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PROGRAMA DE DESARROLLO DE MICRO-EMPRESAS (PRODEM) DE
LA FUNDACION ECUATORIANA DE DESARROLLO (FED)/
PROGRAM FOR THE DEVELOPMENT OF MICRO-ENTERPRISES (PRODEM)
OF THE ECUADORIAN DEVELOPMENT FOUNDATION (FED)

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December 13, 1984

In Ecuador, ACCION's program of assistance to the Ecuadorian Development Foundation has led to a highly successful effort where 1,739 businesses in Quito have been assisted in just six months. The annexed tables present the details, but I would like to provide some background information, highlight the major results, and show how the project may serve as a model for private sector involvement in the informal sector.

ACCION sent Stephen Gross to Ecuador in mid-1983. He quickly identified the Ecuadorian Development Foundation as a likely implementing organization (the FED had years of successful grassroots programming experience in the rural areas). AID funded the feasibility study, which was carried out jointly by the FED and ACCION. The project was designed, funding was secured from PACT and AID/Ecuador and, in May 1984, PRODEM made its first loans.

PRODEM (similar to other ACCION-assisted projects in Peru and the Dominican Republic) has two components. The micro-enterprise component assists micro-scale manufacturers and services averaging 2 workers in addition to the owner. The "solidarity group" component assists businesses with no employees—mainly hawkers, street food vendors and cottage manufacturers (usually seamstresses).

The micro-enterprises are assisted individually with small short-term loans averaging \$200 payable in six weeks. The smaller businesses receive loans through solidarity groups—self-formed associations of from 5 to 8 tiny business owners who mutually cosign and guarantee each other's loans. Loans average \$36 per group member, \$216 per solidarity group, also payable in 6 weeks. Interest charges for both components are 3% a month.

The methodology used in the project is the product of several years of experimentation and is designed to reach the largest number of businesses at the lowest cost, consistent with good management. After a business owner (or solidarity group formed by the clients) applies for assistance, a promoter visits the business (or businesses), collects information about the enterprise, and discusses the owner's plans for the use of the loan. Virtually

931-1090

all requests are approved. Six days before the loan is due (loans are paid in a lump sum at the end of a six-week period), the promoter visits the business to determine how the loan was used, the progress the business has made, and the owner's plans for the next loan. As long as loans are paid back 100% on time, business owners have access to a continuing line of credit.

The micro-business component

Of the 393 micro-entrepreneurs who have received loans, most are seamstresses and tailors, shoemakers, carpenters and upholsterers; 32% are women. At the field level the program is administered by five promoters, each responsible for approximately 79 businesses. Administrative costs are 4.9% the value of the loans. Interest charges cover 46.7% of all administrative costs. Late payment is 6.7% of the value of the outstanding loans.

There is little data on the impact of the micro-enterprise component, but it is significant that savings have increased 46%, fixed assets (including machinery, equipment and tools) have increased 91%, monthly expenditures for raw materials have increased 47%, and monthly expenditures for salaries have increased 88%. Since a major goal of the micro-enterprise component of this project is the generation of new employment, this increase in salaries is especially significant.

Solidarity group program

The results of the solidarity group component are also impressive, with 1,346 businesses assisted, organized into 226 solidarity groups; 64% of the business owners are women. To date, 704 group loans totaling \$156,695 have been granted.

Administrative costs are even lower than in the micro-enterprise component--3.6% of the value of the loans. The entire solidarity group component is managed by three field workers. Each handles approximately 75 solidarity groups with 449 members. Interest charges cover 60.2% of cost for administration. Late payment is considerably less than 1%.

The solidarity group component of PRODEM has once again demonstrated the economic feasibility of assisting the smallest informal sector businesses. Administrative costs are lower than for reaching the slightly larger micro-enterprises individually, a higher percent of project administrative costs are covered by interest charges, and the late payment rate is lower.

New directions

The major challenge faced by PRODEM is to expand quickly enough to fill the rapidly increasing demand for its services. Already the project has a backlog of six months of applications. Filanbanco, one of Ecuador's largest commercial banks, has been interested in the program since its inception. Filanbanco is willing to invest its resources in the revolving loan fund, providing this investment is protected by an outside guarantee. The use of bank funds would remove a major bottleneck for the expansion of the project, which is severely constrained because of lack of resources, and would represent a major investment of private resources into the informal sector. Since Filanbanco has branch offices throughout the country, the mechanism created in Quito could be replicated in other parts of the country. The bank, for its part, sees investment in these businesses as a source of new clients and as a source of additional resources from the savings accounts of the program's clients, in addition to providing a needed service.

The PRODEM/Filanbanco linkage presents an interesting model of private sector PVO collaboration which could have wide significance as a model for bank/local agency collaboration for attending the informal sector. Careful documentation is needed to assess both the cost and the impact of this project. Since the project is already underway, the documentation process could begin immediately.

I. MICRO-ENTERPRISE COMPONENT (First 6 months)

A. Characteristics of beneficiaries

1. Sex:	Male	68%
	Female	<u>32%</u>
		100%
2. Average # of employees per business: 2		
3. Type of business assisted:		
	Seamstress/tailors	28%
	Shoemakers	18%
	Carpenters	12%
	Upholsterers	7%
	Food processors	5%
	Weavers	4%
	Auto mechanics	3%
	Jewelers	3%
	Others	20%

B. Results to Date

	<u>October</u>	<u>Six months cumulative</u>
● New businesses financed	42	393
● Number of loans	179	947
● Value of loans	\$44,564	\$187,442
● Average value of loans	\$249	\$198
● Loans paid in full	162	553
● Value of loans paid in full	\$35,454	\$119,978
● Cost of the program per US\$ loaned	\$.049	—
● Self-sufficiency (total project costs covered by interest payments [September])	46.7%	—
● Late payment (as % of outstanding loans)	6.7%	—

● Amount late (all 15 days or less)	\$4,505 (20 loans)	—
● Amount loans where legal action taken	\$1,737 (7 loans)	—
● Losses	0	—

C. Impact (September)

	<u>Before program</u>	<u>Now</u>
a. Savings (per client)	\$101	\$148
Increase in savings	46%	46%

b. Business

- Fixed assets — 91% increase
- Raw materials — 47% increase
- Salaries — 88% increase

II. **SOLIDARITY GROUPS**

A. Characteristics of beneficiaries

1. Sex:	Male	36%	487
	Female	<u>64%</u>	<u>859</u>
	TOTAL	100%	1,346

B. Results to date

	<u>October</u>	<u>Six months cumulative</u>
● New solidarity groups formed	22	226
● Number of businesses	131	1,346
● Number of loans	180	704
● Value of loans	\$37,719	\$156,695
● Average value of loans to group	\$258	\$216
● Average value of loans to individual	\$38	\$36
● Loans paid in full	156	525
● Value loans paid in full	\$27,409	\$87,514
● Cost of program per US\$ loaned	\$.036	—

● Self-sufficiency (total project costs covered by interest payments [September])	60.2%	—
● Late payment (as % of outstanding loans)	.76%	—
● Amount late (all 15 days or less)	\$526 (4 loans)	—
● Amount loans where legal action taken	0	—
● Losses	0	—

C. Impact

	<u>Before program</u>	<u>Now</u>
1. Savings (per client)	\$5.85	\$10.35
Increase in savings	76%	

III. **PROJECT STAFFING**

A. Administrative

	<u>Full-time</u>	<u>Part-time</u>
Executive director FED		1
Project director	1	
Chief accountant	1	
Assistant accountants	1	2
Computer chief	1	
Computer assistants		1
Statistician	1	
Secretary	1	
Messenger	<u>1</u>	—
Subtotal	7	4

B. Field

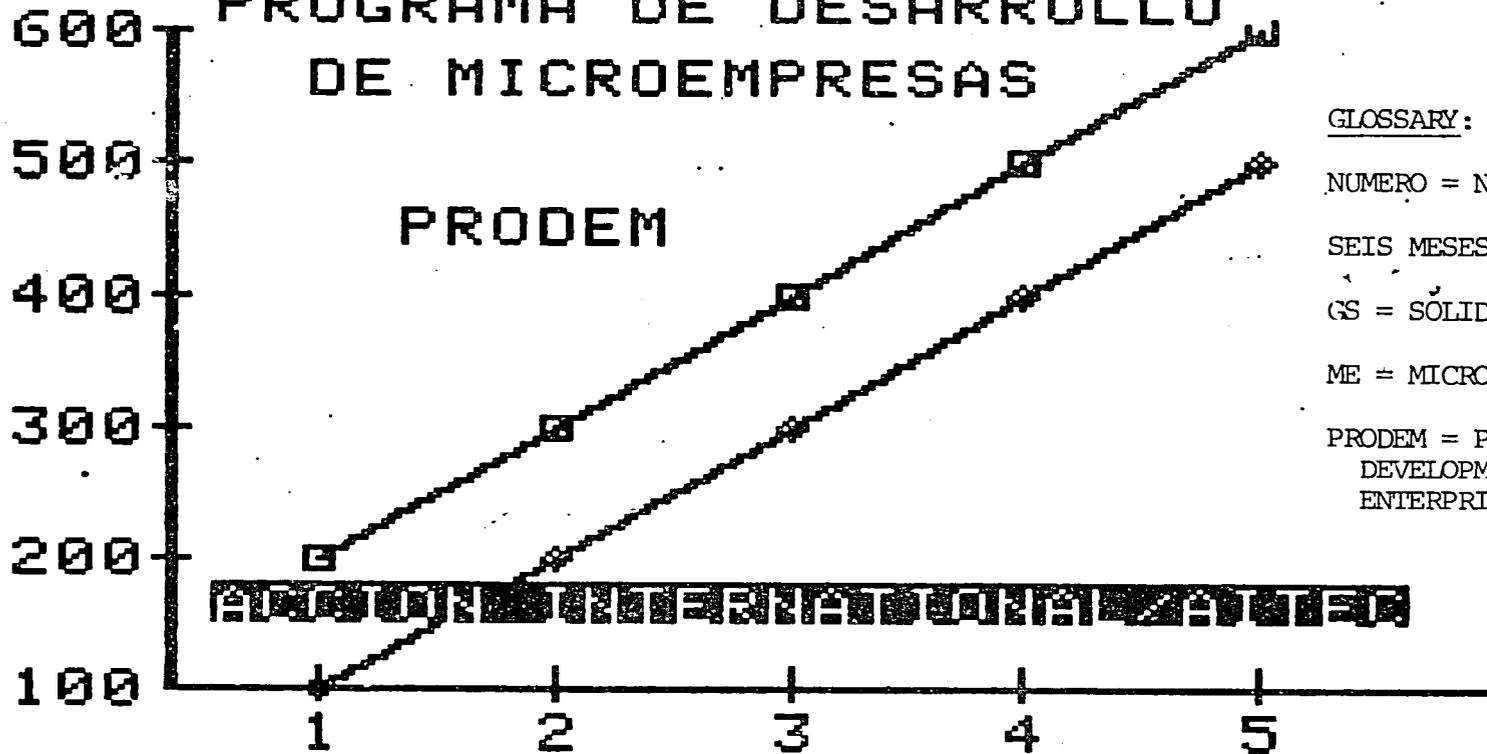
Micro-enterprise promoters	5	
Solidarity group promoters	<u>3</u>	
Subtotal	<u>8</u>	—

C. Total

	15	4
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TITLE PAGE

**FUNDACION ECUATORIANA DE DESARROLLO
PROGRAMA DE DESARROLLO
DE MICROEMPRESAS**



PRODEM

GLOSSARY:

NUMERO = NUMBER

SEIS MESES = SIX MONTHS

GS = SOLIDARITY GROUP

ME = MICRO-ENTERPRISE

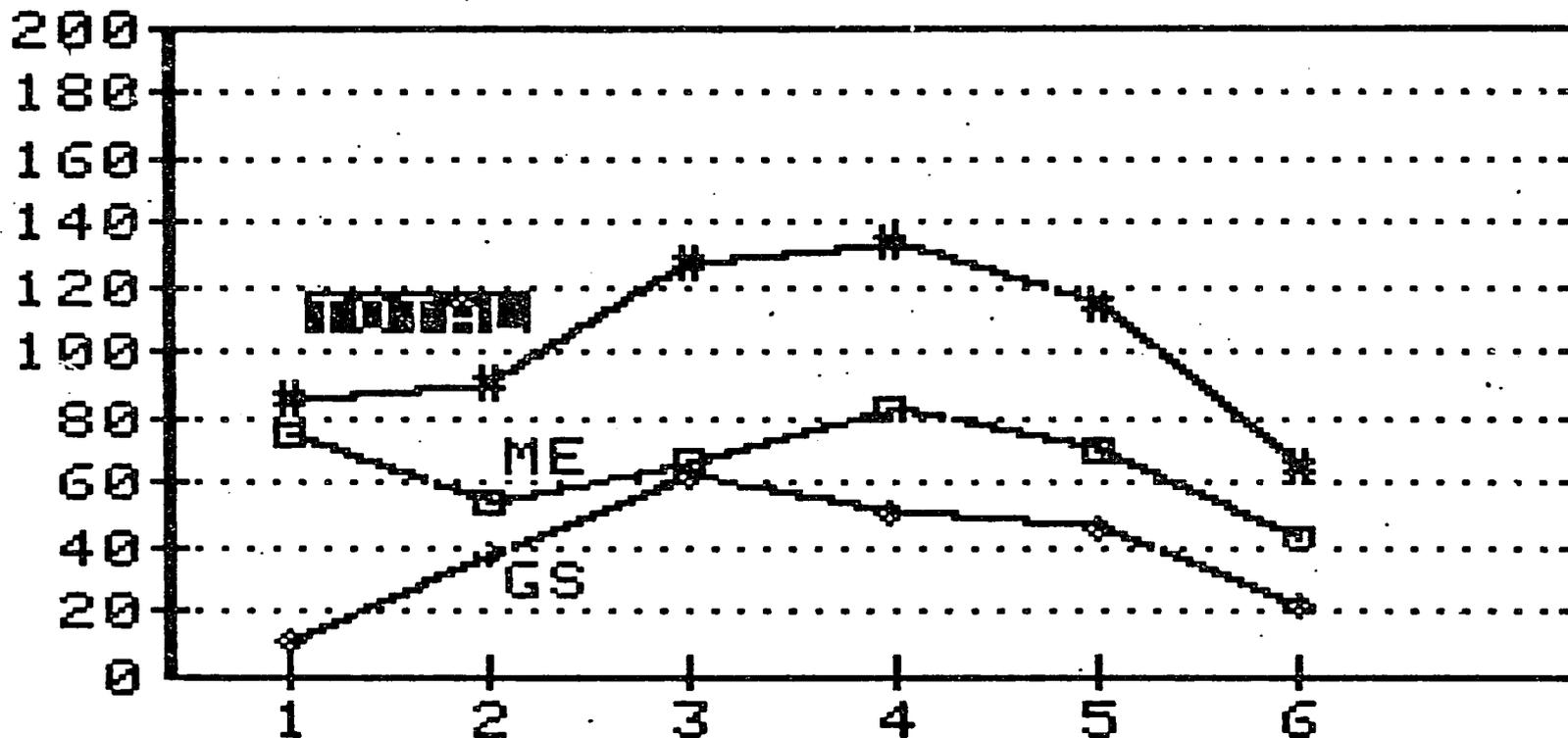
PRODEM = PROGRAM FOR THE
DEVELOPMENT OF MICRO-
ENTERPRISES

**PRIMEROS SEIS MESES
DE OPERACIONES**

NOTE: A WEIGHTED AVERAGE OF THE VALUE OF THE LOANS WAS WORKED OUT, CONSIDERING THE EXCHANGE RATE FOR THE SUCRE IN THAT MONTH, AND THE AMOUNT LOANED. A RATIO OF S/95 TO US\$1 IS FAIRLY ACCURATE.

FIRST LOANS

PRESTAMOS PRIMARIOS

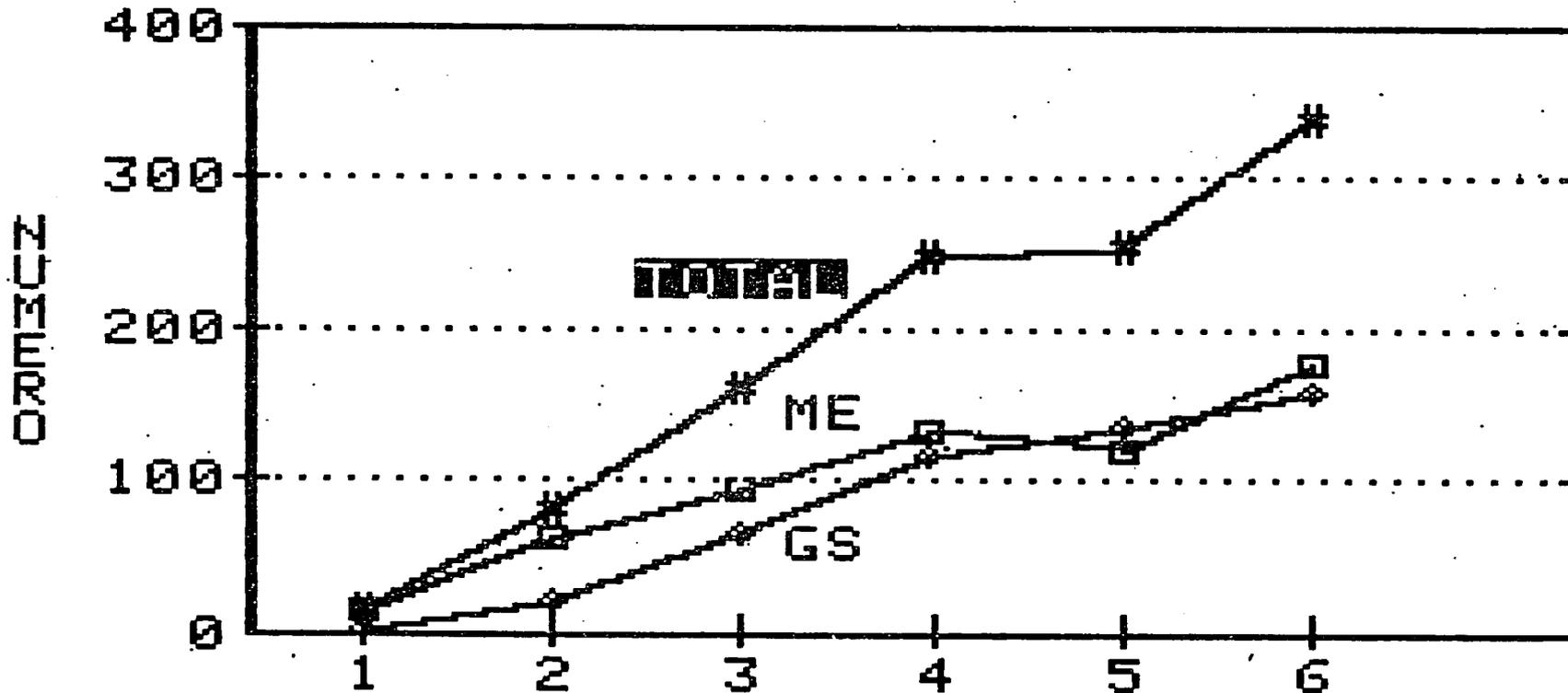


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NUMBER OF SECOND AND SUBSEQUENT LOANS

PRESTAMOS SUBSIGUIENTES



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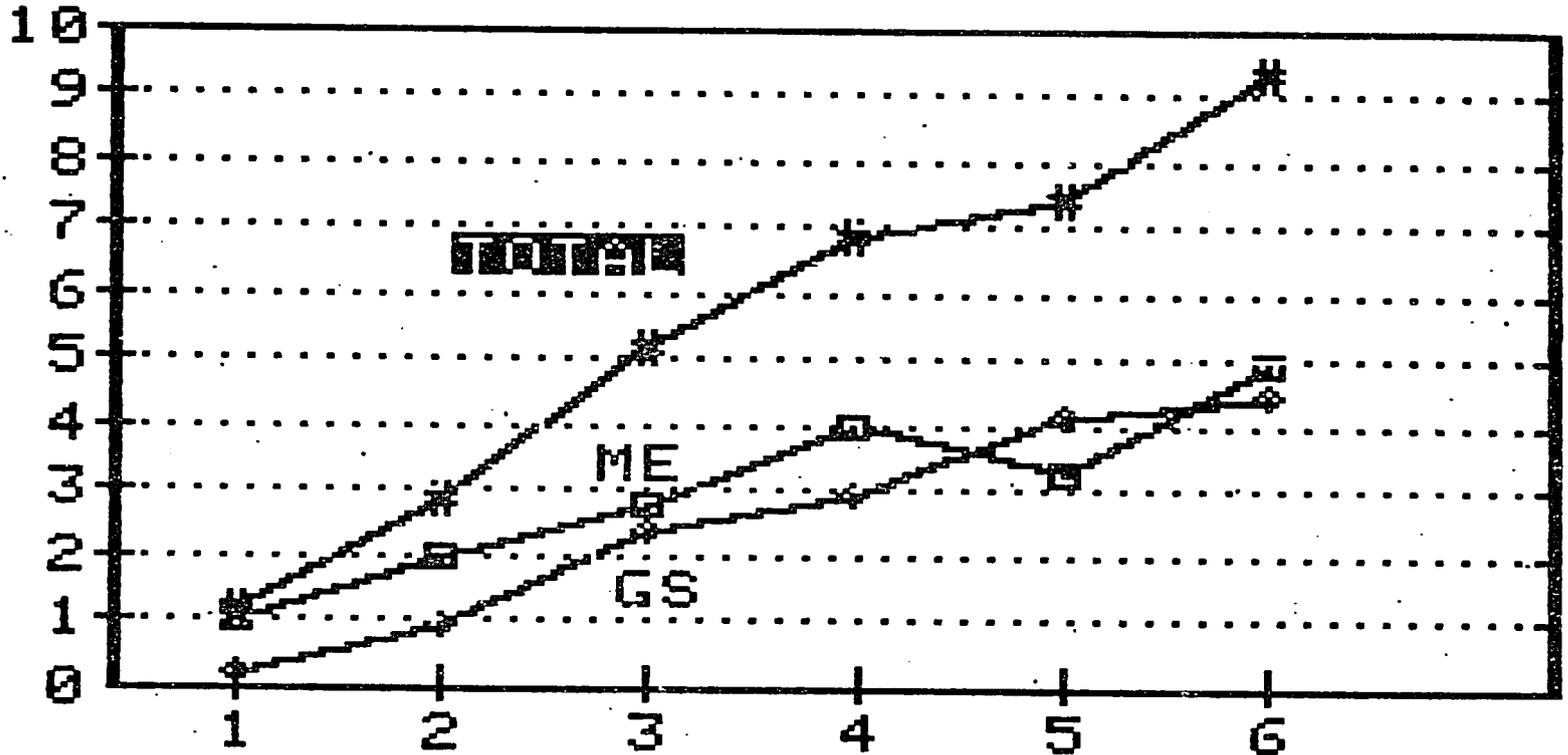
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MILLIONS
OF SUQUES

TOTAL AMOUNT LOANED TO DATE

MONTO DE PRESTAMOS

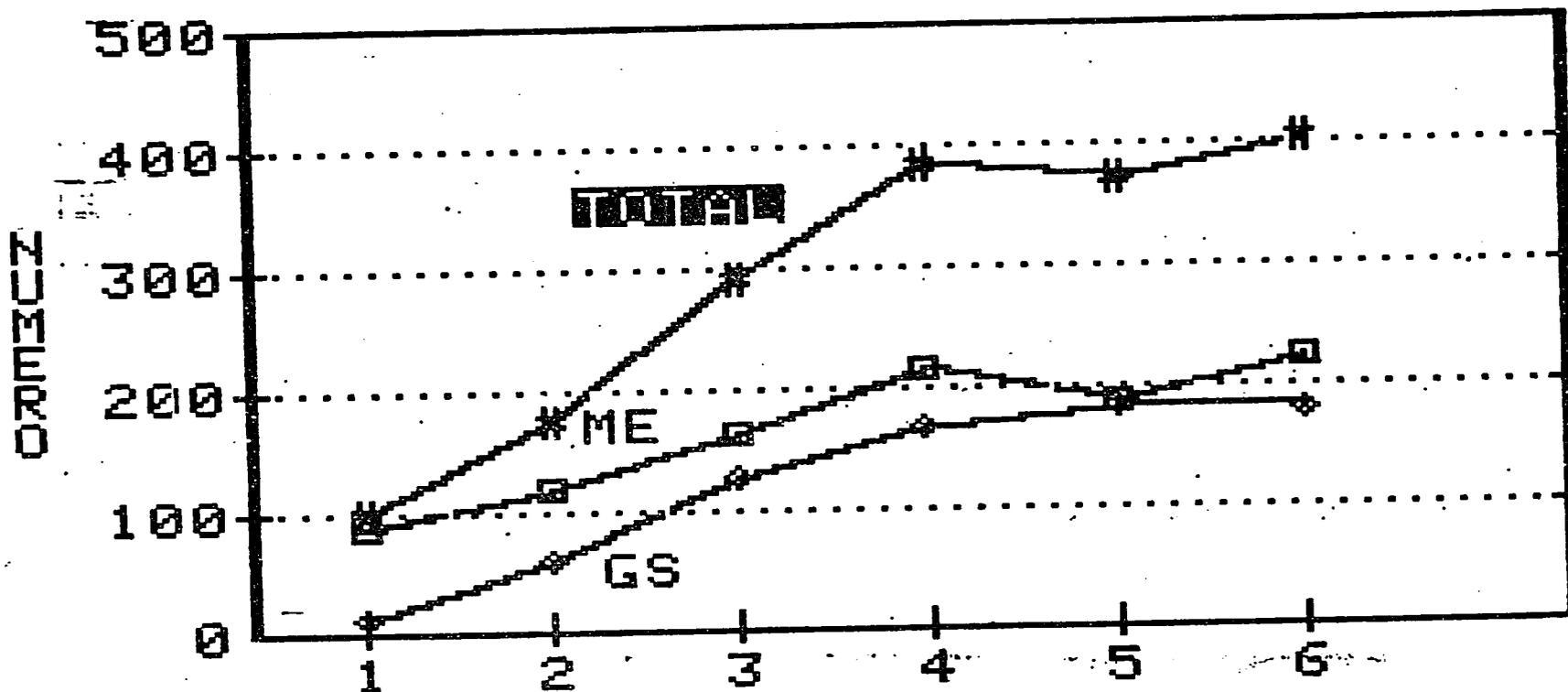
COMERCIO DE SUCRO



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TOTAL NUMBER OF LOANS TO DATE
TOTAL DE PRESTAMOS

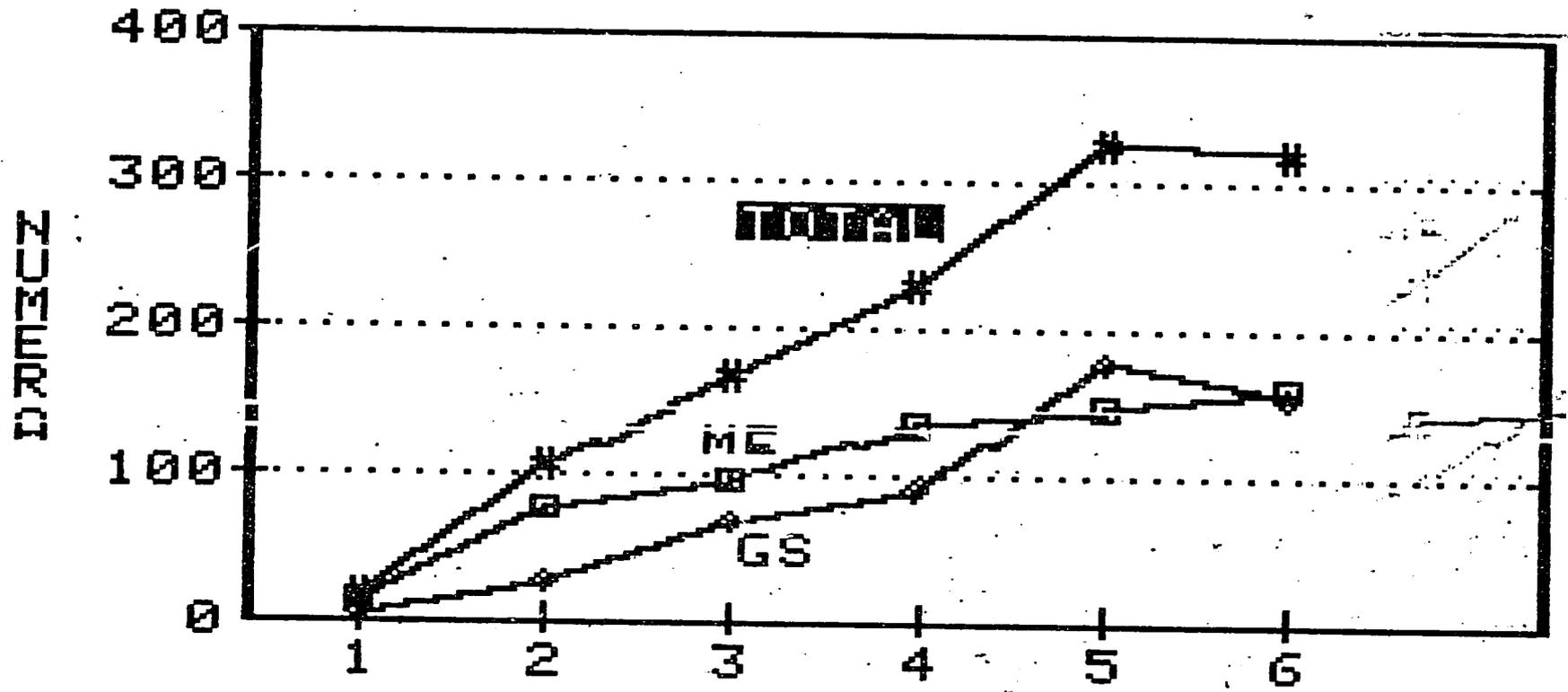


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NUMBER OF LOANS PAID IN FULL

PRESTAMOS RECUPERADOS



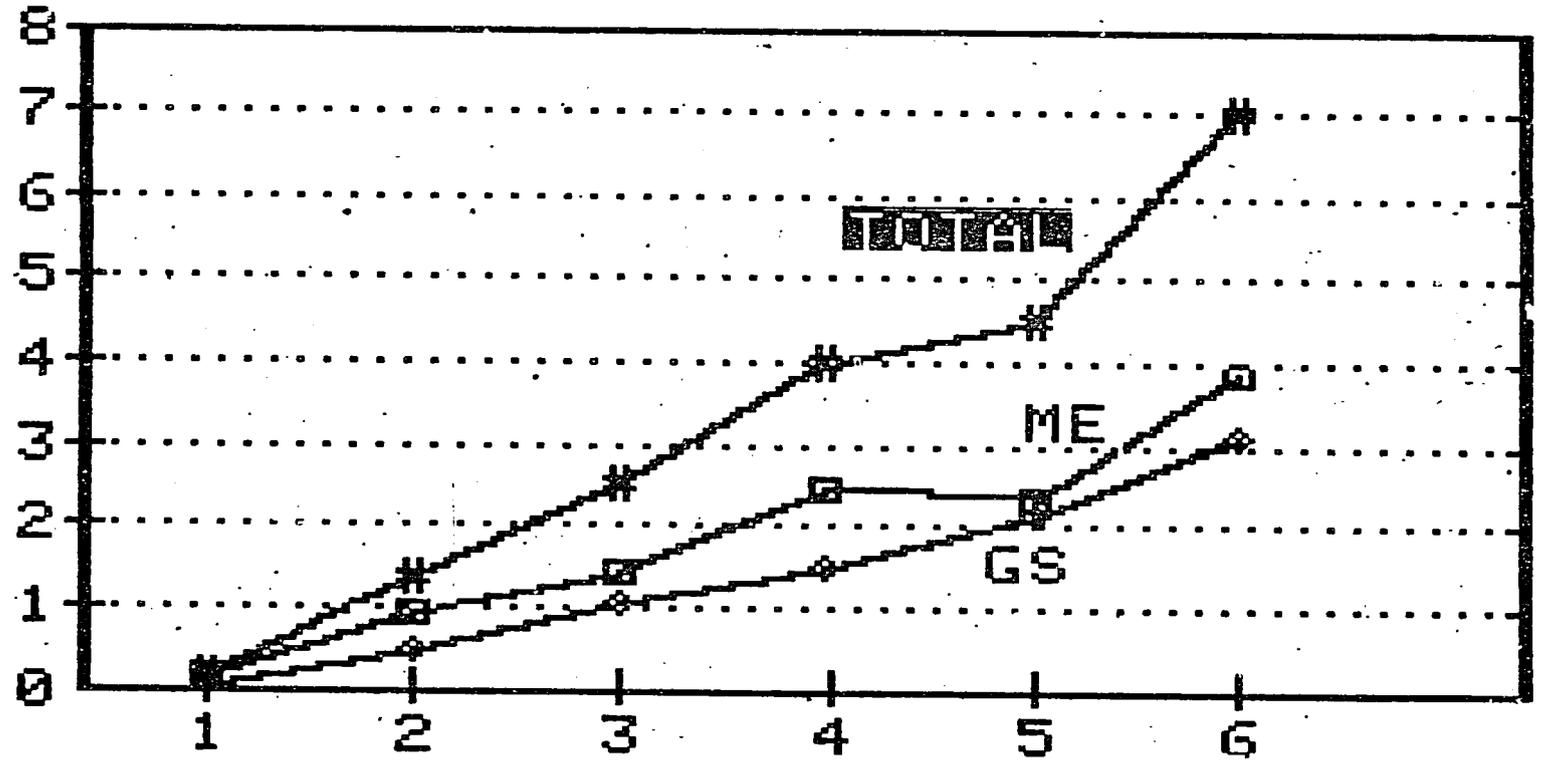
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VALUE OF LOANS PAID IN FULL

MONTO PRESTAMOS RECUPERADOS

MONTO DE LOS PRESTAMOS



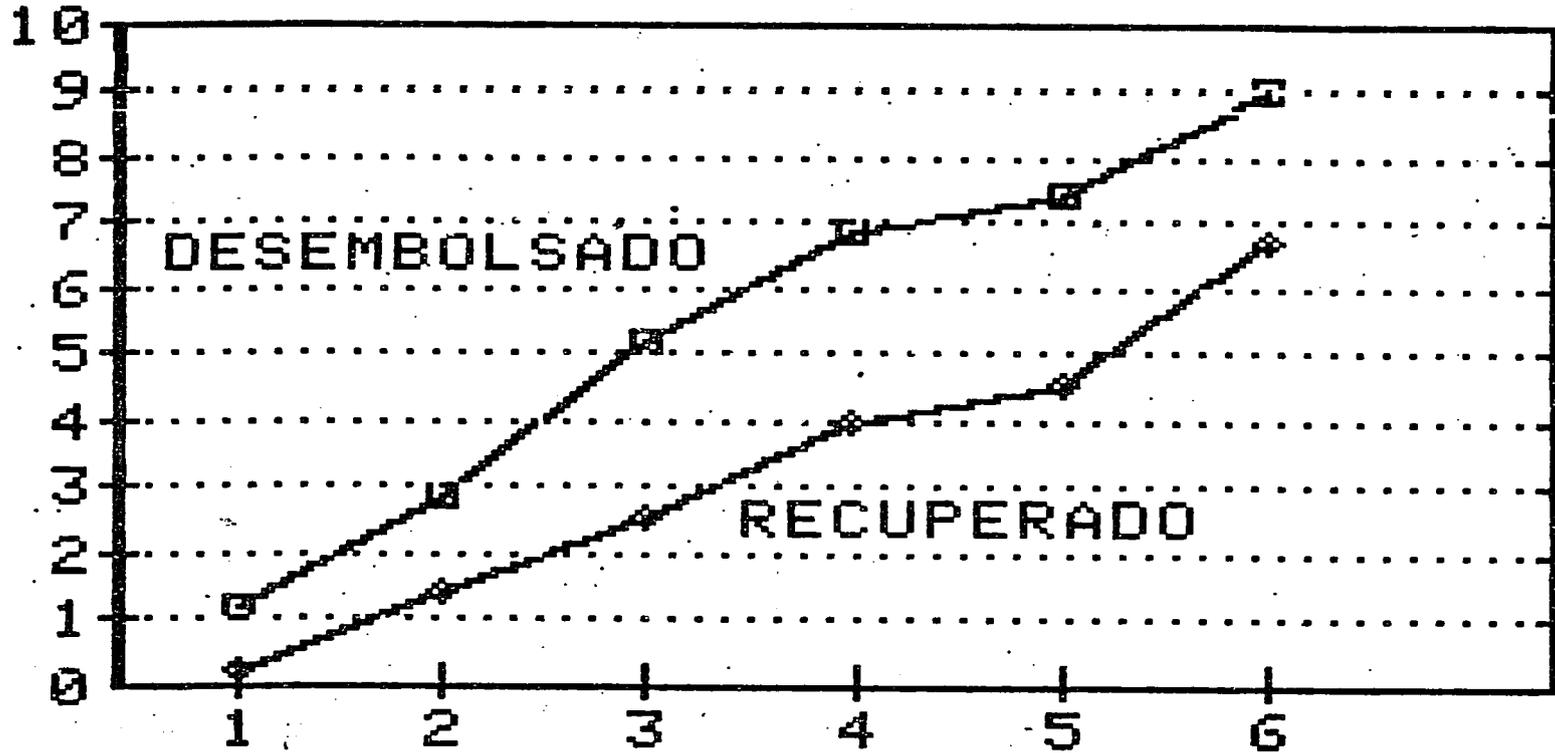
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TOTAL VALUE OF LOANS GRANTED AND PAID BACK

TOTAL DESEMBOLSADO Y RECUPERADO

SEMPRE MO SEMPRE MO

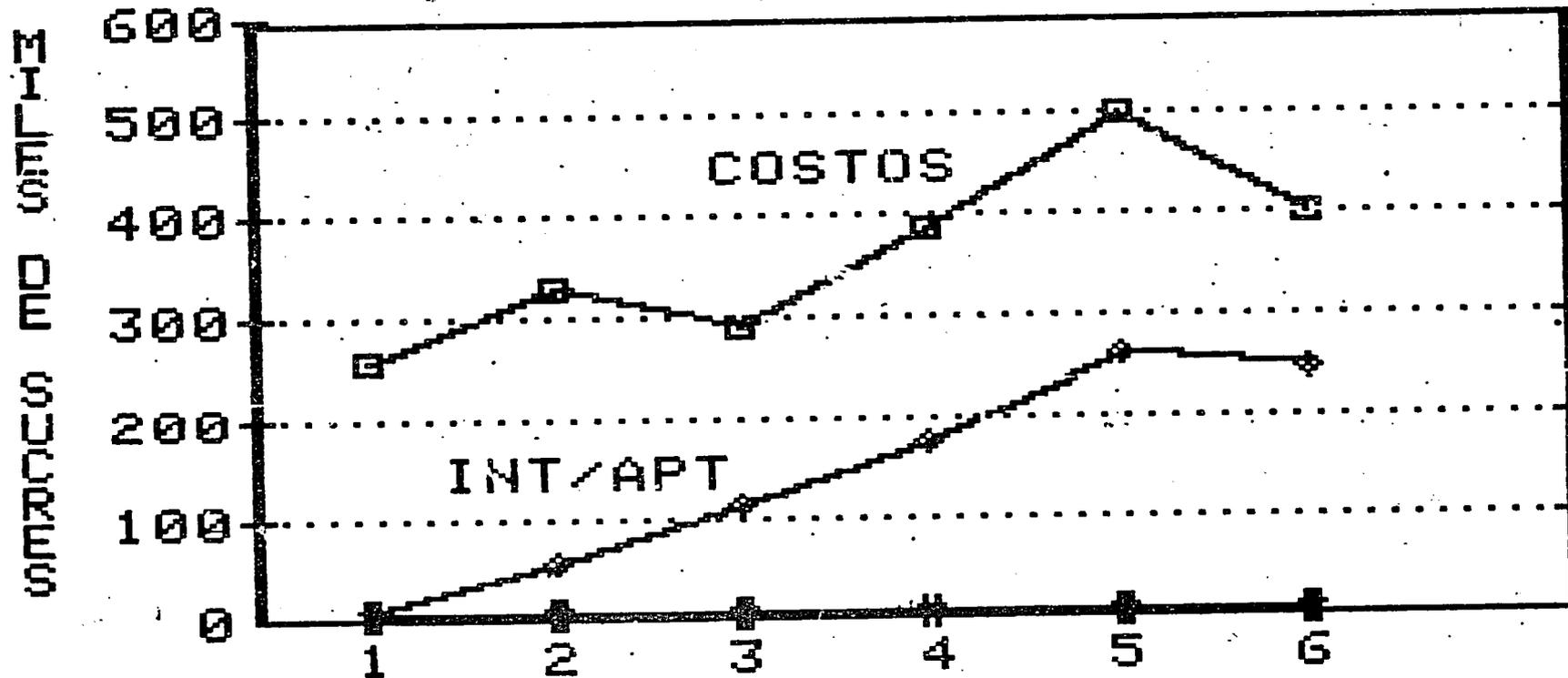


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TOTAL COST OF PRODEM AND INCOME FROM INTEREST PAYMENTS AND CHARGES

PRODEM: COSTOS/INTERES & APORTES

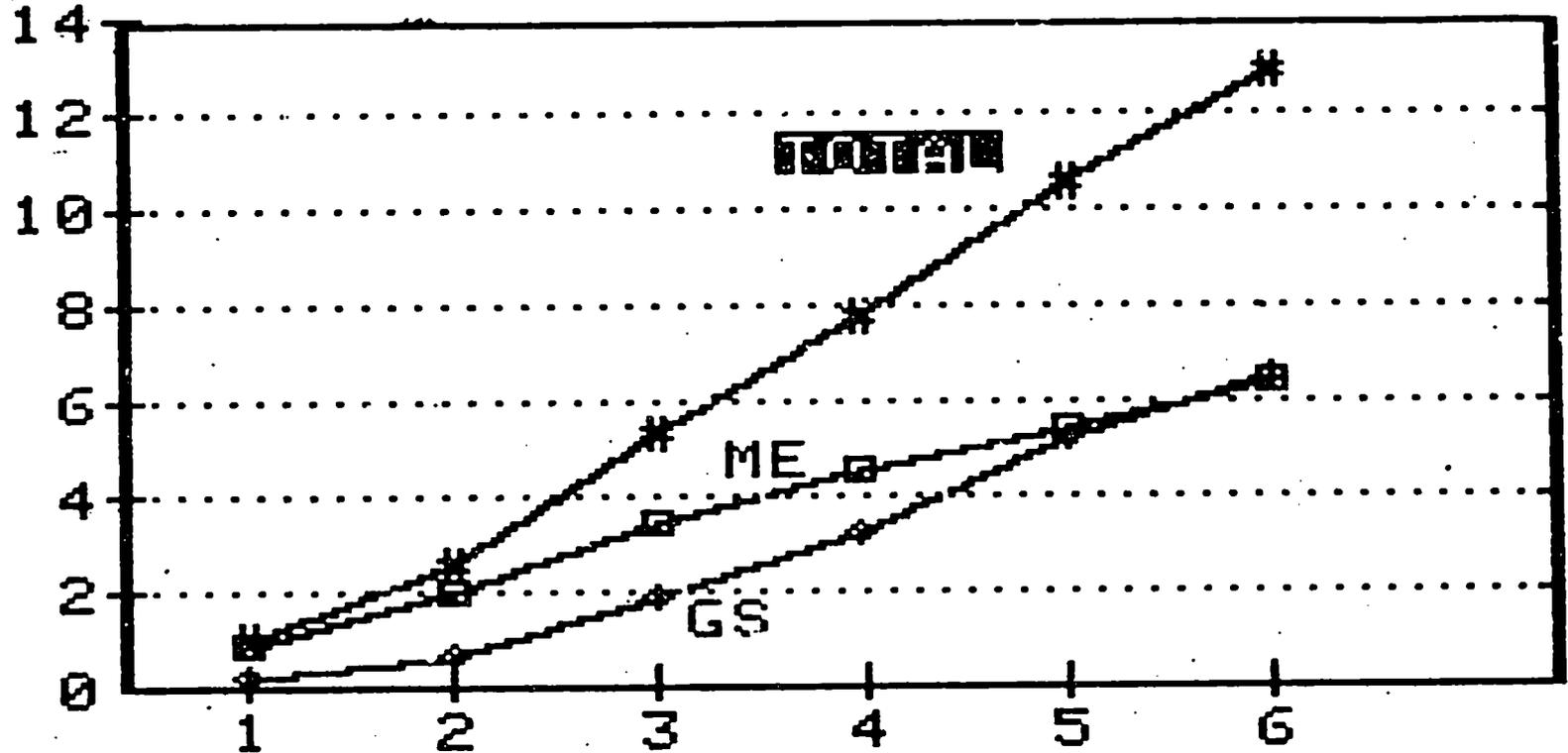


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AMOUNT OF ACTIVE LOAN PORTFOLIO

VALOR DE CARTERA ACTIVA

VALORES EN MILLONES DE DOLARES



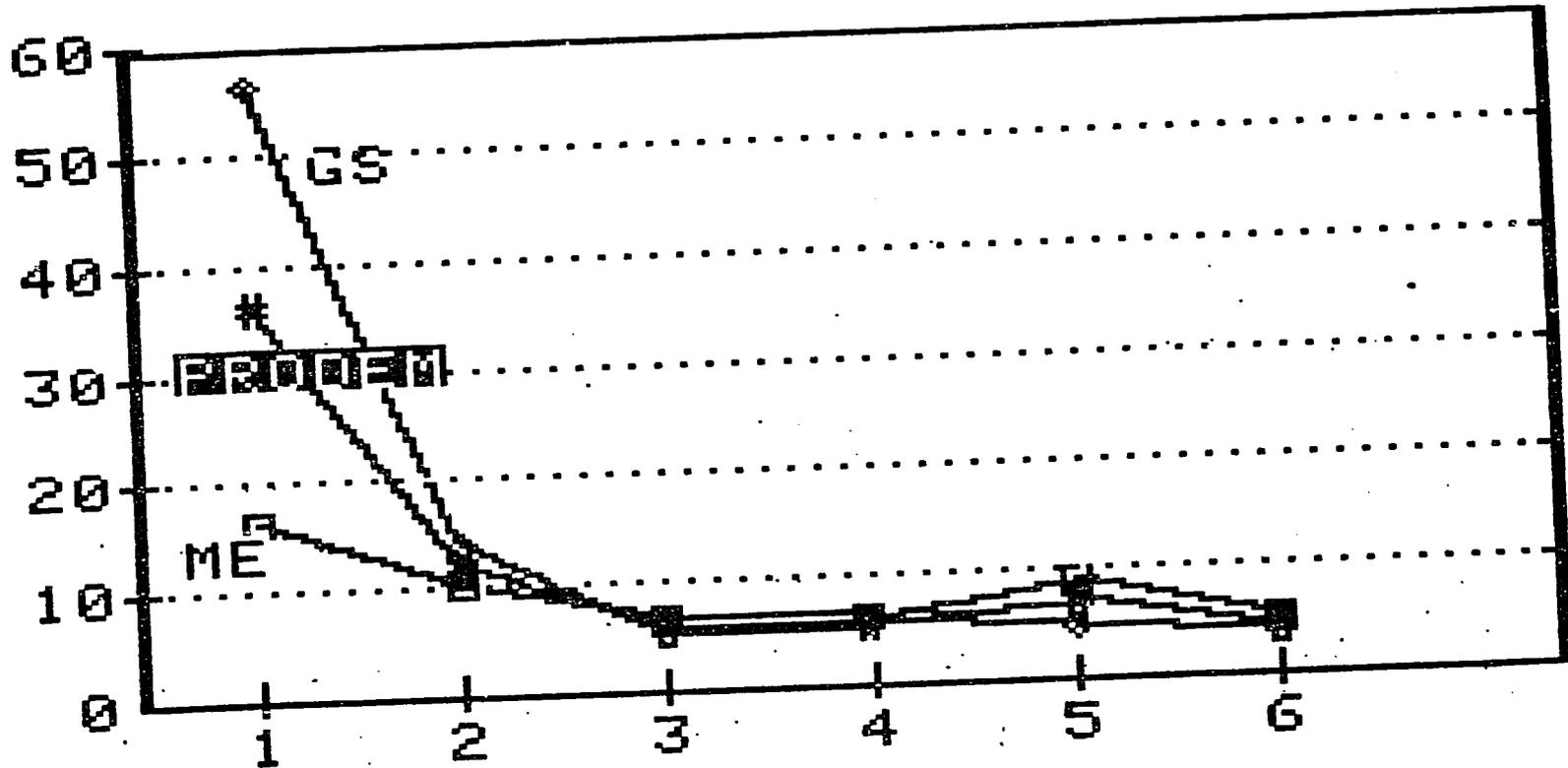
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TOTAL OF PROGRAM COST PER SUCRE LOANED (NOTE: CENTAVOS DE SUCRE =
NUMBER OF CENTS OF A SUCRE)

COSTO POR SUCRE PRESTADO

MARCO MO 0000-1200



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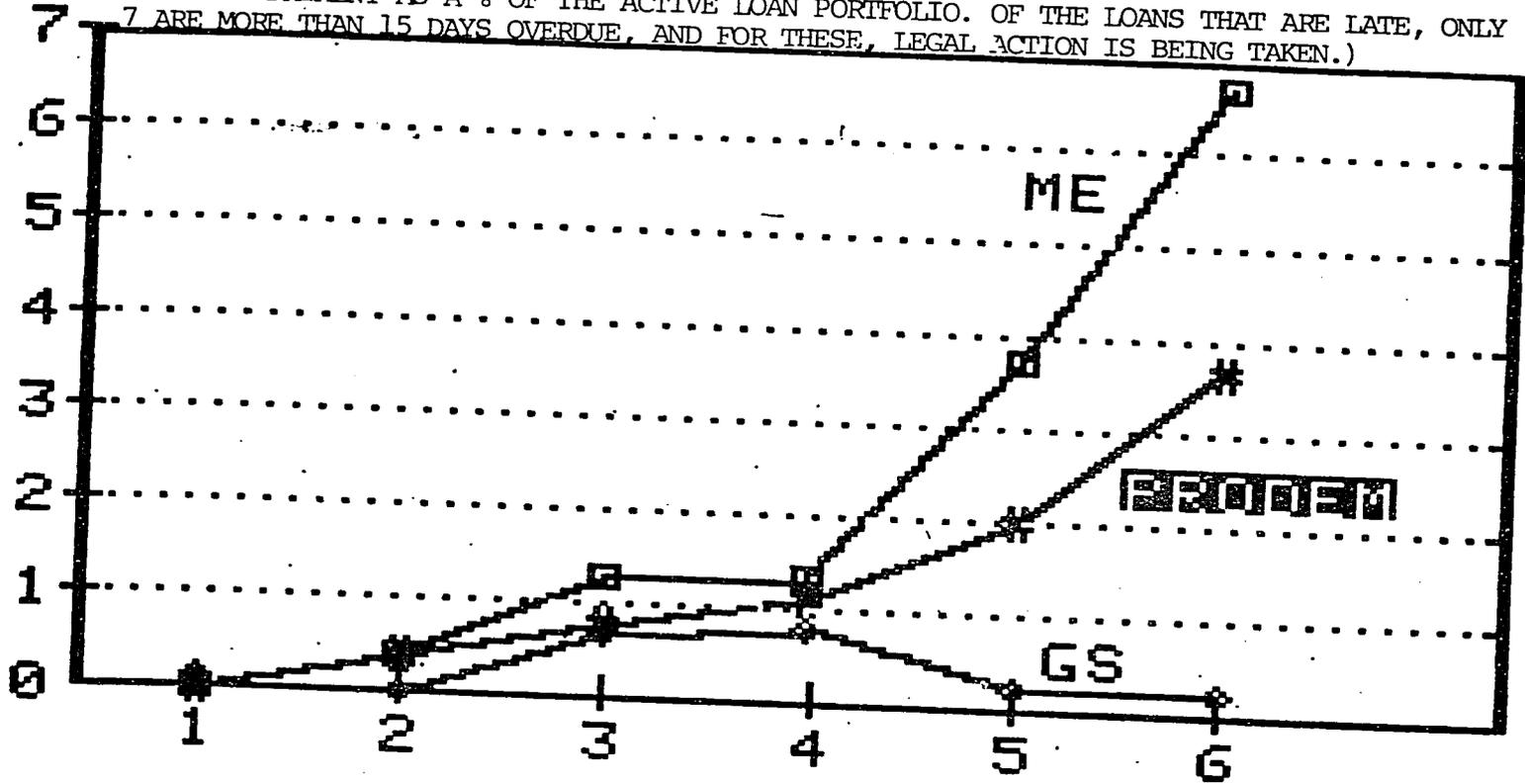
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LATE PAYMENT

MOROSIDAD

(NOTE: LATE PAYMENT AS A % OF THE ACTIVE LOAN PORTFOLIO. OF THE LOANS THAT ARE LATE, ONLY 7 ARE MORE THAN 15 DAYS OVERDUE, AND FOR THESE, LEGAL ACTION IS BEING TAKEN.)

MLD-IZMOROT

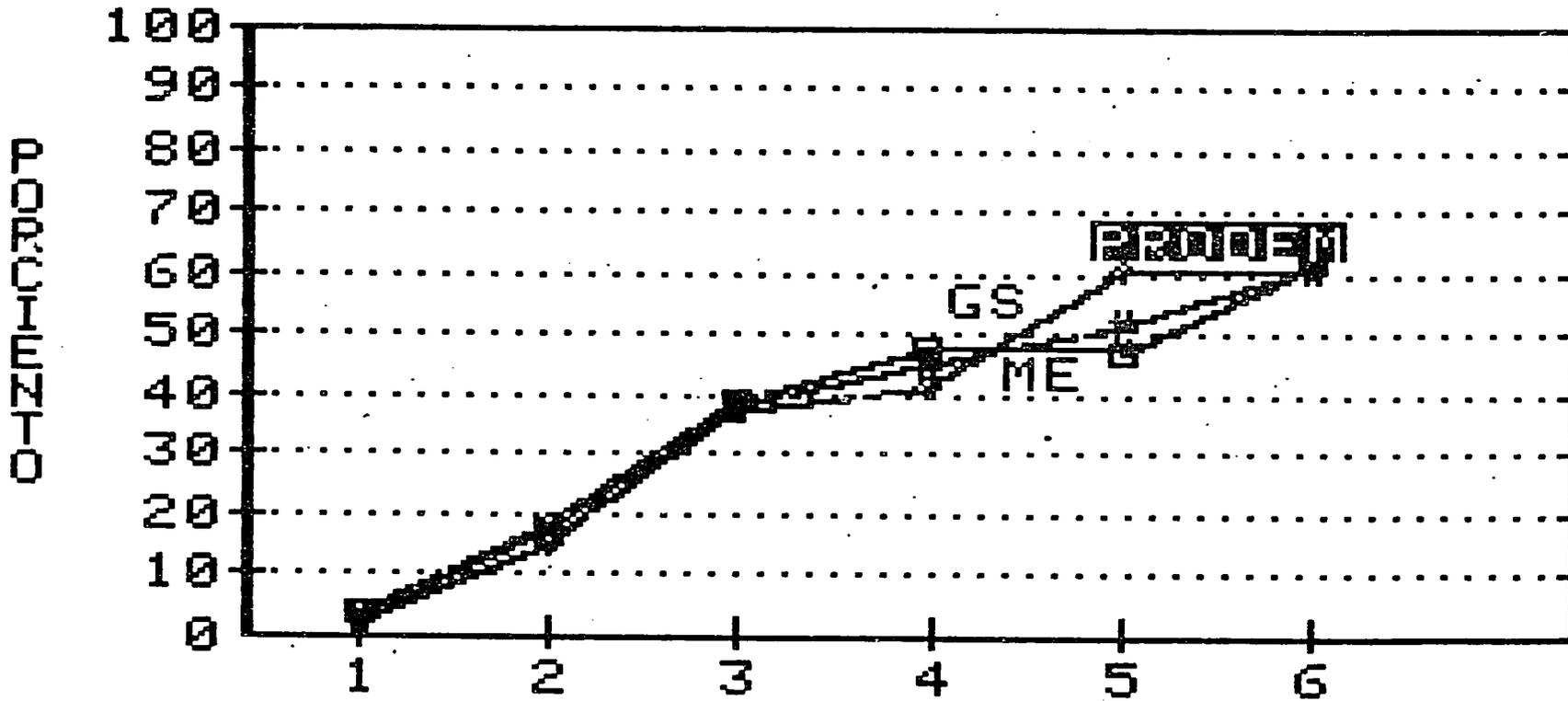


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PERCENT OF FINANCIAL SELF-SUFFICIENCY

AUTO-SUFICIENCIA FINANCIERA



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