orientación o capacitación para poder conseguir el crédito? Sí ___(1), no ___(2).

_____[27] ¿Tuvo que pagar algo para conseguir el crédito? ¿Cuánto tuvo que pagar? _____ (monto)

_____[28] ¿Tuvo que abrir una cuenta de ahorros para conseguir el crédito? Sí ___(1), no ___(2)

_____[29] ¿A que plazo se concedió el préstamo? _____ (dias, semanas, meses) ***(Convierta a meses)***

_____[30] ¿Qué opina usted del plazo de los créditos que ha recibido? Han sido:
(1) Adecuados a sus necesidades
(2) Demasiado corto para sus necesidades

_____[31] ¿Cuánto tuvo que pagar por intereses? ***(Hay que convertir la cifra a un porcentaje anualizado)***

_____ (monto) que pagó por intereses
o
_____ (porcentaje -- indicar si fue por el plazo del préstamo __; o por día ___; o por semana ___; o por mes ___; o por año ___)

_____[32] ¿Qué opina usted de las tasas de interés que le están cobrando? Cree que son: más altas que las que están cobrando otros ___(1); Justas ___(2); más bajas que las que están cobrando otros ___(3).

¿Durante el último año (digamos 1989 y 1990) ha recibido usted créditos, adelantos u otra facilidad para postergar pagos por parte de una de los siguientes fuentes, para uso en su negocio?

CUADRO B

	Indicar la Frecuencia		
	Frecuentemente (1)	Raras Veces (2)	Nunca (3)
[33] 1. Prestamista			
[34] 2. Parientes/Familia			
[35] 3. Amigos/Vecinos			
_____[36] 4. Los vendedores que le venden insumos o materia prima, y que cobran después			
_____[37] 5. Sus clientes, que le pagan por adelantado			
[38] 6. Otro:			

(Si no ha recibido un crédito de ninguna de estas fuentes, pase a la pregunta 46)

_____[39] En caso de haber más de un crédito (no incluye adelantos), ¿Cuál de estos fue el crédito más importante? ***(Use el número del Cuadro B que corresponde a la fuente del crédito.)***

_____[40] ¿Cuál fue el monto de este préstamo, en sucres?

_____[41] ¿Cuál fue el motivo principal para este préstamo?
(1) Comprar materia prima (o productos para la venta)
(2) Comprar servicios
(3) Pagar otras deudas
(4) Pagar empleados
(5) Comprar equipos o herramientos
(6) Incrementar inventario
(7) Comprar o alquilar local
(8) Otro _____ _____

_____[42] ¿Tuvo que pagar algo para conseguir el crédito? ¿Cuánto tuvo que pagar? _____ (monto)

_____[43] ¿A que plazo se concedió el préstamo? _____(número)

_____[44] ¿Esto fué en dias ___(1), semanas ___(2), meses ___(3), años ___(4)?

_____[45] ¿Cuánto tenía que pagar de intereses? ***(Explique exactamente como se calcularon cuanto tenía que pagar — por ejemplo, si le prestaron cinco hoy y tenía que pagar seis al fin del día. La respuesta se codifica después.)***

_____[46] ¿Cuánto cree usted que necesita en crédito para hacer funcionar bién su negocio? _____ sucres

_____[47] Si se ofreciera un programa que tuviera un límite en los prestamos que podría otorgar, de digamos, S/.300 mil, ¿qué opina usted de tal limite?
(1) Sería suficiente para cubrir mis necesidades de crédito
(2) Sería poco, tendría que sufrir bastante
(3) Sería muy poco, tendría que buscar recursos de otra fuente
(4) No valdría la pena buscar fondos del proyecto

_____[48] Durante este año, ¿ha prestado dinero a cualquier otra persona, como un pariente, un vecino, o un cliente, permitiendo que le devuelve la plata después? si ___(1); no___(2)

¿Tiene depositos o ahorros en alguna institución financiera? Por ejemplo, ¿tiene ahorros en:

_____[49] un banco? si___(1); no ___(2)
_____[50] una mutualista? si___(1); no ___(2)
_____[51] una financiera? si___(1); no ___(2)
_____[52] una cooperativa de ahorro y crédito? si___(1); no ___(2)
_____[53] otra institución? si___(1); no ___(2)

¿Tiene ahorros depositado con un pariente, un conocido, un prestamista, o alguién másu otra? Por ejemplo, ¿tiene ahorros con:

_____[54] un pariente? si___(1); no ___(2)
_____[55] un conocido? si___(1); no ___(2)
_____[56] un grupo de ahorros? si___(1); no ___(2)
_____[57] otra? si___(1); no ___(2)

_____[58] ¿Tiene cuenta corriente (con cheques) en alguna institución financiera? si___(1); no___(2).

L. APOYO INSTITUCIONAL

_____[1] ¿Há recibido usted ayuda a manera de de asistencia técnica, asesoria, capacitación o crédito de cualquier organizacion Sí ___(1); no ___(2).

_____[2] *(De no haber recibido asistencia en forma alguna)* ¿Por qué no ha recibido asistencia o participado en los programas que ofrecen estas instituciones?
(0) No sabe, no opina
(1) Ha tratado de conseguir ayuda pero no le han aceptado
(2) No conoce los programas
(3) No ve la necesidad de buscar ayuda
(4) No confía en estas instituciones
(5) No se siente calificado
(6) No vale la pena, no percibe ningún beneficio
(7) No tiene tiempo
(8) Otro, _____

(De no haber recibido asistencia en forma alguna, PASE A LA SECCION M. OPINIONES)

_____[3] ¿Há recibido asistencia de alguna de las siguientes instituciones?

(1) INSOTEC-AID	(12) BCO. PACIFICO	(23) HUANCAVALICA
(2) INSOTEC-OTRO	(13) FUND. GUAYAQUIL	(24) ROCAFUERTE
(3) CIPEP	(14) IGLESIA CATOLICA	(25) FUMICRO
(4) FUNQUEVEDO	(15) CFN	(26) UNIV. CATOLICA
(5) FUNDESCOL	(16) CEPESIU-CTE	(27) FUNDAUSTRO
(6) FED	(17) BNF	(28) CENAPIA
(7) CONAUPE-ONGs	(18) FUNEC/CREA/SECAP	(29) FADEMI
(8) FEE	(19) BCO. POPULAR	(30) FUNDESA
(9) UNEPROM	(20) CORFE	(31) FUNDIEMPRESA
(10) FUNHABIT	(21) SIMON BOLIVAR	(99) NO DATA
(11) FUND. AUSTRAL	(22) QUITUS	

L.1. Capacitación o Entrenamiento

_____[4] ¿Há recibido usted entrenamiento ultimamente en relación con la empresa? No Sabe ___(0); sí ___(1); no ___(2)

(Si responda sí, continua en las preguntas siguientes. En caso negativo, prosiga con la pregunta No. 13 en la página 16)

_____[5] ¿Qué clase de entrenamiento ha recibido?
(1) Producción
(2) Mercadeo
(3) Ventas
(4) Contabilidad
(5) Administración Gerencial
(6) Técnica en la empresa (metalmecanica, procesamineto del producto, etc.)
(7) Uso de crédito
(8) Otros
(9) No sabe, pero sí recibio

_____[6] ¿Cuánto tiempo duró el entrenamiento?
(0) No sabe
(1) 10 horas o menos
(2) 11 a 20 horas
(3) 21 a 3o horas
(4) 31 a 50 horas
(5) 51 a 80 horas
(6) Más de 80 horas

_____[7] ¿Qué opina usted de los cursos de capacitación que ha recibido? Que han sido:
(0) No Sabe
(1) Muy buenos
(2) Buenos
(3) Regulares
(4) Deficientes
(5) Muy deficientes

_____ 8 ¿Cuál materia le gustó más?
(0) No sabe
(1) Contabilidad
(2) Mercadeo y Ventas
(3) Manejo de Crédito
(4) Relaciones humanas
(5) Aspectos Legales
(6) Otro: _____

_____ 9 En general, con relación a nueva <u>información</u>, ¿considera que recibió nueva información en el entrenamiento? ¿Diría que recibió:
(0) Nada nuevo
(1) Poco novedoso
(2) Algo nuevo
(3) Bastante nuev
(4) Muchisimo nuevo
(5) Totalmente nuevo

_____ 10 ¿Há podido poner en práctica lo que aprendió en los cursos? ¿Diría que ha puesto en práctica:
(1) Todos los conceptos que aprendió
(2) La mayor parte de los conceptos que aprendió
(3) Algunos de los conceptos
(4) Ninguno de los conceptos que aprendió

_____ 11 ¿Podría darnos algunos ejemplos de como está poniendo en práctica lo que aprendió en el entrenamiento? ***(Escriba aquí las respuestas, se codificaran después.)***

_____ 12 En su opinión, ¿vale la pena recibir el entrenamiento tomando en cuenta el costo del entrenamiento y su tiempo? Repetiría otra vez?
(0) No sabe, No Responde
(1) No, no vale la pena; no repetiría
(2) Sí, vale la pena un poco
(3) Sí, vale la pena algo
(4) Sí, vale la pena bastante
(5) Sí, vale la pena muchisimo
(6) Sí, vale la pena todo

_____ 13 En su opinión, ¿debe ser el entrenamiento un <u>requisito</u> para recibir el crédito? No sabe ___(0); sí ___(1); no ___(2)

_____ 14 ¿Hay alguna barrera que le impida recibir el entrenamiento que usted necesita?
(0) No Sabe
(1) Disponibilidad de tiempo
(2) Costo de entrenamiento
(3) No hay entrenamiento disponible
(4) Entrenamiento disponible no es aplicable
(5) Otro: _____

L.2. Asistencia Técnica o Asesoría

_____ 15 ¿Há recibido usted asistencia técnica de alguna forma en su empresa ultimamente? No Sabe ___(0); sí ___(1); no ___(2)

(Sí responda que sí, continua en las preguntas siguientes. En caso contrario prosiga con la pregunta No. 21 en la página 17)

_____ 16 ¿Qué tipo de asistencia técnica o consultoría ha recibido ultimamente?
(0) No Sabe; pero sí recibió
(1) Producción
(2) Mercadeo
(3) Ventas
(4) Contabilidad
(5) Administración Gerencial
(6) Técnica en la materia
(7) Entrenamiento práctico en la materia
(8) Otros

_____[17] En su opinión, ¿cuál fue el resultado de la asistencia técnica o consultoría?
(0) No Sabe
(1) Malo
(2) No muy bueno
(3) Algo bueno
(4) Bastante bueno
(5) Excelente

_____[18] ¿Cómo se siente usted con la assistencia técnica que ha recibido? ¿Diría que ha sido:
(1) Muy satisfecho
(2) Satisfecho
(3) Ni satisfecho ni insatisfecho
(4) Insatisfecho
(5) Muy insatisfecho
(0) No sabe contestar

_____[19] En general, en relación con nueva <u>información</u>, ¿considera usted que recibio nueva información en la asistencia técnica?
(0) Nada nuevo
(1) Un poco nuevo
(2) Algo nuevo
(3) Bastante nuevo
(4) Muchisimo nuevo
(5) Totalmente nuevo

_____[20] En su opinión, ¿vale la pena recibir la asistencia técnica tomando en cuenta el costo de la misma y su duración? Repetiría otra vez?
(0) No sabe
(1) No, no vale la pena; no repetiría
(2) Sí, vale la pena un poco
(3) Sí, vale la pena algo
(4) Sí, vale la pena bastante
(5) Sí, vale la pena muchisimo
(6) Sí, vale la pena todo

_____[21] En su opinión, ¿debe ser la asistencia técnica un <u>requisito</u> para recibir el crédito? No sabe ___(0); sí ___(1); no ___(2)

_____[22] ¿Hay alguna barrera que le impida recibir la asistencia técnica que necesita?
(0) No Sabe
(1) Disponibilidad de tiempo
(2) Costo de la asistencia técnica
(3) No hay la asistencia técnica disponible
(4) Asistencia técnica disponible no es aplicable
(5) Otro: _____

M. OPINIONES

A continuación, Ud. encontrará una serie de observaciones, indique para cada una de ellas su grado de acuerdo o desacuerdo, así:

1 Totalmente en desacuerdo
2 En desacuerdo
3 No esta seguro o no sabe
4 De acuerdo
5 Totalmente de acuerdo

_____[1] Yo puedo cambiar mi empresa únicamente con más entrenamiento y/o asistencia técnica.

_____[2] Normalmente una persona debería pagar para recibir entrenamiento o asistencia técnica porque los beneficios son para la persona o su empresa.

_____[3] El gobierno tiene la obligación de ayudar a los micros y pequenas empresas con el entrenamiento y asistencia técnica porque tienen que competir con las empresas grandes.

_____[4] Yo puedo competir favorablemente con empresas medianas y grandes si es que estoy preparado y tengo mis propios planes.

_____[5] Yo tomo las decisiones en mi empresa con la información adecuado.

_____[6] Yo asumo riesgos en mi empresa cuando pienso que puede haber posibilidades de beneficio.

_____[7] Me gusta la gente que sigue la regla "Primero el trabajo, despues el placer".

_____[8] Mis problemas más grandes en la empresa se deben a mis propias decisiones.

_____[9] Me gusta competir y estoy dispuesto de hacerlo.

_____[10] Ultimamente he puesto en práctica un nuevo cambio en mi empresa que ha tenido resultados favorables.

Muchas gracias, queremos agradecerle por su gentil colaboración. Sabemos que ha sido una molestia de nuestra parte y estamos muy agradecidos. Ahora bien, tenemos interes en entrevistar a una o dos personas mas que son similares a usted -- el mismo negocio y tamaño de empresa -- pero que no hayan recibido ningun tipo de asistencia del programa. ¿Conoce usted a una o dos personas que trabajan por aquí cerca que podría recomendar? ¿Quiénes?

En caso de que tengamos que aclarar una cosa, ¿como podemos comunicarnos con usted?

_____[11] Nombre del Entrevistado

_____[12] Nómbre del negocio o de la empresa
(NA si no tiene nombre especial)

_____[13] Dirección Exacta de la Empresa
_____[14]

_____[15] Teléfono

APPENDIX D

BIBLIOGRAPHY

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BIBLIOGRAPHY

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