

Data Sheet

USAID Mission:	Ecuador
Program Title:	Economic Opportunities
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	518-014
Proposed FY 2004 Obligation:	\$2,030,000 DA; \$5,000,000 ESF
Prior Year Unobligated:	\$0
Proposed FY 2005 Obligation:	\$2,700,000 DA; \$4,000,000 ESF
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2006

Summary: USAID's economic opportunities program is targeted at reducing rural and urban poverty through a two-pronged approach. The first intervention aims to improve the macroeconomic environment for more equitable growth. Activities are designed to help improve tax policy and administration; strengthen the investment climate; facilitate trade and promote competitiveness; and develop a strong, liberalized, and more transparent financial sector. The second intervention aims to develop a strong and sustainable microfinance sector in Ecuador, increasing access to financial and non-financial services by rural and urban micro-entrepreneurs. Activities are focused on institutional strengthening of microfinance service providers and the creation of a facilitative regulatory and supervisory framework.

Inputs, Outputs, Activities:

FY 2004 Program:

Macroeconomic policy reform (\$110,000 DA, \$5,000,000 ESF). USAID will continue to provide Institutional strengthening and capacity building to the Internal Revenue Service (SRI) to build stronger tax policy and administration capabilities within the institution. USAID plans to provide technical assistance to the the Ecuadorian Customs Corporation (CAE) to solidify a tamper-proof, automated customs processing and information system. USAID will also support the Superintendence of Banks (SBSE) to fortify regulatory norms, increase effectiveness, streamline supervision systems, and implement a major organizational restructuring effort to ensure that its personnel have the technical and managerial qualifications required by international standards for risk supervision. USAID will also provide technical assistance to the Ministry of Economy and Finance (MEF), the leading economic policy entity, to improve the efficiency and transparency of fiscal management. A trade capacity building program will begin to complement a \$4 million Inter-American Development Bank program. This effort will assist Ecuador in becoming an effective free trade partner with the United States and will facilitate a smooth and faster transition to free trade for some of the more highly-protected Ecuadorian sectors. Prime implementer is Development Alternatives, Inc.

Access to microfinance services (\$1,920,000 DA). USAID's high-priority activities for FY 2004 include: 1) start-up of new microfinance strengthening activities for two private banks; 2) completion of in-depth feasibility work for transforming a finance company to a commercial bank and a non-governmental organization (NGO) to a finance company; 3) completion of second-stage strategic planning for two credit unions; and 4) technical assistance to one of the largest private banks to initiate a microfinance program. USAID will support other important activities including assistance to strengthen the institutional capacity of four additional credit unions; the development of the Third Annual Ecuadorian Microfinance Forum, with special attention to furthering consensus-building on key policies affecting the microfinance industry; guiding and monitoring the SBSE's licensing decisions for establishing Ecuador's first private credit bureaus; and carrying out a nationwide micro-enterprise benchmark study. USAID will also provide funds for the institutional strengthening of two additional credit unions to qualify for formal supervision by the SBSE and will intensify this effort to the eight selected credit unions. Technical assistance will focus on: 1) creating and using business plans; 2) policy reform in the areas of savings, credit and collections, investment, asset-liability management, human resource and internal controls; 3) credit analysis,

administration, and collections; 4) savings mobilization; 5) risk management and 6) financial monitoring. Prime implementers are Development Alternatives, Inc. and the World Council of Credit Unions.

FY 2005 Program:

Macroeconomic policy reform (\$298,000 DA, \$4,000,000 ESF). Planned assistance to the SRI will focus on promoting equity in the taxation system, and on continued strengthening of the audit and administrative capacities of the institution. With the appropriate demonstrated political will, USAID will continue to fund CAE's reform strategy to reduce corrupt practices. Activities to strengthen the financial sector will continue through fortifying the regulatory norms and capabilities of the SBSE. USAID will also continue to support MEF's efforts to solidify its reorganization and enhance its operational functions with respect to the implementation of the fiscal reform. Activities to promote trade, competitiveness, and structural reforms in Ecuador will continue to be an important part of the macroeconomic component in FY 2005. Selected activities will depend on the progress of trade agreement preparations and opportunities for helping to enhance competitiveness. Same implementer as above.

Access to microfinance services (\$2,402,000 DA). Funds will be used to continue intensive technical assistance to microfinance service providers, including banks, finance companies, credit unions, and NGOs committed to becoming licensed financial intermediaries. Same implementer as above.

Performance and Results: Positive macroeconomic results obtained to date have depended upon the Government's willingness for change. The program's transition to the newly elected Gutierrez administration was successful and previous groundwork for major activities was endorsed. Technical assistance to improve tax collection and administration with the SRI is bearing fruit. Through September 2003, actual tax revenue collections represented 12% of the Gross Domestic Product (GDP), this result annualized would be one percentage point above the planned figure of 14%. Long-term benchmark agreements containing actionable plans conditioned by results were signed with the SBSE and the MEF. Successful initial discussions with the public sector will lead to a highly facilitative program, provided Ecuador meaningfully participates in free trade agreement talks, and presents complementary trade positions based on its partners' respective competitive advantages, thus creating a solid basis for realistically implementable treaties. USAID continues to collaborate with the major multilateral donors and leverages the successes of each throughout all aspects of its macroeconomic program. Although USAID's assistance will continue to support institutional and policy reforms, political will remains the significant factor affecting the success of macroeconomic activities.

The key to the success of the microfinance component is the enhanced performance of microfinance service providers. Through September 2003 the 16 assisted institutions have increased the number of credit clients by 37,150 to a total of 189,600, and reached an average financial sustainability of 109% based on key financial indicators, with less than 5% of portfolio at risk. In addition, remarkable strides have been achieved in microfinance supervision, paving the way for rigorous oversight, and have even spread into the supervision of other financial service areas as well. Given the severe impact of the 1999 financial crisis, this is an important advance and a prerequisite for a sound economic climate according to the IMF. USAID assisted the SBSE on the development of new manuals for supervision of microfinance institutions and the establishment of a new microfinance normative framework. For the first time, due to USAID's technical assistance and the Government of Ecuador's will, private credit bureaus are now authorized to operate in Ecuador. In FY 2003 three credit bureau companies obtained business licenses and a fourth is in process. A national network of 15 credit unions will be established.

By the end of FY 2006, USAID expects a sustainable microfinance sector in Ecuador through strengthened service providers and a facilitative regulatory and supervisory framework for the sector. Goals through 2006 include an increase of 350% in the number of microcredit clients that are served by institutions which are 100% financially sustainable.

US Financing in Thousands of Dollars

Ecuador

518-014 Economic Opportunities	DA	DCA	ESF
Through September 30, 2002			
Obligations	2,882	198	7,326
Expenditures	1,704	0	274
Unliquidated	1,178	198	7,052
Fiscal Year 2003			
Obligations	1,810	0	5,249
Expenditures	975	0	3,090
Through September 30, 2003			
Obligations	4,692	198	12,575
Expenditures	2,679	0	3,364
Unliquidated	2,013	198	9,211
Prior Year Unobligated Funds			
Obligations	0	0	0
Planned Fiscal Year 2004 NOA			
Obligations	2,030	0	4,000
Total Planned Fiscal Year 2004			
Obligations	2,030	0	4,000
Proposed Fiscal Year 2005 NOA			
Obligations	2,308	0	4,000
Future Obligations	0	0	0
Est. Total Cost	9,030	198	20,575