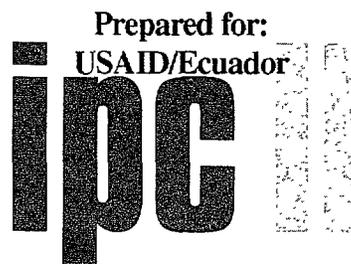

PROGRESS ASSESSMENT: POLICY DIALOGUE AND IMPLEMENTATION PROJECT

April 1996

Final Report



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PJ-ABY-737

Progress Assessment : Policy Dialogue and Implementation Project

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April 1996

Implementing Policy Change Project

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I. Introduction:

a. Purpose of the Assessment:

The purpose of this report is to assess the progress to date of the Policy Dialogue and Implementation Project (#518-0089) of USAID/ECUADOR. This project is the second phase of the now amended Policy Dialogue Support Project (#518-0089) completed in September, 1994. Although a common project, separate cooperative agreements and scopes of work were developed for the two main grantees: Fundación Ecuador and Instituto Centroamericano de Administración de Empresas (INCAE). The current project is just past its 18th month and is scheduled for completion in September, 1998.

The goal and purpose of the amended project remain essentially the same as the earlier project. The amendment adjusted the project design to account for progress in policy reform since the original authorization of the project. The amended project takes into account important reforms which remain to be addressed and brings the project into line with USAID's social and economic policies as expressed in Strategies for Sustainable Development (March, 1994). The approach of the amended project is to manage policy reform as a comprehensive process leading to actual implementation of policy reforms. The goal of the redesigned project is *to increase sustainable economic growth for a broad base of the population, through improved social, democratic, and economic policies.*

The report assesses the actions and progress to date of the two cooperative agreement grantees, INCAE and Fundación Ecuador over the past 18 months.

b. Methodology:

While each institution was assessed separately and by different investigators, the methodologies for assessing the two subject institutions followed similar patterns. This included review of relevant project documentation in both USAID and Grantee files, interviews with key personnel of each institution, USAID, and stakeholders or knowledgeable individuals about both the performance and impact of the project. Interviews were conducted with government officials, NGOs, private sector representatives, and representatives of other international organizations (UNDP, IADB, and the World Bank.).

Field work for the assessment of INCAE was carried out March 13-28, and March 18-29 for Fundación Ecuador. The assessment of INCAE was conducted by Benjamin L. Crosby of Management Systems International, and the assessment of the Fundación by Danilo Cruz, an independent consultant.

c. Organization of the Report:

Given the differences in the nature of the work, tasks, and styles between the two grantees, it was decided that with the exception of the introduction and last section, each grantee institution would be treated separately. Fundación Ecuador is examined first and then INCAE. Again, owing to differences between the grantees, the approach and areas examined for each vary. In general, however, impact and progress toward satisfying outputs and results of the project by each grantee is reviewed, and critical components of each cooperative agreement are examined. The last section of the report treats INCAE and the Fundación jointly. It reviews the nature and costs/benefits of coordination and collaboration between the two institutions and discusses opportunities and possible strategies for improvement. Recommendations are presented.

II. ASSESSMENT OF FUNDACION ECUADOR

1. Background:

The Fundación Ecuador (the "Fundación" or "FE") began operations in 1992 as a USAID - Ecuadorian private sector effort to promote investment and nontraditional exports.¹ Following significant changes in USAID's global development policies and in USAID/Ecuador Mission strategy, assistance to the Fundación was reoriented to bring it in to line with the new priorities.

This reorientation intended to: (1) minimize the Fundación's role in export and investment promotion; (2) focus the FE's attention on social sector policy -- specifically, *to raise the level of understanding and awareness (consciousness-raising) in Ecuador of social issues and problems and at advocacy of specific issues, e.g., social security, education reform, and decentralization;*² and (3) enhance the Fundación's "think tank" capacity, especially in the social sectors. A secondary but important objective was to increase coordination between the Fundación and other USAID-supported organizations, especially INCAE. The new orientation was reflected in the revised USAID Project Paper and in the Cooperative Agreement signed with the Fundación on January 1995.

The purpose of this assessment is to examine the Fundación's progress to date in meeting its revised objectives. It focuses on its development as a think tank undertaking social sector analysis, policy dialogue, and advocacy leading to social reforms. Specifically, the assessment addresses the Fundación's role in meeting USAID's Performance Indicators (SO 1, Results Package A: More

¹ Numerous documents provide extensive background on the origins of the Fundación Ecuador and its evolution since its inception, including the Policy Analysis and Implementation Support Project Amendment (1994), and evaluations/assessment undertaken in March and September 1994.

² Grant Agreement description (Attachment 2).

Efficient Investment in People; and Results Package B: Increased Opportunities and Participation by low-income groups in a growing market economy).

2. Objectives and Performance

A. Grant Agreement Mandate

The Cooperative Grant Agreement prescribes multiple and detailed objectives for Fundación Ecuador. In the case of social sector reform, the Agreement outlines Fundación interventions, inter alia, in the areas of education, health, social security, housing and infrastructure, labor, and municipal reform and decentralization. The Agreement also describes planned/expected Fundación activities in a broad range of additional categories. These include privatization, competitiveness, NAFTA accession and free trade, and intellectual property rights development. The Fundación was to continue its work in capital markets development, concessions (private sector assumption of activities usually carried out by the public sector, e.g., road construction/maintenance) and other economic growth activities. The Agreement also emphasizes microenterprise development, including FE assistance to sector NGOs. Finally, it recognized the Fundación's need to continue to focus on its institutional development, placing particular emphasis on the need to diversify its funding sources and move towards self-sufficiency.

B. Performance in Supporting USAID Objectives

B.1. Fundación Activities: Appendix 1 summarizes 1995 Fundación activities compared to USAID objectives, including those outlined in the Cooperative Grant Agreement.

As highlighted in the Attachment, the Fundación carried out an impressive number of activities (including seminar/workshops, publications, field trips, and channeling of international technical assistance). This comparison of objectives and outputs demonstrates the Fundación's full compliance with the Cooperative Grant Agreement mandate. Moreover, the Attachment highlights its support for USAID's SO-1 objectives -- both results Package A and B. Specifically, the Fundación led major initiatives in the social sectors, including education, social security, and decentralization reforms. It continued support for initiatives linked to important USG objectives such as the intellectual property rights.

The Fundación has made considerable strides in injecting social sector analysis, dialogue, and reform advocacy in its agenda since it initiated this new direction approximately a year ago. During the last year, it has dedicated the bulk of its resources (both financial and human) to the social sectors, especially education, social security, and health. Its largest effort, the \$5 million ProLabor program financed by the Inter-American Development Bank (IDB) focuses on employment and labor adjustment issues related to privatization. I

Support for microenterprise development is at the top of its agenda in the economic front. The Fundación assisted Corpomicro -- a leading Ecuadorian NGO supporting microenterprises -- in becoming a legal financial institution. It also arranged for visits by individuals active in the sector to visit the Bancosol model in Bolivia. Perhaps most importantly, it will assist the Superintendency of Banks develop a more efficient regulation framework for microenterprise lending.

The Fundación's funding sources (notably USAID) have been willing to finance primarily social sector activities. But discussions with its staff indicate a genuine enthusiasm for promoting social sector reforms -- especially linking sustainable economic growth to improved labor, health, and educational reforms. While some members of the Board opposed this new emphasis (and some still do), interviews with them also reveal a greater awareness between the aforementioned link and the role that the Fundación can play in promoting social reform.³

The Fundación also undertook non-USAID funded programs in investment promotion (Programa Bolivar) and public sector labor adjustment (ProLabor).

C. Impact

C.1. The Policy Reform Process: The Attachment (and this assessment) focuses on outputs and not quantitative indicators of Fundación efforts leading to specific reforms. This point deserves special mention.⁴

Policy reform is a long-term process which is difficult, if not impossible, to quantify over the short term. The promulgation of laws may be causally linked to the a specific technical assistance effort. Yet their passage often requires a long period of consciousness raising and national debate. Likewise, an apparently unsuccessful policy reform technical assistance or consciousness raising effort (lack of success measured in the non-passage of a specific law or regulation) may be an important and even crucial first or intermediate step in the policy reform process.

This is the case for any country, but it is especially so for Ecuador -- given its strong statist orientation that appears more resistant to change than that of its Latin American neighbors. The ability to provide a forum for exchanging ideas and information for Ecuadorian opinion leaders and policy makers represents an important Fundación contribution.⁵ Nonetheless, a

³ Indeed, convincing the Fundación's Board of the need for social sector reform -- given their visibility and influence in Ecuadorian society -- is in and of itself a substantive accomplishment.

⁴ Although Fundación efforts in 1994 *have* led to quantifiable reforms, including the Capital Markets and Concessions laws and regulations in which the Fundación played an important role.

⁵ The Fundación's 1995 program must be measured against the hostile economic and social environment facing Ecuador that year and its conductivity to major social reforms. During the year the country faced political crisis,

critical issue is the Fundación's ability to transform the analysis and dialogue process into quantifiable reforms and/or changes in public opinion.

C.2. Policy Reform in the Social Sectors: The Fundación cannot yet claim success in promoting specific social sector reforms. Nonetheless, other important institutions clearly perceive the Fundación as an agent of reform -- undoubtedly an important accomplishment. For example, following the debacle of the national referendum on reforms last fall, the GOE's National Modernization Council (CONAM) made the political decision to reduce its exposure/visibility in promoting social security reform.⁶ This decision could have proved to be a major setback for the reform process. Nevertheless, CONAM has requested the Fundación to continue its efforts in this area, including the provision of IDB financing for this undertaking. By continuing analysis and dialogue regarding pension reforms, the Fundación is playing an important role in keeping alive the debate on this important national issue. This example highlights the importance the Fundación as an agent of change -- and one capable of playing a role which public institutions cannot assume under some circumstances.

With assistance from the Academy for Educational Development and Research Triangle Institute (AED/RTI), the Fundación has undertaken a major educational reform initiative. The Fundación and AED/RTI have prepared diagnostic of Ecuador's educational system. The *Educational Crisis in Ecuador: Basis for Consensus* is reportedly highly regarded by leading Ecuadorian educational experts. Those interviewed outside the Fundación see it as an important contribution to the educational reform dialogue process. Its technical analysts are now in the process of disseminating findings through a presentation highlighting the study's major issues. The Fundación has been coordinating these efforts with other institutions involved in the sector, including the World Bank, the IDB, and INCAE. The Fundación is further contemplating an ambitious program of studies, workshops, and related activities in the educational sector.

The Fundación has also undertaken initiatives in health sector reform, women's and indigenous people's issues, and a host of other social sector issues. Educational reform and social sector issues are playing a greater role in the ongoing national political campaign (presidential and congressional) than in previous elections. While the Fundación alone is not responsible for this

an armed conflict with Peru, tight monetary policy leading to reduced economic growth, and the beginning of the 1996 presidential/congressional political season.

⁶ The national referendum consisted on ten questions regarding reforms -- from pensions to privatization -- to which the majority of the population voted 'no' or against the reforms. An optimist's view of the referendum is that the debate was a positive first step in a long-term process. Moreover, a very large percentage of the population (even if now a minority) voted for reforms, even though their discussion could easily be manipulated and 'demagogued,' e.g., social security reform means you could lose your pension. Finally, the province of Guayas, comprising the city of Guayaquil, Ecuador's largest concentration of population (approximately 40% of Ecuador's population) voted in favor of all the reforms (highlighting the cultural and attitudinal differences within Ecuador).

welcomed circumstance, it is clearly a leading Ecuadorian institution fomenting a constructive national debate.

C.3. Supply and Demand Based Reforms and FE:

Effectiveness: It is too early to *quantify* the impact of these initiatives and the role the Fundación as an agent of social sector reform. The ultimate success and impact of the Fundación -- beyond consciousness raising and initial analyses -- will depend on how it mobilizes its outreach capacity in the social sectors.

At this point, the Fundación's ability to move from analysis, to dialogue, and advocacy of reforms is more concrete in the economic than in the social sectors. This is not surprising given that: (1) the Fundación's Board of Directors and many of the organizations they represent are closely linked to economic and business groups and it is in economic issues where they have the most influence and competence; (2) the priority the GOE has traditionally given to economic initiatives; and (3) debate in the economic arena -- from macroeconomic to trade policy -- is far deeper and has been the subject of much greater attention than the social sectors. In the case of the latter, powerful interest groups (e.g., government unions) have not always been engaged in debate by advocates of reforms. In many instances these advocates do not carry a powerful voice with policy makers and/or their initiatives are not of high priority for government.

For example, in 1993-94 the Fundación provided valuable assistance in the passage of the Capital Markets and Concessions Laws. But it predicated its success on the high level of debate that had already occurred in past years. In addition, institutions and individuals associated with the Fundación played leading roles in these efforts. The Fundación's Deputy Director, for example, is the ex-President of the Quito Stock Exchange. Similarly, the Concessions Law was in large part shepherded by the Chamber of Construction of Guayaquil (with Fundación technical assistance). Its president is an active member of the Fundación's Board of Directors.

The above examples highlight the distinction between supply and demand based reform processes. "Supply" based reforms are "top/down" efforts in which analysis and/or international or regional experience demonstrates the advantages and need for specific reforms. "Demand" or "down/up" based reforms are those required or perceived as required by the primary beneficiaries of the reforms. It is usually not an issue of one being preferable over the other. Reform most often requires both.

A case in point is the Concessions Law. Extensive FE dialogue and dissemination of the world-wide and Latin American experience in concessions played a key role in gaining support for the law (supply side). At the same time, the Fundación made considerable efforts to generate demand for the reform among an important but initially skeptical beneficiary. These

included regional governments and powerful groups in the Ministry of Transportation. The Fundación's success as an agent of change stemmed in large part from its *access* to proponents of the reforms (construction companies, Chamber of Construction) and other beneficiaries (regional governments who need infrastructure but have no means to finance it through public funds).

This set of dynamics does not yet fully exist in the social sectors nor is the Fundación's outreach as extensive in this area. Its contacts and access to key middle and upper middle government and labor officials who can resist change -- and who *should* be involved in the dialogue process -- is much more limited. Fundación technicians are making inroads in this area through presentations and workshops to a wide array of groups. Given the Fundación's limited access to date, its success in enhancing national debate may depend on how effectively it develops this outreach capacity -- including the development of staff capable of engaging in technical dialogue with interest groups. The section below discusses this issue.

C.4. Coordination/Liaison with Development Partners: USAID lists the Fundación as an integral part of nearly all USAID SO 1 objectives (results package A and B), evidence of the perceived importance of the institution to USAID's strategy. Equally if not more important, the Fundación is playing an important role in coordination between USAID's development partners, such as engaging USAID-World Bank-IDB dialogue in educational improvements, as well as USAID-IDB-GOE coordination in the promotion of social security and pension reform. This coordination role may be one of the more valuable roles the Fundación can play.

3. FUNDACIÓN ECUADOR INSTITUTIONAL ASSESSMENT

A. Institutional Consolidation

The Fundación's institutional consolidation should be viewed from three perspectives: (1) legitimacy within Ecuador as an agent of reforms; (2) sustainability, or long-term institutional viability; (3) technical capacity to generate dialogue and advocate reforms.

A.1. Legitimacy:

Accomplishments: Fundación Ecuador appears to have gained institutional legitimacy. An important indication of this legitimacy is the non-USAID mobilized support from the GOE and IFIs and other institutions and groups. As noted above, CONAM recently sought the FE to continue the sensitive but important social security and pension reform process. CONAM also looks to the Fundación to provide it assistance in several areas, including privatization, IPR, and decentralization initiatives.

In 1995, the Fundación won a competitive tender (competing against leading international consulting firms) to implement IDB's \$5 million ProLabor Program. Aside from the prestige that implementing such a program brings to Fundación, it will also generate additional operational revenues (see below for additional discussion of this point) and involve the Fundación in an important area of economic and social reform: labor adjustments and retraining to make the reform process more acceptable and efficient. Pending the resolution of a legal issue regarding its cooperation with non-governmental organizations, the IDB is also planning to work with the Fundación in the continuation of its pension reform initiatives. The Andean Development Corporation has also entrusted its Bolivar Program (investment/technology promotion program) to the Fundación.

The Fundación's Board of Directors includes leading industrialists, bankers, and entrepreneurs. An initial concern of the Fundación Ecuador (expressed by the Fundación itself, as well as USAID staff and of Ecuadorians outside the Fundación) was that the institution would become the captive of a narrow group of individuals that would use it to pursue their own political and economic agenda. In large part due to judicious efforts by Fundación management, the institution has avoided this label. The Fundación has also reportedly avoided the tag of association with any one political group. Its assistance is increasingly sought by groups considered outside its normal constituency. For example, a labor and an indigenous group sought Fundación assistance in 1995, including a request for clarification of reform-related issues. Especially important in Ecuador, it has balanced Quito-Guayaquil interests, gaining strong support from representatives of both areas.

Continuing Requirements: The Fundación should continue to extend its base beyond its core constituency of private sector representatives. In particular, it should extend its outreach to leading representatives in the social sectors. For these groups, the Fundación needs to develop a succinct argument not only for why reforms are required, but why and how the Fundación can play a leading role in this behalf.⁷

A.2. Sustainability

Accomplishments: Since the previous (September 1994) evaluation, the Fundación has made significant improvements toward becoming a viable, sustainable institution. While this assessment does not encompass an administrative review, both USAID and Fundación staff agree that the Fundación has developed a solid capacity to account for and manage financial resources from USAID and other donors, including in-house contracting.

Importantly, the Fundación has also diversified its total funding base -- from almost total reliance in USAID eighteen months ago to a position where approximately 60% of funding now comes from other donors (with continued planned yearly reductions). The purchase of its

⁷ This type of argument may be implicit in its Education Diagnostic presentation but it should be explicit.

building in Guayaquil with its own resources has given the Fundación a sense of permanency that is instrumental in its institutional viability.

Continuing Requirements: In accordance with the strategy agreed upon with USAID, the Fundación continues to rely heavily (nearly exclusively through 1995) on USAID for salaries and other administrative expenses. It is imperative that the Fundación reduce this dependence as scheduled -- at a minimum. A major issue facing the Fundación is that its salary levels for its technical staff may not be fully in line with the Ecuadorian market. To the extent that an increase in salaries is required to retain key personnel -- and to the extent that no additional USAID salary support is forthcoming for this purpose -- the Fundación may have to accelerate its planned non-USAID salary budget.

Although the Fundación has developed an in-house contracting capacity, there are issues regarding its contracting methodologies with USAID. The Fundación should review with USAID its contracting procedures, particularly cases where high level Ecuadorian experts are required.

The Fundación is initiating efforts to establish a trust fund to provide recurring expense financing after termination of USAID funding. It should develop a clear strategy for obtaining financing for such a fund.

Finally, the Fundación needs to negotiate carefully any future contracts or the initiation of programs, ensuring that they contribute not just to its operation, but to the overhead costs of the Fundación, and therefore contribute to its overall financial viability. Overhead allocation on the ProLabor contract (less than \$100,000) appear to be extremely low. Some of these recovered overhead costs could contribute to a Fundación trust fund.

A.3 Technical Capability

Accomplishments: Despite financial constraints, the Fundación has established a technical department comprised primarily of young, dedicated and competent economists. This staff and Fundación management have been able to oversee a significant number of studies and analyses, most of which are considered very good. Although most of the technical team can be classified as generalists, staff members are developing specific skills (e.g., in education, microenterprise development), generating greater understanding of sector issues and increasing their ability to dialogue with international experts and national policy and opinion makers.

Continuing Requirements: The Fundación technical team appears overstretched. It also appears to require at least one strong macroeconomist. In addition to responsibility for their assigned areas of responsibility, team members are often shifted from one activity to the next (given the limited staff). The result is growing frustration on the part of the team members and

of the international technical assistance contractors that they support. This shifting also limits the capacity of team members to enhance their expertise in any one field.⁸

This lack of sector-specific expertise is particularly important in the social sectors. As noted earlier, economic reform dialogue could often be led by Board members or Fundación management. This is often not the case for social sector reform where the technical team must often take the lead in dialogue with international experts and sector representatives. Some Fundación Directors have expressed concern about "inexperienced" technical staff leading dialogue efforts on their behalf. While the Fundación will undoubtedly continue to rely on international or contracted technical experts, it is important to develop an in-house capability to address technical issues and ensure quality control and program direction (see discussion below).

An important issue that surfaced in discussions with groups outside the Fundación is quality control. While most Fundación documents are considered of high quality, less than satisfactory documents have been published or have had to be revised at the last minute. According to these groups, this is particularly an issue when local consultants have been used.

An informal review of one such example suggests that one principal problem is the absence of a detailed scope of work (describing methodology, sources of information to be used, final product outline, etc.). Some studies appear to be contracted to other organizations (in some cases "transferred", e.g., *Junta Civica de Guayaquil*) who in turn contract their own experts. This type of approach removes the Fundación too far from the study or analysis. It also results in the Fundación first reviewing a nearly complete product when its input may be too late. The Fundación must develop a formal quality control procedure in cases that involve its technical team, in addition to FE management.

B. The Fundación Ecuador as a Think Tank

The Cooperative Grant Agreement called for the Fundación to focus on its establishment as an independent "think tank." The most common association of such an institution is one comprised of leading experts, undertaking basic and applied research in their specific areas of expertise. The core issue in the establishment of such an institution is resources -- which must match expectations and objectives.

A think tank along the lines of that described above would require, at a minimum, the permanence of two or three top level specialized Ph.D.s, supported by a staff of Master's levels research assistants. Salary and budget would, of course, have to be commensurate with these technical requirements.

⁸ The recent addition of an experienced staff person to manage schedule functions should be helpful in relieving technical team members from some of these duties.

At the other extreme is a strict coordinator/pass through organization which provides administrative and limited technical support for contracted experts, particularly international technical assistance.

While the Fundación is not currently capable of undertaking most of its own research directly, (and its limited financial resources make this model unlikely in the future) it *is* capable of acting as more than a pass through (and indeed has played often a more substantive role). Development of this combined approach is important for the Fundación to mature as a think tank but must be done strategically and systematically.

A combination of the models described above requires something akin to the current cooperation with AED/RTI in education. AED/RTI experts have not only provided direct technical assistance in education, but have worked closely with Fundación staff in increasing their understanding of sector issues and their ability to disseminate information and dialogue with national experts. The key issue for the Fundación is *steady enhancement of its value added*.

Even in the above case, however, the Fundación's many technical requirements have required that staff be temporarily pulled from the project.

B.1. A Projectized Approach: A possible alternative for the Fundación -- given its limited resources -- is a "projectized" approach to individual reform initiatives. In this sense, the ProLabor program with the IDB provides a rough model. For example, in the case of education, the Fundación could obtain international or domestic funding to hire one or two additional *non-permanent* staff members that would dedicate themselves *exclusively* to educational reform initiative (this technical staff would be financed from program, rather than administrative funds). Funding should be adequate to ensure that the contracted technicians are highly regarded education experts, with access to Ecuadorian policy and opinion makers in education, and who can dialogue effectively with these experts.

Focusing on value added, however, such a program should not be a mere "pass through" supervised by Fundación senior management. A member of the current, full-time technical team should be assigned as manager and dedicate sufficient time to the project (40-75%) and its technical issues to gain experience in this area and represent the Fundación in discussions with government and leading experts in the field (permanent staff would continue to be funded from "administrative" funds, thereby avoiding "creeping" fixed costs increases). Fundación senior management could also take advantage of this approach to improve its own ability to lead social sector dialogue.

As noted above, Fundación management must be careful of the temptation to increase fixed costs through this approach -- i.e., avoid the enticement to transform "temporary" project staff

into full time employees.⁹ With discipline, however, this approach can *reduce* fixed costs (as a percentage of total funding) and enhance the Fundación's ability to conduct top level research.

B.2. The Resource - Objectives Balance: A key issue facing the Fundación is the balance between its financial and human resources and its objectives and commitments. More specifically, the question appears to be: is the Fundación doing too much? If so, should it concentrate on a limited number of objectives?

This assessment concludes that the Fundación may be doing too much at present (especially since it has one less economist than originally planned, according to the Fundación), although it is doing no more than that required by the Cooperative Grant Agreement. It also concludes, however, that an organization such as the Fundación will by necessity *have* to be involved in a wide-array of activities. Disciplined prioritization, rather than simple focus on a select group of issues, should be the norm.

The Fundación's income generation goals (financial sustainability) will always dictate involvement in activities that support general overhead costs -- short of major long-term funding for a select group of activities. As noted above, however, the Fundación should guard against simple pass throughs that add little or no value to its technical capabilities.¹⁰

The nature of the policy reform process also cautions against over concentration. Today's "hot" policy reform topic could be nixed by a hostile Congress or disinterested Executive. While the Fundación in those cases can play an important role in keeping dialogue alive (e.g., social security/pension reform), undue concentration on one topic may limit its effectiveness. The Fundación may be better served by having a select group of reform initiatives in different stages of development (initial diagnostic efforts to advocacy of specific laws).

4. Conclusions and Recommendations

Conclusions

⁹ Experts familiar with these approaches note that, despite claims to the contrary, there are usually strong institutional pressures to convert temporary staff to permanent positions.

¹⁰ This is not say that all "pass through" activities are wrong. Indeed by permitting such occasional pass throughs the Fundación can gain exposure and provide a useful role in the reform process. A research portfolio comprised primarily of these type of activities, on the other hand, will not enhance the Fundación's standing but will constrain its management capabilities.

1. The Fundación Ecuador is playing a vital role in meeting USAID's SO 1 objectives. It is doing so both in its role as a direct contributor and as a coordinator/liaison institution with other development partners.
2. While the Fundación can point to specific reforms in the economic arena, it is too early to quantify similar success in the social sectors. The Fundación's success in this area will depend to a large extent on its abilities to increase its access to policy *and* opinion makers in these areas, as well as its capabilities in developing technical expertise in these fields.
3. The Fundación has made considerable progress in its establishment as a viable, long-term institution and a leader in Ecuador's economic and social reform process.
4. Despite its institutional progress, the Fundación is still a developing organization facing important challenges that include:
 - consolidation of its technical staff
 - achieving financial sustainability

Recommendations:

Fundación Ecuador

- While the Fundación has made considerable progress as a viable, long-term institution promoting policy reforms, it needs to develop a clear consolidation strategy. This strategy should encompass both technical and financial issues (e.g., a concrete plan for development of a trust fund). This strategy could be articulated in a comprehensive strategic directions plan that it should develop in 1996.¹¹
- The Fundación needs to review its salary and personnel policies, to ensure that it can retain trained technical personnel.
- As part of the strategy above, the Fundación should develop a comprehensive approach that links its diagnostic studies in the social sectors with concrete policy reform action plans.

¹¹ The Fundación made a conscious decision not to undertake this type of exercise in 1995, preferring instead to consolidate its technical staff. This decision appears to have been correct. With the staff now in place, and with multiple objectives requiring prioritization, now may be an appropriate time for this strategic planning exercise.

- The Fundación should expand its outreach capabilities in the social sectors. As called for in the Cooperative Agreement, it should increase its Board membership to include at least one leading representative of the educational sector in 1996.¹² It should develop a concrete strategy and measurable plans for engaging policy and opinion makers (versus assorted presentations).

USAID

- USAID should consolidate its considerable investment in the Fundación by assuring planned funding at least through 1998. Falling short of those amounts at this point may threaten the progress made to date.
- Like the Fundación, USAID needs to be increasingly aware of the resource/mandate paradox -- not requesting more of the Fundación than it can meet with current resources.

USAID should continue to provide technical input to Fundación studies and analyses as early as possible in the diagnostic stage (e.g., scope of work). USAID should support adding a solid macroeconomist to the Fundación staff. USAID should continue to promote Fundación - INCAE coordination, recognizing that it can only occur effectively if both institutions want to cooperate closely.

¹² Board increases should be done cautiously, however. As discussed in previous evaluations, there's a fine line between a well represented Board and one in which members each clamor for a piece of the pie -- a common problem that the Fundación has so far avoided.

III. ASSESSMENT OF INCAE/PROGRESEC

1. Impact of INCAE/PROGRESEC on Policy Change:

PROGRESEC continues to be a high quality program that contributes directly to a broader and more informed dialogue on strategic options for economic, social, and democratic reform in Ecuador. Since initiation of the second phase, nearly 1400 individuals have participated in a variety of events ranging from networking, dialogue seminars, conferences, and training in Ecuador as well as INCAE's campuses in Nicaragua and Costa Rica.

It cannot be said with any certainty that INCAE/Progresec activities have led directly to the implementation of specific reforms anticipated in Results Package 1A.¹³ Since the INCAE-USAID cooperative agreement focusses on outputs rather than results, it is highly unlikely, under the present strategy, that the project will actually be capable of demonstrating direct impact on policy reform. To achieve and document the sorts of results anticipated in RP1A will require coordinated actions and efforts of both INCAE and Fundación Ecuador (this will be further discussed in Section IV of this report.) Actions taken only by INCAE will not produce direct impact in attaining the reforms called for in RP1A.

While it is impossible to specifically document direct impact on policy change *per se*, many PROGRESEC beneficiaries, stakeholders, and customers argue that INCAE/PROGRESEC activities do contribute directly to positive movement toward social, democratic, and economic reform.

a. Impact of the project on modifying attitudes:

- Although none of the interview respondents could cite specific instances of direct impact of INCAE activities and events in producing concrete policy change, **most respondents stated that PROGRESEC's activities and efforts have had a significant impact on modifying attitudes**, at least on the level of the individual participant, and in some instances on the level of the organization, as well. It was also argued that some of the impact has occurred in some of the most resistant sectors (such as labor). During the course of interviews regarding PROGRESEC, several anecdotes were cited which reflect significant impact on both individuals and organizations. Examples were mentioned for all three components of the amended project.

Economic Policy:

¹³ Although the results package asks for specific policy changes in several areas, the INCAE-USAID cooperative agreement only addresses outputs to be achieved by INCAE. None of these outputs are specific policy changes but refer to numbers of dialogue and networking events, conferences to be held, training events completed, studies carried out, publications, and the like.

- One of Ecuador's most important and hard-line union leaders (also a member of Ecuador's Communist Party) noted the impact that INCAE's training and dialogue events have had on his and his Union's thinking. He stated that the Union is now in the process of forming a "holding company" to buy shares and majority equity positions in firms that produce products frequently used by its members and to provide investment return. He also noted INCAE's role in "opening the Union's vision" and fostering a greater acceptance of the new economic model. When asked about whether they would consider changes in the "ley de despido", he said that "times have changed and it is important to be flexible." (Edgar Ponce, head of the Confederacion de Trabajadores Ecuatorianos and former head of the Frente Unitario de Trabajadores)
- Another labor leader said that INCAE has made a large contribution to improving his union's capacity to participate meaningfully in multi-sectoral discussions. "INCAE ha contribuido poderosamente" to the Union's ability to talk, negotiate, and hold their own with other groups. Decision-making in labor conferences are now "informed and toned" by INCAE. INCAE training has also enabled them to be invited by both government and business chambers to discuss policy issues where they had previously been excluded. Finally, this leader argued that INCAE played a unique role since it has "poder de convocatoria" with all sectors, while other groups, such as FE, are much more limited to more specific groups or sectors. (Patricio Contreras, CEOSL).
- One of Ecuador's most listened-to radio commentators (claiming 55% of the morning listening audience in Quito) credits INCAE not only with helping to change his own vision of the need for policy change, but has provided him with the tools to "educate and inform his listeners". He also noted that over the last two or three years his audience's understanding of the issues has improved significantly..."there is now less rhetoric, and though there is still opposition to many of the reforms, the opposition is much more informed and constructive." (He has attended two INCAE events in Central America and another in Quito. He has also been responsible for sending several others to INCAE events.) (Carlos Larco, Radio Tarqui and legal counsel to the Minister of Housing)

Social Policy:

- A director within one of Ecuador's principal social service delivery agencies claimed that three years ago there was substantial resistance to an "economic approach to social policy planning." But now, in large measure owing to the number of staff trained by INCAE, there is a broad acceptance of the approach. At the same time, and largely because of INCAE's technical training of several of his officials, a more systematic approach to project design and development has been adopted. There is better communication among technicians and the new approach is helping to develop better

criteria for the design of projects within a context of economic adjustment. (Director of Planning for INFFA)

- A sub-secretary of one of the Social Front's Ministries credits INCAE with helping to spur a fundamental shift in the Ministry's planning methodology and the adoption of the logical framework for project design. He has contacted INCAE to carry out a similar program with the participation of all planning and financial staff of the Ministry. (Sub-secretary of Health)
- Training and "capacitación" events held at INCAE's Central American campuses are credited with significant improvement in skills and in introducing new approaches to dealing with social policy in the context of economic adjustment. Some respondents also observed that while training has had an important impact on participants (at the individual level), for the most part, no "critical mass" of trained cadre has yet been developed.

Democratization:

- While the democratization component is the least emphasized under the Amended Project, and that despite the fact that there has been little activity thus far in this area, these efforts may have produced more perceived and wider impact than those in social policy. Forrest Colburn's event, "Fortaleciendo la Democracia en Ecuador", with the principal Presidential candidates on the need for political reform, was very positively received and credited by some interviewees as helping to catalyze debate and widen the constituency for change. Although there does not appear to have been any direct political reforms as a consequence of the event, the participation of over 250 individuals (many of whom were either Congressional Deputies or staffers) has certainly contributed to the creation of a wider forum and constituency for debate .

An article written by Colburn on the widening gap between political parties and their constituencies was reprinted in one of Ecuador's most distinguished and respected magazines, EKOS. The same article was referred to in very positive terms in an Op-ed by the Partido Social Cristiano's Xavier Neira (the party's number two leader and current head of the party's congressional delegation).

- A former leading figure and Congressional Deputy in one of Ecuador's opposition political parties (now founder of a new political party) credits training received at INCAE (for political party leaders) with recognizing the importance of "professionalizing" political party leadership, and for a greater comprehension and recognition of the need for political reform, including a greater democratization of his own party in both management and the selection of candidates for office. He also

praised INCAE's Program for Political Party Leaders and claims that "it will have profound impact within ten years." (Carlos Rodriguez, former deputy, APRE)

■ Other impacts/results:

- In certain instances, INCAE's efforts have assisted in moving beyond simply achieving agreement to institute reform and into the examination and consideration of strategies for implementing reforms. Two senior INCAE professors (Pedro Raventos and Arnaldo Camacho) continue to work quietly with critical sectors on privatization and reforms in banking regulation/supervision, respectively. Both are working closely with technical staff and decision-makers in the agencies affected (EMETEL, CONAM, and Superintendencia de Bancos) in training and assisting them to work through strategies for implementation of proposed reforms.
- Professor Carlos Sevilla's timely and critical review of the IESS proposal to expand coverage of social security to rural areas pointed up the financial/economic implications of the proposal and caused the IESS to take the proposal back under review and consideration.

As INCAE's capacities in social policy and democratization have improved, the quantity of events in the area of economic reform have tailed off. In FY1994-95, some 70% of dialogue/seminar/training events were concerned with economic reform/concepts. In FY 1995-96, however, that relationship has been completely reversed -- thus far, 80% of the events held have been related to social policy and democratization issues/concepts/training.

b. Constraints to attribution of direct impact:

- INCAE's methods are not, by and large, designed to achieve direct impact. Rather, the approach is analytic and didactic; it is designed to inform and train, to assist in developing a greater and more common understanding of frameworks of analysis and issues. INCAE points out problems, constraints, and opportunities for policy change but **DOES NOT** make recommendations.
- INCAE's methods can and will achieve impact and change in individuals, either through its training or through other activity such as networking and dialogue. Institutional impact may also be achieved, but it is neither deliberate on INCAE's part, nor guaranteed. Such institutional impact rests on two premises or conditions being fulfilled:
 - that participants will diffuse or disseminate their newly acquired skills/approaches to others in the organization and,

- that there will be sufficient participation (among appropriate positions) from the institution to assure the development of a "critical mass" that can actually influence the direction of the organization.

Several respondents commented that INCAE should do more follow-up with institutions in order to insure that acquired skills are consolidated and further diffused in the organization.

- Mostly, INCAE's training and other activity does not precisely target decision-makers. Instead, it targets, and rather heavily, the decision-"influencers". Most participants tend to be from the second and third levels of the participating agencies, i.e., those responsible for implementing policies but not necessarily those who decide which policies to implement. These participants can and will make a difference in the process, but it will generally be in operationalizing or implementing the policy. All that notwithstanding, the importance of these individuals in the overall process **should not be underestimated or minimized**. It is they who will have responsibility for implementing long after the decision-makers have left or have been removed from their positions.
- A serious constraint to direct impact is the fact that INCAE rarely descends below a fairly high level of generality in its discussions. Because of its strict position on neutrality, INCAE will take the dialogue through an examination of feasible alternative policies, but will neither state a preference or recommendation, nor will it assist a group in promoting a particular position. Since it does not promote a particular position, it is most difficult to attribute particular policy change(s) to INCAE activity. Although many respondents said that INCAE has sufficient prestige to be able to take discussions to a much more specific level, INCAE's position is steadfast.
- It is quite possible that even if INCAE's activities had been at the same level as under Phase I, the relative hostility of the environment and the ineffectiveness of the government would nevertheless have contributed greatly to an appearance of little or no impact. The last two years of the Duran Ballen government have been difficult. A series of cabinet shake-ups, the absence of a working government coalition in Congress, the scandal surrounding the resignation and subsequent exile of Vice-President Alberto Dahik, and the recent failure of the referendum on Constitutional reform, have all contributed to a hostile environment for passage of any significant legislation or policy change. Some observers have characterized the current environment as one of paralysis, in which virtually nothing can or is being accomplished.

c. **Overall performance/impact of the amended INCAE/PROGRESEC project:**

- **According to several observers, the amended project under INCAE/PROGRESEC has not had the same level of impact as Phase I.** Some respondents and/or stakeholders observed that one hears little about the program and that its presence in the environment was

considerably more noticeable under Phase I. One respondent said that references to PROGRESEC do not come up in policy discussions at the highest levels -- were it having a strong and direct impact on policy change, the project would be mentioned.

- **The shift from a nearly exclusive emphasis on economic reform to social and democratic reform that occurred with the initiation of the amended project caused a palpable decline in dialogue activity.** PROGRESEC, which had acquired a considerable reputation by early 1994, and was characterized by a steady and heavy pace of activity became, according to several observers, somewhat less visible with the shift in emphasis to social policy. According to INCAE/PROGRESEC managers, this was mainly due to INCAE's need to "regroup", strengthen its own capabilities, and develop diagnostics and case materials. But, according to the same INCAE/PROGRESEC managers, the decline in activity will soon be reversed. Dialogue activity in both social policy and democratization are now on the rise and an intense schedule of events is programmed through September, 1996.

- Several other factors have contributed to what appears to be a slower pace in the amended projected compared to that of the first phase:
 - **A significant proportion of resources have been directed at sending participants to INCAE's Central American campuses for training, especially during FY 1994-95,** in more generic themes such as "Gerencia de Servicios Publicos", "Gerencia de Proyectos Sociales", "Programa de Entrenamiento Economico Legisladores", "Seminario Partidos Politicos", and "Economia para Organizaciones Laborales", among others. Eleven of these events were held during the period October, 1994 through March, 1996. Since most of the events at these campuses a one week or more in duration, participants tend to be selected from the technical staff levels of their agencies and are not the top decision-makers. **Beginning in FY 1995-96, the relationship of local to Central American events began to change with local events now predominating.** It should also be noted that with the change from economic to social policy emphasis, INCAE did not have available appropriate resources for local dialogue events, and thus opted to shift, temporarily, the focus to training at its campuses in Central America.

 - **The resignation of Antonio Teran as Executive Director of PROGRESEC, has also contributed to the decline in the pace of activity.** As head of PROGRESEC, Teran provided solid, low profile leadership to the program. As former executive director of both AmCham and ANDE, he was on intimate terms with vast numbers of leaders in both the public and private sectors. The Program's new director, while bright, receptive, and promising, has not worked at the same level as Teran, and has little experience in bringing together high level groups for dialogue on key issues. It is unclear whether this represents an intentional step away from the importance accorded the program by INCAE, but it is certainly a change. With the resignation of Maria

Cristina Guarderas, the Director's assistant, who like Teran had been with the program since its initiation, most of PROGRESEC's institutional memory disappears. However, to the credit of both INCAE and FE, Teran continues to provide information and informal advice to the program.

- **PROGRESEC is only one of several programs administered by the Centro de Políticas in San Jose.** Two years ago, PROGRESEC represented a majority of the activity in the Centro; currently it is about 25%. Aside from Ayala, PROGRESEC has had no effective program chief since Eduardo Doryan's departure in 1993. Most respondents praised Ayala's intense interest in and management of the program, but have also pointed out that he is overworked and has too many projects to look after. Although Francisco Gutierrez has the most long-term involvement of any on the INCAE faculty, his presence appears to have diminished over the past two years.

- **Since the initiation of the second phase of PROGRESEC, INCAE has followed a clear and deliberate strategy in developing its capacities in the areas of social policy and democratic reform.** The strategy consists of a definition of problem areas and issues through diagnostic studies, the review and preliminary examination of those studies through networking sessions with stakeholders in the sectors under consideration, dialogue sessions with pertinent sectors and stakeholder groups, and the culmination of the process with a National Conference at which major strategies and options are posed.

Diagnostic studies in the social policy area have now been completed as have most of the networking sessions aimed at eliciting feedback on the studies. The next phase, now getting underway, is a series of dialogue seminars in each of the social policy areas which will culminate in the National Conference later this year (date as yet unspecified but likely in July or August.)

- **Efforts in the area of democratic reform have been significantly less than in social policy.** Although the work done has had visibility and has certainly contributed to raising both the interest in and level of dialogue on key reform issues, little work has been done. Democratization has not been addressed with the comprehensive, strategic approach that has been applied to social policy. There have been five or six investigators involved in researching and diagnosing social policy issues, but only one individual has addressed democratization. And, while the social policy area has followed the diagnostic-networking-dialogue-national conference approach, the democratization area seems to lack a strategy. After three short research visits, an article on the need for political party reform was published and a large-scale conference was held -- a rather different and much foreshortened approach than that applied to social policy. While the conference was widely commented on and generally with praise, no follow-up has been carried out, nor does the current calendar reveal any future activity but for "viajes de coordinacion".

Conclusion:

- While the pace of activity during the first 18 months of the amended project appears slow in several respects, it is largely owed to INCAE's strategy for developing capacity in the area of social and democratization policy. INCAE/PROGRESEC now appears poised to gather payoff from the effort invested in developing its capacities to address social policy issues, but there is considerably more to do before it reaches the same stage in the area of democratic reform.
- **INCAE/PROGRESEC is contributing to movement toward reform in social and democratization policy.** However, that impact is both indirect and non-quantifiable.
- The impact of INCAE/PROGRESEC is being felt at the individual and the institutional level -- but because of the absence of either monitoring or follow-up activity, it is difficult to be very precise.

USAID should not expect INCAE/PROGRESEC to develop the sort of impact called for in Results Package 1A. INCAE's actions are aimed at fulfilling outputs and not results.

Recommendation:

There is a need for much clearer, better understood indicators of performance by INCAE/PROGRESEC. USAID should discuss with INCAE/PROGRESEC the new RP1A and try to examine how INCAE/PROGRESEC actions could better adjust to those needs. It is essential that such a discussion be held in conjunction with discussions to improve coordination (see recommendations in the last section).

d. Training activities:

- As was the case in the first phase of PROGRESEC, INCAE's efforts in training, whether in Ecuador or at one of the Central American campuses, are extremely well received. Professors, materials, methods, and approach receive high praise from participants. As testimony to the quality of training, stakeholders and/or previous participants are often repeat clients and seek to send colleagues or subordinates to training events.

Despite the nearly universal praise, a few shortcomings/criticisms were noted by respondents:

- For the most part, there is little or no follow-up to assure that tools introduced in training can and are being applied correctly. This criticism was frequent among those attending seminars for training in technical tools.

- There is sometimes too much heterogeneity among participants. Capabilities and skill levels of participants can vary widely. Some participants can easily absorb concepts while others cannot. Some respondents thought that INCAE should try to assure greater homogeneity of skills for optimum results.
- Several respondents argued that it would be better if more decision-makers attended training events to better understand the technical implications of policy and to lodge greater impact in the participant institutions.
- Some respondents argued that greater saturation of training within specific institutions (to produce a "critical mass") would have more impact than the current, diffuse mechanisms for selection of participants.
- Several participants expressed the desire to see more local materials and cases used in training. With local materials the training would have more application to "Ecuadoran reality".
- Although training at the Central American campuses was considered desirable and highly regarded by participants, it was felt that there should be more emphasis on local training -- more would have an opportunity to participate, and costs would be lower.

Recommendations:

- Selection processes for participants should be reviewed with a view toward assuring a greater degree of parity in skills and capabilities.
- INCAE should consider the implementation of short (one-half or one day) follow-up workshops to examine application and applicability of newly acquired skills. It would provide feedback for future training and also provide better data on the impact of INCAE's training efforts.
- INCAE should consider reducing the number of areas in which it offers training in order to concentrate on a fewer number of institutions with the objective of producing greater "critical mass" among the participant institutions.
- INCAE should consider centering all its training efforts in Ecuador (to achieve better unit cost efficiency) rather than in Central America. At the same time it should also consider a wider use of local professionals, especially for the development of local case material.

2. Analysis of INCAE'S Strengths and Weaknesses for Policy Reform

a. Assessment of strengths and weaknesses:

- INCAE possesses a number of strengths for working in the policy reform arena. Most of these strengths have been developed over a long period of time and include not only substantive-technical skills and strengths but also less tangible strengths that have afforded INCAE a unique position in the environment as an interlocutor for policy reform. That notwithstanding, INCAE has adopted an institutional position which limits its role to one short of what many perceive that role could or ought to be.
- Even as an organization relatively new to Ecuador (a serious effort to develop a market in Ecuador was begun only 10 years ago) INCAE has acquired substantial prestige and is currently developing a third campus with a significant donation of resources from the Guayaquil community. Distinguished members and former officials of both the private and public sector (including present and past Presidents of Chamber organizations and former cabinet ministers) serve on INCAE's National Committee. Under the first phase of PROGRESEC, INCAE faculty led a three-day retreat with the President's Cabinet in Riobamba. Attendance lists at INCAE conferences reads much like a "Who's Who" in the public and private sector of Ecuador. More recently, INCAE has begun to develop solid links into other sectors, such as labor, as well.

Even though distinguished and influential Ecuadorans participate directly on the National Committee, INCAE's multi-national character and approach lend the institution a "neutrality" uncharacteristic of the environment. **It is this "neutrality" which affords INCAE a high level of "poder de convocatoria" and which allows it access to virtually all sectors of society (such as the labor movement) and all levels of government** (note the turnout of legislators and legislative staff for the seminar with the Presidential candidates in November, 1995) -- again, an unusual capability within the Ecuadoran environment.

- **INCAE's approach to policy reform issues is tried and proven.** The approach begins with a diagnosis of the problem carried out by one or more of INCAE's technical staff specialists. The resulting study is reviewed both by members and associates of the Centro de Politicas and then is presented and discussed in several "networking" sessions in Ecuador (the "networking" groups are really more akin to focus groups and consist of 5-15 individuals/stakeholders whose point of view may influence direction of policy). The purpose of the networking sessions is to obtain sectoral feedback on the diagnostic study and to develop a framework of issues which will form the base for subsequent third stage of policy dialogue seminars. Dialogue seminars are held in each of the policy areas (for social policy: health, housing, education, poverty, social security) with 40-80 participants in each. Here, the main issues are discussed and policy strategy options are reviewed. The objective is less to reach agreement than to understand the nature of the problems and the alternatives available for solution of those problems. The

process culminates with a "National Conference" (the one on Social Policy has been rescheduled for this coming summer). The National Conference, "Hacia una Economía No Petrolera," attracted some 300 participants. The objective of the National Conference is less one of reaching agreement on particular policies but one of consolidating the constituency building process.

Parallel to the issue development and dialogue process just described, INCAE also carries out training exercises aimed at developing skills in economic and social policy analysis. These are done both at INCAE's campuses in Central America and in Ecuador. While participation of top decision-makers is encouraged, most participants are either high level technical officials or advisors in both the public, NGO, and private sectors. In some cases training is tailored to specific groups such as labor leaders or journalists. This process is particularly important since these "customers" are very often those with responsibility for actually implementing policy reforms. It is critical that they have a solid understanding of both the technical and substantive elements of proposed reforms.

While effective at developing an informed constituency and deepening technical support for policy reform formulation and implementation, the process is slow, time-consuming, and susceptible to the criticism that it sometimes does not sufficiently take into account or duplicates efforts already accomplished by Ecuadoran professionals.

- Throughout the PROGRESEC project, INCAE has scrupulously maintained its high academic standards. The consequence is that it has achieved a reputation for quality in its studies and events second to none in Ecuador. The worst criticisms leveled at INCAE are that its dialogue events remain at too high a level of generality and that its studies sometimes are only synthetic and do not represent an advance over existing local efforts and studies. Its methodology -- consisting of the introduction of analytical tools, and the application of those tools to the analysis of social, economic, and democratization issues through case materials representing experiences from Ecuador and other countries -- continues to receive praise from participants in PROGRESEC events.
- As a mechanism for impacting policy reform, however, many of INCAE's strengths are also weaknesses.
 - ◆ **Neutrality:** INCAE's prestige and perceived neutrality in Ecuador allow it wide access to virtually all sectors. Its prestige opens doors and attracts participants to its events. Perceived neutrality gives INCAE credibility. As a neutral "third party" it has been able to develop rapport with diverse and frequently opposing sectors. Were INCAE to pursue a more direct strategy to achieve impact on particular policies, it would need to take a position on those issues. By so doing, it would lose its neutrality and therefore much access and credibility. To maintain its level of access and "poder de convocatoria", its neutrality appears to be indispensable.

Neutrality thus forces INCAE to stay at a relatively high level of generality in its efforts at policy reform. It can only discuss options and alternatives and point out the benefits/costs of each and facilitate informed discussion regarding the desirability of alternative strategies. Impact on policy reform must necessarily remain only indirect.

- ◆ Approach: Both INCAE's approach and high standards cause the pace of efforts to appear to be slow. However, the development of informed and solid constituencies for policy reform is a time-consuming process. It is much akin to the development of a critical mass for reform. INCAE could alleviate some of its workload and eliminate a source of criticism by more fully utilizing local resources for diagnostic studies and the development of case materials. However, INCAE's need to maintain objectivity, forces it to err on the side of less local input rather than more.

INCAE's entry into the social policy area, for which it had not developed skills and capacities on a plane equivalent to its capacities in economic policy, also contributes to an apparent slower pace of activity and impact. INCAE's academic and quality standards, however, inhibit the use of shortcuts and further contribute to the perception of slowness.

The relatively complex, four-stage process leading to the National Conference is difficult to schedule, further lending to an already time-consuming process. INCAE's staff have fixed teaching loads and are in demand for other activity in other INCAE member countries. Once again, greater use of local resources could alleviate the problem -- but it is a solution which INCAE will only use gingerly.

INCAE's approach, which is lengthy, complex, and costly, does not produce direct impact on policy change -- it produces no new decrees. However, it does produce solid constituencies from which more direct advocacy and lobbying efforts can be effectively launched. (FE needs to look at how to more effectively bring these developed constituencies to bear on its own efforts.)

b. Benefit/cost of concentrating activities:

- Based on the nature of INCAE's approach and its need to maintain its position of neutrality, reduction and/or concentration of activities to a more limited sub-set of reforms would not produce more **direct** impact. It would certainly create a broader and deeper coverage, a wider and more informed constituency, a larger number of trained officials in implementing organizations, and considerably greater analysis of the costs/benefits, advantages/disadvantages of a more complete set of alternatives for reform -- but it would not produce policy change *per*

se. As in the case of less focussed activity, INCAE would stop short of bringing the discussion to closure or to choosing a particular policy.

However, were FE or another organization able to capitalize on INCAE's constituency building efforts, and begin a serious program of advocacy and lobbying based on those efforts, the probability of success would most likely be considerably higher. With a deeper constituency, and with a larger critical mass of trained officials in place in the implementing organizations, a concentrating of resources in a reduced number of reform areas could result in both more comprehensive and more implementable reforms. It also would be the sort of natural complementarity between INCAE and the Fundación that the PD&I project has sought since the beginning of the new phase.

Recommendation:

To take full advantage of more targeted efforts by INCAE, greater coordination of effort or, at minimum, greater capacity on the part of the Fundación Ecuador or CEPAR to pick up where INCAE leaves off, should take place. To do so would not necessarily require coordination of activities; a more systematic and directed exchange of information would allow FE to more easily and successfully follow-up INCAE activity.

c. Benefit/cost of working with "opposition groups":

- INCAE's efforts have sometimes been criticized as "preaching to the choir", ie., working with those already or nearly convinced of the worthiness of the reforms sought. INCAE, however, claims to have made efforts, particularly with labor and some political sectors (the legislature) to successfully work with opposition groups. However, beyond these two, approach to reform opposition groups has not been a prevalent part of INCAE's strategy.

It is not clear how much INCAE would have to gain, or how more quickly or directly reforms would be accomplished, by targeting opposition groups or by focusing more on these groups, especially if it were to diminish efforts in constituency building among those close to decision-makers or those responsible in some measure for implementation of policy reform. The primary benefit would be in the amplification of the constituency (or at least the disarming or neutralizing of opposition, assuming efforts were convincing) for policy reform.

Recommendation:

INCAE could put greater emphasis on bringing into its activities groups that have been at the margin of discussions but which are important political actors. These include the Armed Forces and Indigenous groups. The latter, in particular, are presumed opposition, but may be

amenable (as have some elements of the labor movement) to the sorts of approaches used by INCAE. Should there be sufficient interest in working with such groups, careful thought needs to be given to how such changes will impact the remainder of INCAE's strategy.

IV. IMPROVING INTEGRATION BETWEEN INCAE AND FUNDACION ECUADOR

Coordination:

Coordination, or the lack thereof, between INCAE/PROGRESEC and FE has been a source of contention between USAID, INCAE, and FE since the initiation of the PD&I project. Although each cooperative agreement speaks directly to the issue of coordination between PROGRESEC and FE (Sections IIIA and B of the INCAE cooperative agreement and Section VII of the FE cooperative agreement) and mentions both informational and operational coordination; and despite the fact that there have been two separate MOUs (February, 1995, and February 1996) issued on coordination, there is still considerable frustration (within USAID) over both the quantity and quality of coordination between the two principals. While both organizations argue an outwardly "flexible" position regarding coordination, there is a considerable degree of embedded resistance in both INCAE and FE. Neither organization was expected to coordinate under the arrangements of the initial Policy Dialogue Project, but under the second phase, the cooperative agreements of both institutions contain provisions for coordination both to achieve possible synergistic benefits as well as avoid duplication and develop a higher level of complementarity between the two organizations. Moreover, and perhaps most importantly, if the project is to achieve the results anticipated in the RP under the Mission's SO 1, greater coordination is imperative.

Findings:

- The MOUs signed by INCAE and FE state terms of coordination; however, these terms, do not, according to USAID, adequately represent the terms (and/or the spirit) of coordination as stated in the Cooperative agreements signed by both institutions. While the CAs with both organizations mention the need or desire for an unspecified level of operational coordination through joint planning, the first MOU mentions only meetings to exchange information and the interchange of documents. Both organizations appear to be complying with the terms set forth in the 1995 MOU.
- The MOU signed in February, 1996, attempted to more explicitly define terms of coordination between INCAE and FE. The MOU specifies that both will attend quarterly meetings, that FE will have a limited number of spaces for participation in programmed INCAE events during 1996, that INCAE will be invited to participate in FE sponsored seminars and conferences; that the two institutions will exchange documents and other information, and that the FE will provide technical specialists for courses and seminars, and that the FE will provide logistic

assistance to INCAE in Guayaquil. Although there is much more specificity in this MOU than its predecessor, it says little or nothing in the way of actual operational coordination. Instead, activities specified are mostly those where FE is a consumer of INCAE services.

- Some degree of coordination has been achieved on an informational level. INCAE and FE attend quarterly meetings scheduled by the Mission and continue to exchange information. The terms of the February, 1996, MOU are being complied with by both organizations. Reference was also made during this evaluation's investigation that FE technical personnel had been asked to conduct a presentation at a recent INCAE event -- supposedly the first time that such a request had been made.
- Coordination has yet to be achieved on an operational level. So far as could be determined, there is no joint planning, or other tasks which require or imply actual coordination of activities beyond the quarterly informational meetings convened and carried out by USAID. It appears to be the lack of operational coordination that is the source of frustration voiced by several Mission officials.
- There is considerable interest in both FE and CEPAR for greater collaboration with INCAE, and in continuing to receive technical assistance from INCAE through participation in seminars or in direct technical assistance. (one example of this was the case where FE asked INCAE's Carlos Sevilla to review the proposed amplification of Social Security coverage by IESS).
- CEPAR has found that its level of access to decision-makers and influential individuals in both the public and private sectors has improved as a result of participation in INCAE events. FE argues that the availability of spaces in INCAE's seminars allow them to cut back on their training budget. CEPAR likewise argues that a big advantage to the INCAE seminars is that they are free.
- CEPAR argues that closer collaboration with INCAE in CEPAR's areas of interests and skills "could improve the relevance, timeliness, and impact of studies". CEPAR also feels that such coordination could also strengthen its access and capacity to influence. For its part, CEPAR would like to see greater coordination with INCAE, particularly the participation of CEPAR technical specialists on studies. They would also like more collaboration, ie., more technical assistance from INCAE.
- Officials in INCAE display mixed feelings regarding augmenting the present level of coordination. Although PROGRESEC's local project management in Quito and INCAE's project manager in the Centro de Politicas in San Jose claim to be "flexible" and open to greater coordination, and indeed appear willing to consider joint planning of activities on a particular policy which will lead to direct impact (ie., lobbying for and passage of laws). There appears to be a good working relationship between FE's director in Quito and INCAE's project

manager, with relatively frequent telephone exchanges as well as meetings when INCAE's project manager is in Quito.

- INCAE appears to have less to gain from coordination than either FE or CEPAR. This despite some criticism that INCAE has ignored the potential contribution of highly qualified local professionals and serious, thorough studies already done in the area of social policy.
- There is much less disposition and even outright opposition to the issue of coordination at the higher levels of INCAE academic authority. The reason given is that by planning and carrying out a joint effort, even if the tasks were kept relatively separate, INCAE and the FE would be seen as closely linked throughout (and ipso facto in agreement with the FE position and stance on the issue), and would therefore compromise INCAE's neutrality. According to one of INCAE's senior academic staff:

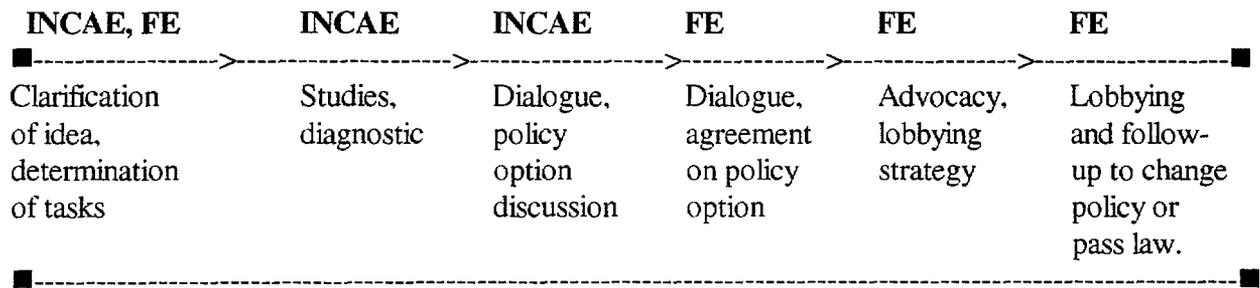
"The coordination of activities brings a danger of closer identification of INCAE with Fundación Ecuador and bring with it the problem that INCAE becomes associated with certain groups and therefore certain approaches. Since INCAE's mission is to carry out broad based dialogue, a closer association with FE would limit access to other groups."

- In contrast to the case of Fundación Ecuador, INCAE seems to have more interest (although not specified nor committed) in limited collaboration with CEPAR. INCAE has a high regard for CEPAR's technical skills and capabilities, and feels, apparently, that there would be sufficient added value in limited collaborative ventures.

A Model for Greater Coordination:

In conversations with officials in both Fundación Ecuador and INCAE, the evaluator suggested a model for collaboration which would attempt to develop greater coordination, but through which nearly all tasks would be carried out separately. Figure One illustrates the model. In the model, after agreeing on the policy to be addressed and the general approach to be taken, INCAE takes the lead for the first part of the exercise. Drawing on its comparative advantages, INCAE carries out investigative studies of the issue and develops materials to be used in the subsequent dialogue activity. The first stage of the dialogue, examination of the issue and initial policy option discussion is led by INCAE, and concentrates on developing a common and more informed understanding of the issues. Once the group has achieved a base level of understanding of the issues and options, the remainder of the process could be managed by the Fundación; first eliciting agreement on a policy approach, developing an advocacy strategy for building support and lobbying the appropriate decision makers. The Fundación then continues to lobby and follow-up to assure that the policy is changed and implemented.

FIGURE ONE



The model proposes that tasks be rather strictly divided, but the overall approach, initial planning, and the timing of activities would need to be coordinated. It can be argued that this model, while coordinating activities in a minimal way, only slightly modifies actual current practice...ie., it requires that INCAE and FE agree beforehand to center on a certain policy or policies. The remainder of coordination requirements are for exchange of information regarding timing of activities and the like. It should be noted that except for the first step, the model permits each organization to focus on its particular strengths and to pursue its activities independently. The model also allows INCAE to opt out when a commitment to a particular policy is made.

Under this model, the burden of responsibility for assuring follow-up coordination would rest mainly with the Fundación. Once a policy area is decided upon, INCAE would carry out studies, materials development, and the preliminary dialogue activity. It would then be up the FE to obtain information from INCAE (participants, level of agreement on approach to and specificity of policy issues) that it will need in order to develop its follow-on dialogue activity and advocacy strategy.

The model described was discussed with and appears to be acceptable to FE's Director in Quito, "interesting" to INCAE's project manager in San Jose, and certainly much closer to what USAID had in mind for coordination. However, as proposed, the model appears to be less attractive to higher academic authority in INCAE, San Jose.

The model suggested represents a significant break with actual practice. Current practice has limited interaction (with the rare exception of Sevilla's intervention on the Social Security amplification proposal) to exchange of information and FE and CEPAR as consumers of INCAE services and products. The model suggested, however, is a much closer representation of the spirit and letter of the cooperative agreements signed by both FE and INCAE than current practice. But given the difficulty of reaching the current stage of coordination, implementation of the proposed model will require substantial effort and management time from USAID.

Recommendations:

- Quarterly meetings between INCAE, FE, CEPAR, and USAID, need to be maintained and strengthened. Rather than simple information exchanging meetings, the **agendas should include discussion of pending areas of activity or activities in development.** This would help to assure that each partner in the PD&I project would at least be aware of what studies were underway, and perhaps point up natural, and easily achievable areas for collaboration. Discussion of proposed approaches to new policy areas should be encouraged in such meetings as well.

USAID should strongly encourage INCAE to assure that a representative of its senior academic staff be present at such meetings (ie., Francisco Gutierrez, Lewis Rambo, Pedro Raventos) in addition to PROGRESEC's project manager from the Centro de Politicas. Presence of senior academic staff would enhance opportunities for developing concerted activities, and outline parameters for local PROGRESEC management to pursue joint or coordinated activities.

- **More frequent, and regularized interaction between FE, CEPAR, and INCAE local management would enhance flow of information on PD&I activities.** Informal monthly meetings, held on a rotating basis between the different offices, independent of USAID management, would encourage discussion not only of activities, but also permit greater feedback on content and approach. Whenever possible, the Centro de Politicas project manager should attend these meetings, and when in country, INCAE staff working on the project as well.
- On the assumption that USAID would like a greater level of coordination between the three organizations, **a meeting should be scheduled as soon as possible to specifically discuss the model proposed in this report or other alternatives which require a more significant effort than merely exchange of information or services and products.** It is also extremely important that a senior academic staff member (or members) from INCAE be present, since they have authority regarding the coordination of substantive activity. Consideration should be given to bringing in an outside consultant to facilitate the meeting, although a strong, fully agreed to agenda could provide an adequate guide to discussions.
- **USAID should encourage FE to develop strategies to more effectively capitalize on INCAE's efforts.** Although FE is actively engaged in the process of constituency building (one of INCAE's main activities) it apparently does not work closely with INCAE to capitalize on efforts already successfully completed.

It is not at all clear to the consultant team whether or not there would be significant payoff were these efforts followed. There is, as is noted above, considerable built-in resistance that is a product of several years behavior. There may now also be a sufficiently high level of fatigue in USAID with regard to

coordination that will act as a disincentive to persistence in pursuing a greater level of coordination. Improved coordination will require more effort and it is not at all clear whether there is sufficient energy to carry through.

Fundación Ecuador SO 1 Performance Matrix -- Short List of Outputs

Result A: Increased efficiency and competitiveness of the economy		
A.1 More Efficient Investment in People	USAID Objectives/Indicators	FE Outputs
A.1.1. Education Reform	<ul style="list-style-type: none"> • Primary education repetition rates (24% in 1995) ◊ Diagnostic identifying constraints; publication and discussion (1995) ◊ Credibility among key sectors established for FE (1996) ◊ Concepts of accountability widely disseminated (1997) ◊ Consensus building on concepts for reform (1998) 	<ul style="list-style-type: none"> • Collaboration w/ RTI in publication of "The Educational Crisis in Ecuador: Basis for Consensus" <ul style="list-style-type: none"> ◊ data collection and prioritization of topics ◊ publication ◊ consensus-building conferences with key policy/consensus makers ◊ conferences in Guayaquil and Quito disseminating results • Scope of Work for "Enhancing the Importance and Competency of Ecuador's Ed. Sector" • Initiation of study on the National Union of Educators (teachers' union) • Coordination/liaison with IDB, World Bank • Technical assistance to CONAM
A.1.2. Social Security Reform	<ul style="list-style-type: none"> • Percent of Labor force covered by Social Security (32% in 1995) ◊ Diagnostic completed (1995) ◊ Elaboration of specific reform requirements (1996) ◊ Publication and discussion of reforms (1997) 	<ul style="list-style-type: none"> ◊ Diagnostic of status and required reforms ◊ Visit and conferences by Chilean Superintendent of Pensions ◊ Conferences and Workshops on proposed reform law and study findings • Assumption of Reform analysis from CONAM
A.1.3. Decentralization Reforms		<ul style="list-style-type: none"> • Inclusion of decentralization issues in all social sector studies (e.g., educational reform) • Conferences and workshops on decentralization issues for members of the press, government, private sector • Presentation and dissemination of study by T. Castañeda

Result B: Expanded opportunities and participation by low-income groups in a growing market economy

Results Package 2

	USAID Objectives/Indicators	FE Outputs
<p>B.1. Increased access to credit by micro entrepreneurs, especially women</p>	<ul style="list-style-type: none"> • Increased access to financial services by micro entrepreneurs ◊ Increase in total yearly volume of credit to microentrepreneurs <ul style="list-style-type: none"> ◊ 3.9 (1995) ◊ 8.7 (1996) ◊ 26.0 (1997) ◊ 40.0 (1998) 	<ul style="list-style-type: none"> • Assistance to Corpomicro in becoming a legal financial institution • Visit to Bancosol in Bolivia by NGOs and financial sector representatives • Technical assistance plan formulated for the superintendency of banks for more efficient regulation of micro sector lending • Seminars and workshops on microenterprise development
<p>B.2. Increased access by low-income groups to housing solutions B.2.1. Increased volume and total value of shelter loans to the poor</p>	<ul style="list-style-type: none"> • Increase in the number and total value of housing solutions provided to families below the median income <ul style="list-style-type: none"> ◊ Increase in value and volume of shelter loans to low income families 	<ul style="list-style-type: none"> • Assistance to National Construction Chamber in development of targeted incentives programs

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OBJECTIVE

USAID/Ecuador contemplates a contract that provides the technical services of one individual with expertise in the analysis and evaluation of international donor funded Policy Dialogue and Implementation projects, which may include performance of private sector organizations engaged in policy reform, privatization, and related areas. The contractor will undertake an evaluation/assessment of the Instituto Centroamericano de Administracion de empresas (INCAE) Cooperative Agreement, and its ability and performance to date to achieve the Result A, and the Intermediate Results A.1, A.2, and A.3 specified under the Background section. Also, the contractor will merge Fundacion Ecuador's assessment, being carried out simultaneously, with that of INCAE for a PD&I Project assessment.

STATEMENT OF WORK

The contractor will provide one policy dialogue support and implementation specialist. The individual will be contracted for an approximate period of eighteen (18) work days beginning on/about March 15, 1995 and ending on/about April 5, 1996. It is expected that the technical advisor will be a U.S. citizen.

The consultant should possess extensive experience in project design and implementation comparable to USAID/Ecuador's Policy Dialogue and Implementation Project, i.e., private institutions which have engaged in successful policy reform programs, privatization, and related areas.

The responsibility of the contractor will be to provide high quality technical assistance on a timely basis over a three week period so that the evaluation of INCAE can be completed. The consultant's performance will be evaluated based primarily upon the extent to which the INCAE's evaluation is acceptable to USAID when the contract ends.

The contractor must be well-qualified technically, culturally sensitive and possess personal relations, communications and language skills sufficient to perform effectively in the assignment. The ability to formulate concepts and articulate issues involving policy reform programs and institutional capacity will be critical to project evaluation success.

Major Duties and Responsibilities

The following activities shall be included in the Contractor's work. However, they are not to be considered all-inclusive or restrictive in nature, and do not constitute relief from exercising due professional care and judgement.

Responsibilities of the Contractor will include the following:

Interview INCAE staff, USAID officials who have been involved in the project activities, as well as INCAE's customers (e.g. FE, CEPAR, and other groups/individuals who have participated in INCAE workshops.)

Review the Results Framework of the Strategic Objective No. 1, particularly activities under Result A (Results Package 1).

(Continued)

Complete an assessment/evaluation of INCAE's economic and social reform strategies, agenda, and implementation programs

Document specific instances where INCAE's program can be clearly linked to subsequent movement on policy reform issues.

Identify the impact of the PD&I activities on modifying the attitudes of opposition groups in civil society.

Determine if the training activities are properly targeted, or whether they are directed at participants who are already convinced about the merits of social policy reform.

Assess the coordinated and collaborative work carried out by INCAE with other organizations, particularly with Fundacion Ecuador, to achieve the stated goal and objectives of the PD&I Results Package (RP 1). Provide recommendations for increasing this collaboration in the future.

Identify INCAE's strengths and weaknesses in the policy reform arena in Ecuador, and on the basis of these, provide recommendations for future directions of the program.

Should the PD&I activities obtain more impact if the wide range of activities were to be reduced to concentrate on a limited number of reform areas?

Should the program focus on the opposition groups?

The contractor will be responsible for merging the INCAE assessment and the Fundacion Ecuador assessment into one final product for the PD&I Results Package (RP 1).

RELATIONSHIPS

The contractor will perform a central role in the evaluation of the INCAE Cooperative Agreement under the PD&I Project. The contractor's direct counterparts in USAID/Ecuador will be: (1) the Director of the SEGO office in Quito; (2) the PPD Program Officer; (3) the PPD Chief; (4) the Mission Economist, the Regional Contracting Officer for contracting matters; and, the O/CCNT for accounting and management system matters. Also, the contractor will maintain close coordination with the consultant for PE evaluation, for submission of a final combined report.

REPORTS

The Contractor will be required to submit a work plan to USAID/Ecuador for approval within two (2) days of the signing of the contract. Upon completion of the work, the Contractor is to submit a final version of the assessment of INCAE which expressly addresses the required activities under the Scope of Work, as well as a detailed description of all other activities and accomplishments under the contract, and a combined report of INCAE

(Continued)

and FE evaluation (to be performed by an independent
for the RDR project. An original and five (5) copies
plan and drafts of the assessment shall be submitted,
to USAID/Ecuador for internal review and comments.

Appendix 3

List of Contacts: INCAE/PROGRESEC Assessment

USAID:

Patricio Maldonado
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INCAE:

Brizio Biondi, Rector
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Fundación Ecuador:

Bolivar Chiriboga
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Others:

Oswaldo Ruiz	Ministerio de Salud
Margarita Romo	Ministerio de Urbanismo y Vivienda
Carlos Larco	Ministerio de Urbanismo y Vivienda
Guillermo Sosa	CONAM
John Panzer	World Bank
Juan Bernardo Leon	Comite Nacional de INCAE
Diego Peñaherrera	Fondo de Inversion Social de Emergencia
Wilson Flores	INNFA
Terry Derks	Programa Naciones Unidas de Desarrollo
Gaby Forster	Comite Nacional de INCAE
Pablo Lucio Paredes	EKOS Economia
Patricio Contreras	Inst. Americano de Sindicalismo Libre
Carlos Garcia	Diputado, Congreso Nacional
Edgar Ponce	CTE, Empresa Electrica
Simon Corral	Secretario Tecnica. Frente Social

Nelson Oviedo
Susan Kolodin
Monica Hernandez
Luis Jacome

CEPAR
Banco Interamericano de Desarrollo
Fundacion Alternativa
Banco Central