

## Data Sheet

<b>USAID Mission:</b>	Ecuador
<b>Program Title:</b>	Economic Opportunities
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	518-014
<b>Status:</b>	Continuing
<b>Planned FY 2005 Obligation:</b>	\$1,980,000 DA; \$4,646,000 ESF
<b>Prior Year Unobligated:</b>	\$616,000 DCA
<b>Proposed FY 2006 Obligation:</b>	\$2,485,000 DA; \$2,400,000 ESF
<b>Year of Initial Obligation:</b>	2001
<b>Estimated Year of Final Obligation:</b>	2006

**Summary:** The program is targeted at reducing both rural and urban poverty through a two-pronged approach. The first intervention aims to help improve tax policy and administration, promote sound budget management and transparency of accounts, and facilitate global trade (especially a free trade agreement, or FTA, with the United States), investment, and competitiveness. The second intervention aims to develop a strong and sustainable microfinance sector in Ecuador, increasing access to financial services by urban and rural microentrepreneurs. Activities focus on institutional strengthening of microfinance service providers and the creation of a facilitative regulatory and supervisory framework with adequate prudential norms and supervision to protect the financial sector, including deposits.

### **Inputs, Outputs, Activities:**

**FY 2005 Program:** Improve Economic Policy and Governance (\$1,430,000 ESF). Institutional strengthening and capacity building of Ecuador's Internal Revenue Service will continue, with a particular focus on controlling tax evasion by the largest businesses and largest contributors, and the respective supervision and audit capabilities. An ethics training program will also be undertaken. If political will is firmly demonstrated, USAID will provide assistance to the Ecuadorian Customs Corporation to solidify a tamper-proof, automated customs processing and information system, a reform which is key to a FTA. Technical assistance to the Ministry of Economy and Finance, the leading economic entity, will improve its processes and personnel and information systems and facilitate rightsizing. The prime contractor is Development Alternatives, Inc. (DAI).

Increase Participation in Global Trade and Investment (\$2,000,000 ESF). In preparation for a FTA, USAID will fund technical assistance to help adapt Ecuador's laws and institutions to and train government officials in the new rules of free trade. Outreach activities, negotiation games, and workshops will continue to inform Ecuadorians about the benefits and opportunities of having more open borders. The prime contractor is DAI.

Increase Private Sector Growth (\$924,000 ESF). USAID will support the establishment of a market intelligence system that will broker deals between buyers and producers, identifying new market outlets to bypass the traditional middlemen. The prime contractor is DAI.

Strengthen Financial Sector's Contribution to Economic Growth (\$1,980,000 DA, 292,000 ESF, and \$616,000 DCA carryover). Activities include the development of new financial products for microentrepreneurs; technical assistance to the 2nd largest bank for a full-scale microfinance program; and institutional strengthening to credit unions to qualify for formal supervision by the Superintendency of Banks (SBSE). Assistance for share branching will continue to expand the network of cooperatives performing financial transactions for any member of the network, including extension of the share branching system to the United States for one credit union. Support to the SBSE will continue to modernize regulatory norms, support private sector credit

bureaus, upgrade insurance norms, and implement a risk-based supervision system as required by the Basel Accords. DCA prior year funding will be used to guarantee 50% of the loan principal of a commercial loan. Funds will expand access by small and medium exporters to financial services, especially new and existing exporters who are expanding their market share. The funds will finance plant modernization and provide security for additional funding sources to complement overseas financial backing and promissory notes from importers. The prime contractor is DAI and prime grantee the World Council of Credit Unions.

**FY 2006 Program:** Improve Economic Policy and Governance (\$800,000 ESF). USAID plans to focus on consolidating the audit and administrative capacities of Ecuador's Internal Revenue Service, as well as the Ministry of Economy and Finance restructuring program. USAID will oversee implementation of the reforms and support the GOE in any needed adjustments. Contractors and grantees to be determined.

Increase Participation in Global Trade and Investment (\$1,500,000 ESF). USAID assistance will help move forward reforms required as conditions for the FTA and help Ecuador engage more successfully in trade-related activities. USAID plans to continue outreach activities for different audiences to promote greater broad-based support as the FTA begins to take effect. Contractors and grantees to be determined.

Increase Private Sector Growth (\$800,000 DA). USAID will support competitiveness at various production stages for selected product sectors. Successful outcomes on selected activities will depend on efforts to reform leadership and on the progress of trade agreement negotiations. The contractor will remain the same.

Strengthen Financial Sector's Contribution to Economic Growth (\$1,685,000 DA, \$100,000 ESF). Activities to support the SBSE include: a Credit Bureau law to provide stability to the private credit bureaus; new regulatory norms for the insurance sector; new norms for the rating agencies; the adoption of a new financial law to protect insolvencies and creditors' rights and remedies; and a bankruptcy law to permit reorganization of corporations, partnerships, and individuals with large debts to find ways to catch up on past due payments. Assistance will be provided to develop new financial products to support export-oriented and small businesses. Financial products to capture remittances will be developed to support economic growth activities. The prime contractor and grantee will remain the same.

**Performance and Results:** Positive macroeconomic results obtained to date depended upon the government's will for change. Assistance to Ecuador's Internal Revenue Service is bearing fruit, particularly in the area of controlling tax evasion through transfer pricing. Tax revenue collections annualized for 2004 represent 16.8% of the gross domestic product, exceeding the planned target of 14.5%. Support to prepare the country for FTA negotiations has been successful, evidenced by the satisfaction expressed by Government authorities as well as private sector officials.

During FY 2004, USAID signed two loan guarantee agreements to leverage \$12.4 million to expand the microfinance programs of two institutions. As a result of USAID support for a credit bureau system, there are six private credit bureaus operating in Ecuador. Assistance was also provided to develop updated "Risk Norms" that identify market, credit, operational, and performance risk. An initial assessment of the insurance sector has been conducted to review and update the regulatory norms, develop manuals, and train supervisors. The microfinance network included five additional partners for a total of 22 institutions. By September 2004, the number of credit clients had increased by 30% to nearly 260,000 in just nine months. The number of saving clients also increased 22% to more than 388,000. Portfolios with late payments more than 30 days remained at a low 3.9%, while the overall average for the microfinance industry in Ecuador is 6.1%.

By program completion, at least 30% of the microenterprises in Ecuador will have access to financial services, the SBSE will implement systems required by the Basel Accords (an initiative to align capital with risk faced by banks). GOE institutions will have implemented modern administrations systems and procedures, and the FTA requirements will be met.

## US Financing in Thousands of Dollars

Ecuador

518-014 Economic Opportunities	DA	DCA	ESF
<b>Through September 30, 2003</b>			
Obligations	4,692	0	12,575
Expenditures	2,679	0	3,364
Unliquidated	2,013	0	9,211
<b>Fiscal Year 2004</b>			
Obligations	530	884	3,050
Expenditures	306	0	5,545
<b>Through September 30, 2004</b>			
Obligations	5,222	884	15,625
Expenditures	2,985	0	8,909
Unliquidated	2,237	884	6,716
<b>Prior Year Unobligated Funds</b>			
Obligations	0	616	0
<b>Planned Fiscal Year 2005 NOA</b>			
Obligations	1,980	0	4,646
<b>Total Planned Fiscal Year 2005</b>			
Obligations	1,980	616	4,646
<b>Proposed Fiscal Year 2006 NOA</b>			
Obligations	2,485	0	2,400
Future Obligations	0	0	0
Est. Total Cost	9,687	1,500	22,671