DCA LOAN GUARANTEE

ECUADOR

IMPACT BRIEF

AUGUST 2011

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BACKGROUND

Almost 50% of Ecuador's economic activity is concentrated in two cities: Quito and Guayaquil. The supply of Ecuador's finance to the micro, small and medium enterprise (MSME) sectors follows suit, with enterprise finance concentrated in these departments, and more specifically in urban centers. With its arrival to power in 2007, the Correa Government pledged to accelerate economic growth in rural areas by facilitating finance and support to the productive sector, primarily through public mechanisms.

In early 2007, USAID/ Ecuador began its support to the Productive Network project to contribute to the mission's strategy to tackle the root obstacles to trade and investment-led growth in Ecuador. This project's value chain development work brought to light the critical need for more financing to support the growth of the productive sector in the country. Productive Network's approach to address the lack of financing for MSMEs was to help banks understand better the commercial opportunities available to them, complementing the government's efforts to support the productive sector.

ABOUT DCA

USAID's Development Credit Authority (DCA) was created in 1998 to mobilize local private capital through the establishment of real risk sharing relationships with private financial institutions in USAID countries. The tool is available to all USAID overseas missions and can be used as a vehicle for providing much needed credit to an array of enterprises and underserved sectors. DCA is already active with credit guarantee agreements in many USAID countries. This Impact Brief examines the findings from a guarantee program operating in Ecuador.

In May 2007, USAID/Ecuador signed an agreement to provide two local microfinance banks- Credife- a subsidiary of the country's largest bank Banco Pichincha, and ProCcredit- with a partial credit guarantee to strengthen the banks' ability to finance loans to small producers and eco-tourism operators to increase productivity, and identify new markets by improving value chain efficiencies. The overall purpose of the guarantee was to provide productive loans to participants in the agriculture, agro-industry, industrial and eco-tourism value chains to stimulate economic growth in rural areas.

To ensure a high utilization rate of the DCA guarantee, USAID/Ecuador and the Productive Network project provided staff from both banks with a two-week training on the use of the value chain methodology as a financing tool, as well as in the use of new financial products (such as factoring and leasing) for the micro, small and medium enterprise (MSME) sectors that could also potentially fall under the DCA guarantee loan program.

The training program involved bank staff in site visits to businesses to analyze the operations and lending opportunities in specific clusters, many already involved in the Productive Network value-chain work (dairy, leather, shoes, herbs and oils, heart of palm, tourism, wood products, fruits, vegetables, rice). By helping trainees understand the inner workings of all the businesses involved in these value chains, participants were able to evaluate more accurately the real risks associated with lending to these MSME firms.

In 2008, the effects of the global financial crisis began to hit Ecuador. The loan portfolios of banks serving the MSME sectors suffered as many clients, particularly those involved in exports, could not make their loan payments. Savings levels in national banks also plummeted as clients withdrew funds to invest elsewhere. As a countermeasure, the Government of Ecuador created new policies regulating the financial sector, such as fixing interest rates for MSME clients, and restricting profits on bank services. Although the idea behind these policy changes was to reduce costs and improve services for customers, the policies had the opposite effect, as banks severely restricted their lending and began to move away from the more costly-to-serve microfinance sector. It is within this context that the DCA guarantee program began its implementation within Ecuador.

2009 MID-TERM EVALUATION

In 2009, USAID/Ecuador commissioned a mid-term evaluation of the use of the DCA instrument in Ecuador to determine to what extent the guarantee was allowing banks to expand loans to the micro, small and medium sized enterprises operating in the agricultural, agro-industry, industrial and eco-tourism value chains, and what percentage of these loans were being made outside of the country's largest cities, Quito and Guayaquil. The evaluators were also asked to recommend how to re-program funds that were originally assigned to a third microfinance bank in Ecuador, which withdrew from the project shortly after the agreement with USAID was signed.

  

EVALUATION METHODOLOGY

An evaluation team created a methodology and interview questions to guide the DCA program evaluation in Ecuador. The team used quantitative and qualitative methods to answer the questions laid out in the evaluation scope of work. Consultants conducted a review of national economic data, held interviews with representatives of Ecuador's Central Bank and bank representatives from Credife and ProCredit, and held interviews with clients of the DCA loan guarantee program, in addition to reviewing financial information provided by the banks to the DCA program centralized database.

KEY FINDINGS AND CONCLUSIONS OF THE MID-TERM EVALUATION

OUTPUT

Conclusions: The DCA guarantees helped both banks increase their lending to the MSME sector. Both banks used the guarantees to gain experience with new borrowers and industries, focusing on the sectors and geographic areas prioritized by USAID and the Government of Ecuador.

Findings in support of those conclusions include:

• Although both banks began DCA guarantee operations during a global financial crisis and within an unfavorable policy environment, both institutions were able to utilize 57% of the guarantee fund, and concentrate 68.7% of the DCA-backed loans to businesses outside of the major departments of Quito and Guayaquil.

• More than half of the loans made with the DCA guarantee (50.7%) supported productive enterprises, 36.8% went towards the agricultural sector, and 9.5% supported the tourism industry, demonstrating that MSME finance programs can effectively target productive enterprises. Of the 1,228 loans made, 45.6% of loans went to women and 54.4% went to men.

• In terms of utilization, one bank (Credife) was able to make use of the entire guarantee, applying the DCA guarantee to 1,018 loans with an average size of $8,194. ProCredit had a lower usage rate making 210 loans averaging $2,516 each, citing the difficult economic environment and management bias towards targeting clients without guarantees as reasons for the low utilization rate.

AUGUST 2011 UPDATE ON USE OF THE DCA LOAN INSTRUMENT

As of August 2011, ProCredit made an accumulated total of 332 loans under the DCA program worth US $1,892,726, utilizing 47% of its available DCA disbursement amount of $4,000,000. The average loan size of ProCredit DCA loans is $5,701. 1.81% of ProCredit's DCA loans are in arrears over 91 days.

By August 2011, Credife had almost completely exhausted their $9,250,000 maximum loan amount under the DCA program, with only a $36,000 balance to spend. Credife's DCA performance has been impressive; this bank made $9,214,453 DCA loans to 1,584 beneficiaries since 2007. The average loans size of Credife's DCA loans is $5,817. 4.7% of Credife's DCA loans are in arrears of over 91 days.

Given usage rates, a re-allocation was made of the guarantee ceiling, providing Credife with an additional $1,500,000, for a total of $10,750,000.

OUTCOME

Conclusions: The DCA program in Ecuador, with its value chain finance methodology, supported banks to continue to lend to the MSME sector and particularly to the microenterprise sector during a challenging economic and policy environment (as per Ecuador's Central Bank, the number of loans made to the entire microfinance sector in Ecuador dropped by almost 40% between 2008 and 2009). Bank credit officers involved with the DCA program found the value chain methodology extremely useful as a tool to serve new markets.

Findings in support of those conclusions include:

- As a result of the training received, when credit officers of both banks meet with customers of a specific value chain (dairy sector, fish, cut flowers, etc.) they inquire about the businesses' suppliers as well as their customers, and then use this contact information to market bank services to new potential clients.

- ProCredit in particular used the guarantee to develop new clients and markets. This bank continues to lend outside of the guarantees to the sectors represented by recipients of guaranteed loans.

- Credife, has shifted its entire institutional strategy towards supporting value-chain development, and has received funding from the InterAmerican Development Bank and technical assistance through Accion International to implement this new strategy.

IMPACT

Conclusions: The Ecuador DCA guarantee program demonstrates how the guarantee program, in coordination with focused training and a solid methodology targeting lending to participants in key value-chains, can increase access to finance among new markets even during trying financial times.

Bank	Starting Year	Maximum Loan Amount	Number of Loans	Aggregate amount of Loans	Utilization Rate	Average Loan
Credife	2007	$10,750,000	1,584	$ 9,214,453	99%	$5,817
ProCredit	2007	$2,500,000	332	$ 1,892,726	47%	$5,701
TOTALS		$13,250,000	1,916	$11,107,179	73%	$5,759

Source USAID - PERFORMANCE OF DCA LOAN GUARANTEE PROGRAM IN ECUADOR AS OF MARCH 2011

CONTACT INFORMATION: U.S. Agency for International Development • Office of Development Credit
1300 Pennsylvania Avenue, NW • Washington, D.C. 20523 • http://www.USAID.gov • Keyword: DCA

Cover Photo: Trout fisheries were among the sectors that benefited from loans under the DCA Guarantees.
Photo by USAID/Ecuador.