

INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

ECUADOR

**USING ANCHOR FIRMS TO IMPROVE MARKET ACCESS FOR
MICRO AND SMALL ENTERPRISES IN RURAL AREAS OF THE
METROPOLITAN DISTRICT OF QUITO**

(EC-M1066)

DONORS MEMORANDUM

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PROJECT SUMMARY

USING ANCHOR FIRMS TO IMPROVE MARKET ACCESS FOR MICRO AND SMALL ENTERPRISES IN RURAL AREAS OF THE METROPOLITAN DISTRICT OF QUITO (EC-M1066)

The objective of this project is to assist small-scale producers and firms in rural parishes of the Metropolitan District of Quito (MDQ) to improve their market access by establishing commercial links with anchor companies in four value chains: dairy products, horticulture, specialty coffees, and tourism. This project will focus on the northwestern section of the MDQ. This area is mainly rural and agricultural in nature, and a high percentage of its population (between 53% and 88%) has unmet basic needs.¹ The area has substantial agricultural and production potential for supplying the Quito market, including industries belonging to the dairy and specialty coffee production chains. This is also the case of the tourism industry, involving a range of destinations linked to biodiversity and local communities. Five anchor firms have been identified within the four value chains that are committed to purchasing the products or services of small-scale producers, as well as contributing funds and knowledge to the project: Pasteurizadora Quito (milk), Mashpi Lodge (organic produce/community tourism), Café Vélez and Café Galleti (specialty coffees), and QuitoTurismo (community tourism).

Access to these value chains would lead to sustainable improvements in the incomes of these small-scale producers and firms. To this end, they will need to improve both the quality of their product and their productivity. The project will build on the opportunity for collaboration with the public sector provided by Compras Públicas Inclusivas [Inclusive Public Procurement] (CPI)² and other public programs. The project seeks to demonstrate the effectiveness of public programs in providing incentives for micro and small enterprises (MSEs) to link to markets and anchor firms, based both on CPI (in the case of the milk and organic horticulture chains) and greater coordination with public programs (in the case of specialty coffees and tourism).

The role of the public sector differentiates this project from other MIF value chain initiatives. In this case, the project facilitates coordinated efforts to channel financing to producers and MSEs in their respective value chains. It also takes advantage of a number of existing programs run by public and private institutions aimed at improving coordination, providing access to finance, and supplying technical assistance to small-scale producers and MSEs in targeted low-income communities.

¹ Calacalí, 53%, Pacto, 83%, Gualea, 86%, Nanegal, 77%, Nono, 88%, according to the 2010 population census.

² Inclusive Public Procurement involves government purchases from organizations belonging to the community, association, and cooperative sectors, as well as Popular Economic Units, as set out in the Organic Law of the Popular and Solidarity-based Economy and the Popular and Solidarity-based Financial Sector. In http://www.oas.org/juridico/PDFs/mesicic4_ecu_econ.pdf.

ANNEXES

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ABBREVIATIONS

CPI	Compras Públicas Inclusivas [Inclusive Public Procurement]
CRF	(MIF) Corporate Results Framework
DMO	Destination Management Organization
IEPS	Instituto Nacional de Economía Popular y Solidaria [National Institute for the Popular and Solidarity-based Economy]
MSEs	Micro and Small Enterprises
MDQ	Metropolitan District of Quito
SETEC	Secretaría Técnica de Capacitación y Formación Profesional [Technical Secretariat for Professional Training and Education]
SMEs	Small and Medium-sized Enterprises

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EXECUTIVE SUMMARY

Country and geographic location:	Ecuador–Rural parishes in the northwestern section of the Metropolitan District of the City of Quito		
Executing agency:	CONQUITO–the Metropolitan Agency for Economic Development		
Access area:	Access to Markets and Capabilities Unit (AMC)		
Agenda:	Linking small firms to value chains		
Coordination with other donors/Bank operations:	N/A		
Direct beneficiaries:	750 small-scale producers and service providers (250 in milk production, 100 in horticulture, 250 in coffee, 50 in tourism services, and 100 producers and service providers related to identified value-added business opportunities)		
Indirect beneficiaries:	Approximately 2,600 family members of the direct beneficiaries ³		
Financing:	Technical cooperation funding:	US\$866,637	40%
	Investment:		
	Loan:		
	Total MIF contribution	US\$866,637	
	Counterpart:	US\$1,293,365	60%
	Cofinancing (where applicable)		
	Total project budget	US\$2,160,002	100%

³ According to the last Population and Housing Census (2010), average family size in the northwestern parishes of Quito is 3.5.

Execution timetable:	Execution period: 36 months Disbursement period: 42 months
Special contractual conditions:	Conditions precedent to the first disbursement: (i) Bank approval of the annual work plan for the first year of the project; (ii) entry into force of the project's Operating Regulations, including the conditions for program disbursements previously agreed with the Bank; (iii) creation of the Executive Committee for the project; (iv) submission of evidence of the contribution of counterpart resources by the partners (companies and other organizations) to the project.
Environmental and social impact review:	This operation has been pre-evaluated and classified in accordance with the requirements of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Given that the impact and risks are limited [or moderate or significant], the project is proposed as a category "C" operation.
Unit with responsibility for disbursements:	Country Office in Ecuador.

I. BACKGROUND AND RATIONALE

A. Diagnostic assessment of the problem to be addressed by the project

- 1.1 The northwestern section of the Metropolitan District of Quito (MDQ) has a population of 46,500, and is mainly rural and agricultural in nature. In several of its parishes, almost 88% of the population have unmet basic needs,⁴ despite the area's substantial untapped agricultural and production potential for supplying both the Quito market and domestic and foreign tourist markets.
- 1.2 Promoting the inclusion of firms in public procurement is one of the mechanisms available to the government to create the conditions for a consolidation of the Popular and Solidarity-based Economy,⁵ thus helping to expand employment, generate independent sources of income, and create conditions for financial inclusion and access to credit.
- 1.3 On average, public spending usually ranges from 15%-30% of GDP in any country.⁶ Public procurement and other programs supported by the public sector can help to reduce poverty rates, enhance equity, and improve respect for basic labor rights, creating opportunities to facilitate market access for micro and small enterprises (MSEs)⁷ in a fair and inclusive manner. For their part, anchor firms recognize the potential of small-scale producers and MSEs to participate in the Compras Públicas Inclusivas [Inclusive Public Procurement] (CPI) program (which requires public bodies to source at least 5% of their total purchases from small-scale producers or other types of associative businesses), as well as for taking advantage of other sector support programs provided by the public sector that promote linkages with these low-income enterprises.
- 1.4 Based on their potential in the rural area of MDQ, a number of production and services chains have been identified (dairy, horticulture, and specialty coffees, as well as tourism linked to biodiversity and local communities) that could offer opportunities for improved market access among micro and small enterprises, through linkages with anchor companies. This, in turn, would boost economic activity by MSEs. Access to these value chains would improve market access for

⁴ Calacalí, 53%, Pacto, 83%, Gualea, 86%, Nanegal, 77%, Nono, 88%, according to the 2010 population census.

⁵ The Popular and Solidarity-based Economy consists of organizations belonging to the community, association, and cooperative sectors, as well as Popular Economic Units, as set out in the Organic Law of the Popular and Solidarity-based Economy and the Popular and Solidarity-based Financial Sector. In http://www.oas.org/juridico/PDFs/mesicic4_ecu_econ.pdf.

⁶ *Implementando Compras Públicas Sostenibles. Introducción al enfoque del PNUMA*. 2012. http://www.unep.org/resourceefficiency/Portals/24147/scp/10yfp/document/SPPguidelines_SP_27.07.12.pdf.

⁷ According to Ecuador's Production Code: (i) microenterprises are those with between one and nine workers and annual sales or gross revenues of US\$100,000 or less; (ii) small enterprises are those with between 10 and 49 workers and annual sales or gross revenues of US\$100,000 to US\$1 million; (iii) medium-sized enterprises are those with 50 to 199 workers and annual sales or gross revenues of US\$1 million to US\$5 million.

- small-scale producers and MSEs, as long as these succeed in improving their productivity and attaining product quality standards demanded by the markets (anchor firms). In the case of the tourism value chain, some basic tourism infrastructure does exist, but local communities not ready to manage tourism independently, or to provide quality services such as accommodation, gastronomy, guides, etc.
- 1.5 The public sector and other systems of public assistance currently represent a growing market for small-scale producers. The market is regulated by law, but it has not been fully exploited owing to the limited ability of small-scale rural producers and MSEs to become sustainable suppliers and enter the value chains of anchor firms.
 - 1.6 Thus, the **central problem** that the project aims to address is insufficient market access by small-scale producers and firms in the rural parishes of northwestern MDQ. This limits the volume of economic activity, opportunities for better paying employment and, in general, the income of families.
 - 1.7 The **causes** of this problem include the difficulty of producing higher volumes and/or complying with minimum quality and food safety standards required in local markets. Levels of productivity in the four value chains are also very low. Labor productivity in critical activities throughout these chains—such as milking, transportation, transplanting, and harvesting—is very low as a result of weak technical capacities and basic levels of infrastructure and equipment.
 - 1.8 This lack of capacity is partly due to the fact that small-scale producers in these value chains lack access to financing, business development services, and technical assistance. This leads to low levels of innovation, productivity, quality, and value added. The lack of innovation is also an inhibiting factor in terms of the ability to bring greater volumes of production to market.
 - 1.9 In the case of women entrepreneurs, these obstacles can be greater still. It is estimated that only 58% of microenterprises headed by women are formally registered; this directly affects the productivity and growth potential of their enterprises. Market research is carried out by 1% of female entrepreneurs while 1.6% have access to training.⁸ In the last edition of WEVentureScope,⁹ Ecuador ranked second to last in the region in the category of skills and capacities. Within this category, it scored lowest with respect to technical support capacities for small and medium-sized enterprises, as most technical training is provided by groups with little rural presence and it is not directed towards women.
 - 1.10 At the same time, **cooperation between the public and private sectors** is weak, and this limits the development of linkages in value chains (for example, in the

⁸ Vara, Aristides. The impact of violence against women in Peru and Ecuador. (2012).

⁹ See MIF, The Economist Intelligence Unit. Business environment index for female entrepreneurs (2013). <http://weventurescope.com>.

areas of infrastructure development, basic services, and formalization processes for organizations/MSEs to become commercial partners in productive projects).

- 1.11 Five anchor firms have been identified within these four value chains that are committed to cofinancing the project and purchasing the products or services of small-scale producers and rural MSEs, where these are able to meet minimum quality and quantity requirements: Pasteurizadora Quito (dairy),¹⁰ Mashpi Lodge (organic produce/community tourism), Café Vélez and Café Galleti (specialty coffees), and QuitoTurismo (community tourism).
- 1.12 This project aims to train small-scale producers and MSEs in rural areas of the MDQ in order to improve their market access, establishing commercial links with anchor companies in four value chains (dairy products, horticulture, coffee growing, and tourism) and availing themselves of the opportunities that arise from an increased use of public programs: (1) Inclusive Public Procurement,¹¹ in the case of the dairy and horticulture chains; and (2) greater coordination with other public programs, in the case of the coffee and tourism chains.
- 1.13 In the case of tourism, the project will strengthen destination management organizations (DMOs) so that communities can exploit the tourism potential of protected areas that are administered by the municipalities. Accordingly, the project will promote coordination with the Ministry of Tourism, the MDQ's Department of the Environment, and QuitoTurismo to leverage funding and activities surrounding the value chain for these services.
- 1.14 The project will also coordinate with the Instituto Nacional de Economía Popular y Solidaria [National Institute for the Popular and Solidarity-based Economy] (IEPS), which helps micro and small enterprises, the self-employed, and different types of associative businesses to find markets in the public sector. The IEPS also provides advisory support to organizations on effective participation in the inclusive trade fairs organized by the Servicio Nacional de Compras Públicas [National Procurement Service] (SERCOP). In addition, it creates demand access networks through relationships with anchor firms that can promote integration into value chains in a more sustainable manner and provide services jointly.

B. Project beneficiaries

- 1.15 The project will directly benefit 750 small-scale producers and service providers, of which 40% are estimated to be owned or managed by women. The role of women varies significantly across the different production chains. In the case of organic farms, around 90% are managed by women.¹² In the case of coffee

¹⁰ The Ecuadorian government is one of the largest purchasers of milk, which is allocated to public nutrition programs for schools, hospitals, and military facilities.

¹¹ Inclusive Public Procurement could create opportunities for micro and small entrepreneurs specialized in textile production, food preparation, cleaning, buildings maintenance, etc. to join value chains.

¹² According to World Bank data (Enterprise Survey, 2010), 28.5% of small enterprises in Ecuador are owned by women.

production, it is estimated that 20% of production units are managed by women, although they participate actively in harvest and post-harvest activities. Tourism enterprises have a high level of female participation, at 60% (particularly in food- and accommodation-related services). In the dairy chain, women are responsible for 20% of production activities.

- 1.16 The group of beneficiaries is divided into 250 dairy producers, 100 horticultural producers, 250 coffee producers, 50 tourism service providers, and 100 providers of services related to the high-value business opportunities that will be identified during the project development phase. The project will also indirectly benefit approximately 2,600 people.¹³ The average monthly income of agricultural producers and tourism service providers based in these beneficiary communities range from US\$370 to US\$450 per month. These figures are less than the cost of the basic basket of goods, which is estimated at US\$606 per month.

C. Contribution to the MIF mandate, Access Framework, and IDB strategy

- 1.17 The project will contribute to poverty reduction and private sector development through the integration and participation of small-scale producers and MSEs in four local value chains (dairy, horticulture, coffee, and tourism). This intervention is aimed at improving the technical capacities of producers and suppliers for higher quality production, and at strengthening their organizational capacities to secure a larger share of the market, expand collaboration networks with other anchor firms in the sector, and take advantage of existing public programs.
- 1.18 The project attempts to address the four challenges or gaps in knowledge identified by the MIF in interventions with low-income, vulnerable groups in value chains with anchor firms:¹⁴ (i) asymmetrical relationships within the value chain; (ii) limited access to financing; and (iii) low MSE productivity. The project is consistent with the MIF's approaches to working with large companies, in that (a) it helps MSEs to capture a greater share of the value generated by the chain and to increase the productivity of small-scale producers and enterprises through technological improvements and the development of skills and technical capacities, and (b) it supports value creation through innovation in the targeted value chains.
- 1.19 **Connection to the agenda.** The project will contribute to the agenda of "Linking Small Firms to Value Chains" by generating the following outcomes and knowledge: (i) a methodology for linking small-scale, low-income rural producers to anchor firms by means of business opportunities such as CPI (dairy and horticulture) and greater interaction with existing public programs (coffee and tourism); and (ii) fair and sustainable linkages between anchor firms and small-

¹³ The average number of persons per family in the rural parishes of northwestern Quito is 3.54 (National Population and Household Census, National Institute of Statistics, 2010).

¹⁴ The fourth challenge relates to the features of markets and needs of vulnerable and low-income groups, and the deepening of knowledge regarding these areas.

scale rural producers and enterprises. These new commercial links are expected to boost incomes among the beneficiary population, thus helping to reduce poverty in the region, increase employment levels, and improve living conditions.

- 1.20 **Collaboration with the IDB Group.** The project falls within the framework of the IDB Country Strategy with Ecuador 2012-2017, in that it promotes rural development by improving the productivity of small and medium-sized farmers. Specifically, the Bank's support to the private sector will focus on projects to strengthen the integration of small-scale producers in production chains for both domestic and export markets, as well as encourage the participation of rural communities (particularly indigenous groups) and promote biodiversity conservation.
- 1.21 The operation will also support the Ecuadorian government's efforts under the National Plan for Good Living ("Everyone, Better"), 2013-2017, which seeks to foster equality, cohesion, inclusion, and social equity. This project will create conditions and capacities for economic inclusion by promoting and supporting small-scale producers, MSEs, and associations within four strategic value chains in northwestern part of Quito.

II. PROJECT OBJECTIVES AND COMPONENTS

A. Objectives

- 2.1 In terms of **impact**, the project proposes to improve income and sales among small-scale producers and MSEs in the value chains for dairy production, horticulture, specialty coffees, and community tourism services in rural parishes in northwestern MDQ. In terms of **outcomes**, the project will establish sustainable commercial relationships between small-scale rural producers/MSEs and anchor firms in the four selected value chains. New organizations or enterprises offering higher value added will also be created.

B. Description of the model/solution/intervention

- 2.2 The project will strengthen capacities to: (i) improve and expand interactions between anchor firms and MSEs/small-scale agricultural producers so that they can access markets on fair terms, and (ii) identify new business opportunities with greater value added. To this end, the business opportunities provided by linkages with anchor firms that sell to the government through the CPI system (the dairy and horticulture chains), and by other support programs for small-scale producers and MSEs (the coffee and tourism chains) will be tapped.
- 2.3 The project will identify gaps between supply and demand for the products of the value chains in the project, as well as identifying special needs in terms of job and production skills. To this end, the project will map supply and demand in the rural area of the MDQ, as well as conduct a diagnostic assessment that identifies in detail the quality and volume requirements of the anchor firms participating in the project. At this point, five companies have confirmed their participation as

strategic partners (Pasteurizadora Quito, Café Vélez, Café Galleti, Mashpi Lodge, and QuitoTurismo). These firms will provide resources for access to the infrastructure and the equipment necessary for producing the goods and services, and have agreed to purchase them.

- 2.4 It will also support the joint design (co-design) of technology technical assistance packages encompassing anchor firms, producers, and rural MSEs. These technological packages of technical assistance are a set of processes, techniques, and inputs that each producer or firm will use to create improved productivity and minimum quality standards, including content and manuals to train them. Based on the needs identified for the main products (dairy, organic horticulture, specialty coffees, and community tourism services), appropriate technical assistance will be designed and implemented for each value chain so that available opportunities can be exploited.
- 2.5 Local instructors will be used to facilitate training of producers' groups/MSEs and associations, as well to coordinate with public and private stakeholders to strengthen small-scale producers' organizations, such as coffee producers' associations and community farmers' groups. In the dairy value chain, specifically, small-scale producers will be trained in livestock care, milking, and storage. In the case of horticulture and tourism, training in organic standards will be provided to facilitate access to local markets, restaurants, and hotels. Support will be provided to community groups for the creation of destination management organizations (DMOs) that will provide a sufficiently solid organizational framework for these to tap the potential of their area, as well as the opportunities provided by public programs in support of tourism.
- 2.6 As part of the joint design process and through consultations with anchor firms and producers/MSEs, other business opportunities offering value added and representing opportunities for new productive initiatives will be identified and developed for producers and MSEs, consistent with demand for the products and services of anchor firms. Those groups with the greatest potential for rapid growth will be selected and will receive special assistance to design business plans for the start-up and management of those enterprises. A diagnostic assessment of the financial products needed to develop the new businesses will also be included.
- 2.7 Lastly, existing, underutilized financial products for MSEs will be tapped in order to ensure access to financing. The project will facilitate the initial implementation of partnerships with organizations currently providing financing, such as the Corporación Nacional de Finanzas Populares [National Corporation for Popular Finance] (CONAFIPS), with a view to fostering access to credit lines.

CONQUITO has allocated funds to facilitate access to credit among MSEs,¹⁵ while access to credit will also be supported by the establishment of a network of financial institutions that will include the Sistemas Populares de Inversión [Popular Investment Systems] (SPIs). This network will be supplemented by the design of innovative financial products to meet the needs of small-scale producers and MSEs. The project will make particular efforts to ensure the financial inclusion of businesses headed by women.¹⁶

- 2.8 Access to financing is key for these groups as it will allow them to purchase equipment and technology and enhance infrastructure with which to reach these markets (for example, the refrigeration equipment necessary to process and market dairy products with higher value added, such as cheeses, yogurt, or processed goods using fruits and vegetables). It will also allow them to undertake the investments needed for good manufacturing practices (GMP) certification, which is required in the case of dairy-processing MSEs from November 2014 onwards.

C. Components

Component I: Information on market demand and the supply of small-scale producers/MSEs (MIF: US\$67,100; Counterpart: US\$139,300).

- 2.9 The objective of this component is to facilitate the flow of information relating to the supply and demand for products and services provided by small-scale producers in the MDQ, with the aim of eliminating existing gaps.
- 2.10 The following activities are planned: (i) a mapping of anchor firms and available producers/suppliers; (ii) identification of the requirements of the committed anchor firms and any other firms that may participate (in terms of quantity, quality, and delivery times) and the products and services offered by the small-scale producers; (iii) development of a website with an interface to facilitate access to supply and demand information; (iv) organization of annual events, including business seminars with influential local and national business associations (such as the Instituto de Responsabilidad Social Empresarial [Corporate Social Responsibility Institute] (IRSE), Consorcio Ecuatoriano para la Responsabilidad Social [Ecuadorian Consortium for Social Responsibility] (CERES), and Consejo Empresarial para el Desarrollo Sostenible del Ecuador

¹⁵ CONQUITO administers the Quito Efectivo [Quito Effective] program, which encompasses three products: (1) the capitalization of family finances through the creation and strengthening of community savings and loan banks; (2) strengthening of firms and support for entrepreneurship through direct relationships with local and national financial institutions; and (3) provision of venture or seed capital through the PROQUITO trust fund, which enables financial support and channels resources to entrepreneurs and the execution of economic development programs sponsored by CONQUITO. The objective of the trust fund is to serve as an independent fund for the administration of CONQUITO's financial resources, which are invested in seed and venture capital through second-tier lending.

¹⁶ According to data from the World Bank's 2010 Enterprise Survey, in Ecuador 15% of lending is channeled to enterprises led by women.

[Business Council for Sustainable Development in Ecuador] (CEMDES), for which dissemination efforts will be made through women's associations or media channels that can help to increase the participation of women that own businesses; and (v) updating and monitoring of the identified opportunities for commercial linkages.

- 2.11 The main outputs for this component are (a) a commercial platform (website) to coordinate supply and demand; and (b) the organization of 10 events (business seminars) with business associations to exchange knowledge and deepen contacts.

Component 2. Strengthening of the capacities of small-scale producers in the selected value chains (MIF: US\$484,137; Counterpart: US\$674,505).

- 2.12 The objective of this component is to strengthen the commercial and production capacities of small-scale producers, improve the quality of their products, and enhance their productivity to meet market requirements. In the case of coffee, special emphasis will be placed on strengthening the associations and harvest and post-harvest activities. In the case of the dairy sector, small-scale producers will be trained in livestock care, milking, and storage to improve productivity and milk quality. In the case of horticulture, small-scale producers will be trained in organic standards to facilitate access to local markets, restaurants, and hotels. In tourism, support will be provided to enterprises and community groups for the creation of destination management organizations (DMOs) that will provide a sufficiently solid organizational framework for these to tap the potential of their area, as well as the opportunities (and infrastructure) provided by public programs in support of tourism. All training activities will take into account the specific needs of women in productive activities, in order to promote their participation and strengthen their role in the chain.
- 2.13 Planned activities include: (i) designing/adapting technology packages¹⁷ for each chain based on market demand; (ii) implementing (training) technology packages and technical assistance programs; (iii) seeking business alliances in the selected chains; (iv) identifying financial needs and facilitating access to financial instruments among small-scale producers (for instance, through programs such as Quito Efectivo [Effective Quito],¹⁸ which is managed by CONQUITO); (v) strengthening small-scale producers' associations; and (vi) coordinating interagency cooperation.
- 2.14 The main outputs for this component are: (a) three tourism packages designed; (b) 12 local promoters in the milk chain trained; (c) 125 coffee producers trained

¹⁷ As described in paragraph 2.4, the technological packages are a set of processes, techniques, and inputs that each producer or firm will use to generate a specific final result, including content and manuals to train them.

¹⁸ The Quito Efectivo project is CONQUITO's financial coordination project, which manages the linkages between productive entrepreneurs and the financial system. It fosters the economic and social insertion of people excluded from the local financial system.

in job skills; (d) alliances formed with three strategic stakeholders in the horticulture chain; (e) one network of public and private organizations that promote access to financing among MSEs in northwestern DMQ; and 50 producers in the four targeted chains benefiting from custom credit lines.

Component 3. Development of new value-added business opportunities (MIF: US\$85,000; Counterpart: US\$118,200).

- 2.15 The objective of this component is to develop, in conjunction with the anchor firms, new businesses with greater value added in products and service areas supplied by rural producers or MSEs. To this end, new businesses will be identified in the areas of semi- or fully-processed products, and auxiliary services such as food processing, transportation, and tourism services. These new businesses will be nurtured and developed within the specific value chains strengthened in Component 2.
- 2.16 Planned activities include: (i) design of a program to promote entrepreneurship in the four selected chains; (ii) adaptation of a standard urban business model¹⁹ to the needs of rural enterprises; (iii) a dissemination and motivation workshop for the rural business model; (iv) identification of ideas and preparation of complementary business profiles; (v) creation of a committee for evaluating and selecting initiatives; (vi) support for the implementation of new businesses that have been identified; (vii) strengthening of entrepreneurial capacities; (viii) support to the new enterprises in securing access to financing; and (ix) monitoring of business plan implementation.
- 2.17 The main outputs under this component are as follows: (a) one rural entrepreneurship model (adapted); (b) one committee formed for the evaluation of initiatives; and (c) four new higher-value added businesses identified.

Component IV. Knowledge management and communication strategy (MIF: US\$83,400; Counterpart: US\$55,000).

- 2.18 The objective of this component is to capture, document, and disseminate the knowledge and lessons learned created by this project. The aim is to share the methodology developed so that other economic development institutions and/or autonomous decentralized regional governments, for example, can reproduce it in other parts of the country (or other countries) with programs similar to CPI.
- 2.19 The gap that this project aims to narrow concerns a lack of knowledge about how to link low-income small-scale rural producers to anchor companies using business opportunities such as CPI (dairy and horticulture) and greater interaction with existing public programs (coffee and tourism). The project will attempt to analyze the effectiveness of public programs (CPI and others) for improving the access of rural MSEs through linkages with anchor firms. It will tap the technical knowledge of the anchor companies to improve the productivity of rural MSEs,

¹⁹ Model developed by CONQUITO.

- and it will develop a specific methodology for the co-design of technical assistance packages aimed at improving linkages between small-scale rural producers and anchor firms.
- 2.20 The following audiences have been identified for the dissemination and communication of the knowledge and experiences created through the project:
- (i) Companies and organizations affected by public procurement procedures that are interested in establishing links with small-scale producers and MSEs in different markets; and
 - (ii) Local development bodies (public sector), multilateral institutions, and networks of experts interested in developing similar experiences or projects (developing commercial links and improving MSE access to markets).
- 2.21 In order to satisfy the knowledge requirements of these audiences, the following activities and knowledge products will be developed: (i) strategy for the planning and design of knowledge and communication activities; (ii) development of a methodological guide to document experience with the co-design of technical assistance; (iii) a technical note that summarizes the analysis of the effectiveness of public programs in improving the access of rural MSEs to markets through linkages with anchor firms; (iv) development of an infographic to illustrate project outcomes; (v) organization of three events to promote the model and communicate lessons learned; and (vi) organization of a closing event with participants.
- 2.22 The knowledge produced will also be disseminated in various forums, such as the annual conference on Corporate Social Responsibility in Ecuador, the Forum on Microenterprise (FOROMIC), the Cracking the Nut conference, and online media such as nextbillion.net. At least one training event is expected to be organized on the use and implementation of the methodological guide.
- 2.23 The executing agency will annually update the project fact sheet (template provided by the MIF), which contains basic information about the project, the challenges experienced, the strategy for intervention, and the outcomes achieved.
- 2.24 The main outputs for this component are as follows: (a) a marketing plan listing the main dissemination activities; (b) methodological guidelines on the co-design process for technical assistance packages; (c) a technical note on the effectiveness of public programs; (d) one infographic; and (e) four events organized to present outcomes and lessons learned.
- D. Project governance and execution arrangements**
- 2.25 The executing agency, CONQUITO, plans to establish an autonomous executing unit for this project, attached to its existing institutional structure. The unit will include one technical manager and one administrator (to be hired using project funds), who will be responsible for direct execution of the project in accordance with the relevant general provisions and guidelines issued by the Executive

Committee. The Executive Committee will consist of strategic stakeholders relevant to the project, and its members will include the CONQUITO coordinator for inclusive business and production chains, and representatives of the project's strategic partners (anchor firms, sector roundtables, the Consortium of Provincial Governments of Ecuador, etc.). This committee will take into account the needs of the sector roundtables, and it will ensure the attainment of the expected outcomes and the future sustainability of implementation. It will meet every two months to take specific project execution decisions and to evaluate outcomes in a participatory manner.

- 2.26 Sector roundtables will be established for each production chain. One representative of each direct stakeholder (producers, anchor firms, key service providers) will participate in them, in addition to the project's technical assistant (acting with a voice, but without a vote). They will meet every two months.

E. Sustainability

- 2.27 One year before execution is completed, a Sustainability Workshop will be held with all stakeholders. The aim of the workshop will be to identify the measures necessary to ensure the continuity of project actions once funds are exhausted.
- 2.28 The project will act as a coordination unit for catalyzing the ongoing efforts of public and private stakeholders, facilitating effective links between small-scale producers or firms in rural areas of the MDQ and value chains that have significant potential for growth in the region. Project sustainability is based on the commercial relationships that will be created between the five anchor companies and local producers, with a commitment to purchase the products and services of producers and MSEs subject to their compliance with quality and volume requirements. The public procurement program will facilitate this relationship, as it requires public bodies to source at least 5% of all their purchases from small-scale producers, paving the way for sustainability of the operations once the necessary levels of quality and volume have been reached. The project also fosters the commitment of both sides, as the small-scale producers/MSEs and the anchor companies will provide joint financing for project activities. This system of joint financing is expected to create a sense of shared responsibility, supporting sustainability over the long term. In addition, such "joint design" activities will encourage the delegation of customized tools, as well as the sustainability of these tools once MIF financing is completed. Lastly, the existence of public and private sector financing will facilitate the use of funds from other sponsors during the project and thereafter.

F. Lessons learned from the MIF or other institutions in the design of the project

- 2.29 The program "Using Public Procurement to Promote the Business of Micro-, Small-, and Medium-Sized Enterprises (MSMEs)," executed by the Instituto Nacional de Contratación Pública [National Institute for Public Procurement] (INCOP, now SERCOP) facilitated and encouraged greater SME participation in

the public procurement market. In this case, the intervention focused on strengthening INCOP's tools by integrating various public systems into a single technology platform.

2.30 SERCOP was also strengthened through automation of the public entity budget input process, and a management reporting tool was designed to facilitate monitoring during execution. However, this project did not strengthen the technical, business, or production capacities of MSMEs. A number of the conclusions and recommendations of the final evaluation were as follows:

- a. The program facilitated an increase in the number of MSEs that were registered, authorized, and awarded contracts, but there is still work to be done with the procuring entities to improve contract conditions relating to payment and vendor guarantees.
- b. Use of the business intelligence or information system should be encouraged to connect supply and demand on the part of suppliers and government entities.
- c. Technological improvements alone are not a determining factor for increasing participation by MSMEs, although they have reduced timeframes, and this can help encourage participation.

2.31 In Ecuador, the MIF financed the Participatory Urban Agriculture Project, AGRUPAR (ATN/ME-11157-EC). This initiative of the MDQ Municipio was executed through the economic development agency CONQUITO, and it sought to enhance the productivity and competitiveness of agricultural production units and integrate them into other stages of the agricultural production chain, such as processing and marketing. Women accounted for 75% of the beneficiaries of this project.

A key element for the viability of the family-owned market garden model was the creation of a market for the produce, as well as the identification of different marketing mechanisms. In the case of this project, "biofairs" were the most effective mechanism. These were initially sponsored and organized by the executing agency, but these functions were to be transferred gradually to the producers and their associations. Lastly, the creation of a market for certified organic produce required a focus on the consumer, boosting awareness of the differences, advantages, and benefits of consuming this type of produce. These exceed a merely price-based comparison. This consumer targeting required additional efforts using the mass media, with a campaign designed especially for this purpose.

2.32 Through the project "Inclusive Business Development at the Base of the Economic Pyramid" (EC-M1035), executed by the Netherlands Development Organization, the MIF promoted the incorporation of low-income groups into the value chains of anchor firms. The project achieved significant results in terms of

validation and compatibility between economic benefits and social impact, with both the anchor firms and the low-income MSEs benefiting.

2.33 The aforementioned projects incorporated key elements in each of the initiatives: linkages between small-scale producers and anchor firms, public procurement, and agricultural assistance. All of the lessons learned from earlier experiences will therefore be carefully analyzed and incorporated. The following are among the most important lessons learned:

- (iii) It is crucial to secure the commitment of anchor companies that have identified business issues that need to be resolved or commercial opportunities that can be exploited.
- (iv) Market demand needs to be identified through anchor firms so that MSEs and their production processes can then be organized, ensuring the continuity of inclusive business initiatives.
- (v) Small-scale producers from vulnerable populations with low levels of technical capacity require ongoing orientation and monitoring systems.
- (vi) The capital investment needs of small-scale producers and communities need to be considered when designing and facilitating access to financial products. This is essential for achieving results in the short term and wider participation encouraged from other stakeholders within the value chain.
- (vii) Ensuring transparency in public procurement systems is of paramount importance. The improved transparency of current systems is one of the key achievements of the MIF's ongoing intervention.

G. MIF additionality

2.34 **Nonfinancial additionality.** The MIF is an important source of technical knowledge, serving as a link between networks of national and international organizations and specialists in diverse relevant fields. The anchor companies and other stakeholders participating in the project also recognize this credibility and specific knowledge. Similarly, the lessons learned in Ecuador can be extended to other countries where MSE access to public procurement is being promoted, such as Bolivia and Peru. In Bolivia, the nonprofit organization *Fundación Ferias a la Inversa* [the Reverse Fairs Foundation] is promoting linkages between MSEs and public procurement systems through trade shows. In Peru, the Ministry of Finance is attempting to incorporate MSE inclusion through the Organismo Supervisor de las Contrataciones del Estado [Supervisory Body for State Procurement] (OSCE).

2.35 Lastly, the project's approach of having anchor firms participate in the development of new forms of commitment to producers and MSEs from traditionally excluded low-income populations—particularly in initiatives with greater value added—has only been replicated in a small number of cases.

- 2.36 **Financial additionality.** MIF funds will be used to improve the capacities and conditions of producers, allowing them to become reliable suppliers for public programs. Social programs do not finance business initiatives, while sources of business finance do not provide support for poverty-relief and business inclusion projects. The MIF will serve as a unique catalyst for closing this gap in Ecuador.

H. Project outcomes

- 2.37 The main outcomes expected by the end of the project are:
1. [CRF 230200] 750 MSEs linked to strategic partners (anchor firms)
 2. [CRF 230300] Two new companies (destination management organizations) created
 3. [CRF 230300] Four new businesses/firms with greater value added created.
 4. Six public/private enterprises coordinated with the project.

I. Project impact

- 2.38 The main impacts expected by the end of the project are:
1. [330100] 40% increase in the net incomes of beneficiary MSEs.
 2. [330600] 20% annual increase in sales in the newly-created businesses.

J. Systemic impact

- 2.39 The proposed project may have a systemic impact (in terms of scaling up, replication, or influence) owing to its development of a methodology (the linking of rural producers and MSEs with anchor companies with incentives under public programs and a co-design/co-creation model) that could be replicated in other parts of the country, and possibly in other countries. The fact that the project will work directly with anchor firms and other partners will facilitate adoption of these practices on a wider scale. At the same time, the project will support coordination with other existing public and private programs, improving the impact of other local investments and existing public policies.
- 2.40 The general systemic impact can be measured as a contribution to the following indicators in the MIF's Corporate Results Framework (CRF): (i) [CRF 450100] the number of models introduced by the MIF that are applied in Latin America and the Caribbean; and (ii) [CRF 450200] the number of new public policies, regulations, programs, or legal frameworks established through MIF participation.

III. MONITORING AND EVALUATION STRATEGY

- 3.1 **Baseline.** The following variables will be considered, consistent with impact and outcome indicators: sales/revenues (new and existing businesses), household income, levels of productivity by sector, access to financing, technological innovation and training coverage, and market access supported by formal partnerships between producers/MSEs and anchor firms.

- 3.2 To this end, secondary sources such as the Population and Housing Census will also be used to develop social indicators and business performance indicators (revenues, credit access, access to technology, etc.). A survey will need to be conducted on a statistical sample of rural producers in the intervention area and targeted value chains. This may be supplemented by focus groups to discuss, in particular, problems related to collaboration and business culture. In principle, all indicators will be disaggregated according to gender.
- 3.3 **Monitoring.** The project will establish a system for monitoring enterprise performance, as well as social impact. Financial, operational, and social outcomes and impacts will be defined and measured every six months. These will include: (i) the level of interaction based on available information regarding the status of relationships between anchor firms and small-scale producers; (ii) the level of strengthening of partnerships in the existing value chains; (iii) development of new business opportunities; and (iv) lessons learned. Once the producers and service providers that will participate in the partnerships have been identified, individualized data will be compiled on the status of their land, production, number of livestock, average harvest, access to technology, access to direct and formal marketing channels, etc. These data will be monitored by means of monthly reports and consolidated annual summaries that will be sent to the anchor firms, together with reports on assistance and onsite training and, where appropriate, on the status of implementation at the macro level and/or interagency agreements. This will be achieved through reports on training participation or business culture, job skills certificates presented, and reports from financial institutions on approved lending in support of the services or sales of small-scale enterprises engaged in new businesses, including the minutes of workshops and discussions, and external presentations concerning economic inclusion in rural production chains. The main outcomes will be discussed in the sector roundtables and subsequently analyzed together with the independent execution unit so as to ensure stakeholder participation and timely decision-making.
- 3.4 The participating anchor firms will also prepare purchasing reports to monitor production and seasonal trends and for early detection of production problems.
- 3.5 **Evaluation.** The project will include both a midterm and a final evaluation. An impact evaluation is not included given the nature of the project and possible adjustments to the intervention model. A number of key questions that will be included in the evaluations include (i) to what extent has the model (which includes the incentives created by the public sector through the CPI and other programs) improved the competitiveness of the producers and MSEs participating in the project and contributed to improved market access and an increase in the incomes of beneficiaries; (ii) the degree of implementation of techniques to improve quality and productivity in the different value chains and how these have influenced any increase in income among beneficiaries; (iii) what barriers are there to replicating the model in similar contexts; (iv) what kinds of strategies have been most effective in promoting connections with public procurement

systems and new clients; and (v) has the participation of women-led companies changed by sector or in the various links in each sector?

Closing workshop. The executing agency will organize a **closing workshop** in a timely manner, with the following objectives: evaluating the results achieved (together with the other institutions involved); identifying additional tasks to ensure the sustainability of the actions set in motion under the project; and identifying and disseminating lessons learned and best practices.

IV. COST AND FINANCING

- 4.1 The total cost of the project is US\$2,160,002, of which US\$866,637 (40.1%) will be contributed by the MIF, and US\$1,293,365 (59.9%) by the counterpart. The execution period will be 36 months, and the disbursement period 42 months.
- 4.2 Retroactive recognition of counterpart resources. A maximum of US\$38,000 million may be used to reimburse or recognize expenditures incurred on or after 30 January 2014 (the date of project eligibility) for transportation and organization expenses related to workshops with groups of coffee and milk producers.

	MIF	Counterpart	Total
Project Components			
Component 1: Information on market demand and the supply of small-scale producers/MSEs	67,100	139,300	206,400
Component 2: Strengthening of MSEs to ensure the sustainability of the agreements	484,137	674,505	1,158,642
Component 3: Development of new value-added business opportunities	85,000	118,200	203,200
Component 4: Knowledge and communication strategy	83,400	55,000	138,400
Execution and Supervision Components	719,637	987,005	1,706,642
Executing agency/administration	54,000	306,360	360,360
Baseline and monitoring system	16,000	-	16,000
Midterm and final evaluations	27,000	-	27,000
Ex post reviews and audit	30,000	-	30,000
Subtotal	846,637	1,293,365	2,140,002
Agenda account	20,000	-	20,000
Grand Total	866,637	1,293,365	2,160,002
% of financing	40%	60%	100%

V. EXECUTING AGENCY

- 5.1 CONQUITO—the Metropolitan Agency for Economic Development—is an organization attached to the Municipio of the Metropolitan District of Quito. It works in support of the city's socioeconomic development, and it will be the executing agency for this project that will sign the agreement with the Bank.

- CONQUITO was founded in 2003, and its mission is to promote development, employment, innovation, and appropriate infrastructure for strengthening the business ecosystem of the city and the metropolitan area. Most of CONQUITO's ongoing projects have been carried out by means of public-private partnerships with a focus on social inclusion within their area of influence. The services offered include business training, business promotion and development, technical innovation assistance, technical and vocational training for job skills, and advisory and administrative services for access to special credit lines. The project will be coordinated with other projects in which the organization is already participating, such as Quito Efectivo, production chains, and enterprises. CONQUITO also administers a trust fund (PROQUITO) that provides seed capital to entrepreneurs, which may also promote important linkages with this project.
- 5.2 The executing agency will establish an executing unit and the structures necessary to execute project activities and administer project resources effectively and efficiently. CONQUITO will also be responsible for submitting progress reports regarding project implementation. CONQUITO is a solid institution with previous experience in the successful execution of MIF projects (ATN/ME-11157-EC).
- 5.3 **Project partners.** Pasteurizadora Quito is one of the anchor firms in the CPI program, and it supplies the Ecuadorian government with milk for the Centros Infantiles del Buen Vivir [Children's Centers for Good Living]. Mashpi Lodge is a luxury ecotourism hotel interested in sourcing fruits and vegetables for its food services (as well as other possible tourism services) from local producers as part of its commitment to social and environmental sustainability. Café Vélez and Café Galleti will work with small-scale coffee producers, relying on programs sponsored by the Ministry of Agriculture, Livestock, Aquaculture, and Fishing ("Coffee Recovery Program," "Certified Seed Program," "Input and Fertilizer Program"). These two anchor firms will also work with the Technical Secretariat for Professional Training and Education (SETEC) concerning the relevant certification for job skills. They are interested in purchasing locally grown high-altitude and specialty varieties.
- 5.4 QuitoTurismo will support the development of sustainable community tourism in the Mashpi and Pachijal protected areas, and it may incorporate the destination management organizations into the promotion of the MDQ and its tourism product packages. Mashpi Lodge is seeking other, related tourism services (guides, transportation, etc.) for guests and visitors.
- 5.5 The Consortium of Provincial Governments of Ecuador (CONGOPE) will participate as a partner in the project. It will provide resources, and its participation will facilitate replication. CONGOPE is an association representing all of the country's autonomous provincial governments, and its mission is to strengthen the capacities of the decentralized autonomous governments. This would allow the scalability of the initiative to be communicated to other local

governments. CONQUITO has a letter of commitment for the funds to be contributed to the project.

- 5.6 Other strategic partners include organizations providing training services, infrastructure and equipment financing, market access, and cash contributions. The MDQ Environment Department has agreed with CONQUITO to transfer funds that promote the development of sustainable production from an environmental standpoint. SETEC and Universidad de las Américas will also be important partners for the dissemination of knowledge and lessons learned.

VI. PROJECT RISKS

- 6.1 One risk associated with the project is the general lack of knowledge relating to the sociocultural characteristics of producers and MSEs in the area. To address this, an ethnographic analysis will be conducted of small-scale producers/firms in the selected value chains, with a view to going beyond economic behaviors and better understanding cultural motifs. This will allow the intervention to be calibrated according to these motifs and the needs of the anchor firms.
- 6.2 Another risk is that small-scale producers may not be capable of attaining the required levels of production and quality. As a result, the project will pay special attention to strengthening collaboration and knowledge. It will use business networks created under various previous projects (and in projects relating to corporate social responsibility and inclusive business) that have already received training and are aware of the advantages and challenges of establishing commercial relationships with low-income groups.
- 6.3 A loss of interest by the participating anchor firms could affect project outcomes and impact. However, the strengthening activities and the information platform that will be created are expected to be sufficiently robust to maintain the quality of goods and services and the capacities of small-scale producers and MSEs, thus allowing continued access to existing and new markets.

VII. ENVIRONMENTAL AND SOCIAL IMPACTS

- 7.1 This project has been classified as a Category C operation using the Bank's toolkit. The project will not finance any activities that could have a negative impact on biodiversity in the areas of intervention. Priority will be given to ecologically responsible technologies that reduce the impact of agriculture. In terms of environmental impacts, the project will contribute to the preservation of biodiversity in an ecological area, thus diminishing the pressure produced by an increase in the area under agricultural production. In relation to social impact, the project will combat poverty in rural areas, not only through the generation of income but also by developing multiple capacities among small-scale producers. In addition, gender equality will be promoted by ensuring equal access for women to project activities.

- 7.2 The executing agency and other organizations participating in the project, such as the MDQ Environment Department, will ensure that responsible social and environmental practices are implemented in the four value chains, with a view to avoiding negative environmental impacts in terms of occupational health and safety related to the activities of the small-scale producers, all of which will be aligned with IDB guidelines.

VIII. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 8.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will commit to the standard MIF arrangements for results-based disbursements, procurement, and financial management specified in Annex VIII, as well as the following special arrangements for this operation.

IX. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 9.1 **Access to information.** Based on the Bank's Access to Information Policy, this project is subject to public disclosure.