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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523**

**ECUADOR**

**PROJECT PAPER**

**MACROECONOMIC POLICY ANALYSIS PROGRAM**

**AID/LAC/P-223**

**Project Number:518-0050**

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AGENCY FOR INTERNATIONAL DEVELOPMENT <b>PROJECT DATA SHEET</b>		1. TRANSACTION CODE <input checked="" type="checkbox"/> A A = Add C = Change D = Delete	Amendment Number _____	DOCUMENT CODE 3
2. COUNTRY/ENTITY Ecuador		3. PROJECT NUMBER 518-0050		
4. BUREAU/OFFICE LAC		5. PROJECT TITLE (maximum 40 characters) MACROECONOMIC POLICY ANALYSIS PROGRAM		
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 03 31 87		7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY 84 B. Quarter 4 C. Final FY 86		

8. COSTS (\$000 OR EQUIVALENT \$1 = )						
A. FUNDING SOURCE	FIRST FY 84			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	400	138	538	1020	280	1,300
(Grant)	( 400 )	( 138 )	( 538 )	( 1020 )	( 280 )	( 1,300 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.						
1.						
2.						
Host Country					475	475
Other Donor(s)						
<b>TOTALS</b>	400	138	538	1020	755	1,775

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SD	701	900				538		1,300	
(2)									
(3)									
(4)									
<b>TOTALS</b>									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 930 840 710	11. SECONDARY PURPOSE CODE
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)	
A. Code	
B. Amount	

13. PROJECT PURPOSE (maximum 480 characters)

To strengthen the Government of Ecuador's capability to design and implement sound economic policies which support Ecuador's process of structural adjustment and encourage increased investment, employment and productivity in the private sector.

14. SCHEDULED EVALUATIONS	15. SOURCE/ORIGIN OF GOODS AND SERVICES
Interim MM YY MM YY Final MM YY 03 86 03 87	<input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment.)

17. APPROVED BY	Signature Orlando Llenza	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
	Title Mission Director USAID/Ecuador	

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PROJECT AUTHORIZATION

Name of Country: Ecuador  
Name of Project: Macroeconomic Policy Analysis  
Project Number: 518-0050

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Macroeconomic Policy Analysis project for Ecuador involving planned obligations of not to exceed One Million Three-Hundred Thousand United States Dollars (\$1,300,000) in grant funds ("Grant") over a three-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is three years from the date of initial obligation.

2. The project ("Project") consists of activities to strengthen the Government of Ecuador's capability to design and implement sound economic policies which support Ecuador's process of structural adjustment and encourage increased investment, employment and productivity in the private sector.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Grant shall have their source and origin in Ecuador or in the United States of America, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have Ecuador or the United States of America as

their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States of America, except as A.I.D. may otherwise agree in writing.

  
\_\_\_\_\_  
Orlando Llenza  
Mission Director

9/27/84  
\_\_\_\_\_  
Date

Drafted by: CGiusti, <sup>Giusti</sup> USAID/E/ODR

Clearances:

USAID/E/ODP:PMaldonado	<u>M.L.</u>	date	<u>7-28-84</u>
USAID/E/CONT:WRoss	<u>H.R.</u>	date	<u>7/27/84</u>
USAID/E/ADIR:GRWein	<u>GR</u>	date	<u>9/28/84</u>
RLA:AAdams <sup>AGW</sup>		by phone date	<u>9/27/84</u>

MACROECONOMIC POLICY ANALYSIS PROGRAM

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ATTACHMENTS TO THE PROJECT PAPER

- A. Logical Framework
- B. PID Approval Cable
- C. Statutory Checklist
- D. Letter of Application
- E. Payment Certification

Report on Economic Advisory Services to USAID/Ecuador, A Report Prepared and Submitted by Price Waterhouse, Office of Government Services, August 15, 1984 (contained in bulk files in USAID/Ecuador and LAC/DR)

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## I. SUMMARY AND RECOMMENDATIONS

A. Recommendations. USAID/Ecuador recommends authorization of a \$1,300,000 Development Grant for a Macroeconomic Policy Analysis Project for the Government of Ecuador.

B. Grantee. The Grantee will be the Government of Ecuador, acting through the Ministry of Finance and Public Credit (MOF). The MOF will utilize the funds to implement the Project directly.

C. Project Summary. Since the early 1980s, Ecuador has been suffering a severe economic crisis. The symptoms of the crisis have included declining and negative growth rates, rising unemployment and widespread underemployment, chronic current account deficits, and unprecedented high rates of inflation.

The roots of the crisis are structural in nature and closely linked to the external sector. For more than a decade, Ecuador has depended on the export of petroleum and, to a lesser extent, a few traditional agricultural crops for virtually all of its foreign exchange and a large share of its GDP. Petroleum also allowed the GOE to borrow heavily in international capital markets to finance expensive investment programs.

By 1982, the situation had almost completely reversed itself. Stagnating production and weakening world markets for Ecuador's few major exports, including petroleum, had resulted in serious decreases in foreign exchange earnings at the same time that payments on the large foreign debt were rising steeply. One of the results of this is the serious balance of payments crisis that the GOE has been suffering. Without access to fresh international credits, the external sector became a drain on resources, aggregate demand and output dropped sharply, and the GOE had to resort to heavy borrowing from domestic capital markets in an attempt to keep afloat.

In May 1982, the GOE decreed the first devaluation in over a decade and set in motion an economic stabilization program. This program was

Project seeks to do this by undertaking a series of policy and institutional analyses which will demonstrate clear policy and procedural alternatives for reaching a series of economic objectives.

In order to effect the policy analyses, design policy options based on these analyses, present them to GOE decision makers, and implement them, two types of expert technical assistance will be required. First, to undertake the policy analyses themselves, outside experts with extensive experience will be contracted. Major analyses will be undertaken in two major areas under separate Project activities: fiscal sector structuring; and development of capital markets and savings mobilization. A third analysis activity will finance a series of feasibility and follow-up oriented studies. To ensure the availability of an adequate level of in-country follow-up to, and implementation of the recommendations made by the external technical advisors, a long term, local hire team will be contracted. This team will be composed of several Ecuadoreans contracted by the Ministry of Finance who have exceptional expertise in the areas to be analyzed. Many of these individuals will be on leave from various international and local financial and development institutions. They will be assisted by a long term economist to be contracted by A.I.D.

In order to undertake and complete the studies activities of the Project, a total of \$800,000 of Development Grant and \$200,000 of Ecuadorean counterpart funds will be utilized to finance external technical advisers. For the fiscal sector structuring activity, \$350,000 of A.I.D. funds and \$200,000 of Ecuadorean counterpart funds will be used to finance 35 person-months of technical assistance, which will comprehensively assess the current fiscal problems of the GOE, focusing in on the current expenditures accounts of the GOE, and providing alternatives for structural improvement in this important area. For the capital markets and savings mobilization activity, approximately 25 person-months will be necessary to address several key issues; for example, interest rate policies, exchange rate policies, and tax policies. \$250,000 of A.I.D. funds will be used to contract this assistance. Under the feasibility and follow-up studies component a series of very short-term, specific studies will be financed. Some of these may be required as follow-up to recommendations of the larger studies (e.g., budgetary process analysis) and some may be desirable in order to identify special opportunities for the GOE (e.g, debt rescheduling alternatives). \$190,000 of A.I.D. funds will finance this activity. An additional \$10,000 of A.I.D. Grant funds have been reserved for evaluations and audits.

In order to fully staff the locally based policy analysis and implementation group, \$500,000 of A.I.D. funds and \$235,000 of GOE funds will be utilized to finance salaries, support costs, and operating expenses associated with the establishment of the policy group.

In summary, A.I.D. and Government of Ecuador funds will be used as follows:

<u>SUMMARY BUDGET</u>			
<u>(\$000)</u>			
<u>Activity</u>	<u>A. I. D.</u>	<u>Ecuador</u>	<u>Total</u>
1. Policy Analysis	800	200	1,000
2. Project Liaison/ Implementation	500	235	735
	<hr/>	<hr/>	<hr/>
TOTAL	1,300	435	1,735

## II. PROJECT BACKGROUND

A. Economic Framework. Oil was discovered in Ecuador in 1967, and by 1971 Ecuador was a net petroleum exporter. In 1973, world oil prices quadrupled and continued to increase throughout the 1970s. This sparked a 10 year period of unprecedented growth in the Ecuadorean economy. During the 1970's Ecuadorean income and output expanded rapidly as real GDP grew at almost eight percent annually. Per capita incomes increased, and large increases in public expenditures in certain social areas resulted in longer life expectancy, decreased mortality rates, and increased school enrollments.

This impressive increase in income also had serious negative effects. These, as well as other factors, caused the economic recession into which Ecuador entered in late 1982. The most important of these are discussed briefly below:

1. Impact on Public Finances and Expenditures. The structural roots of the economic crisis can be traced to the GOE's expansionary fiscal policies begun in 1973. Petroleum revenues were largely regarded and treated as windfall gains by the public sector which received and spent these funds rapidly. Subsequently, as the costs of large public sector investment projects and plans outstripped the capacity of petroleum exports to finance with existing cash flow, the GOE resorted to heavy external borrowing.

The results of these large public spending programs fed by petroleum earnings and external borrowing were threefold:

a. Increased public expenditures had a strong expansionary effect on domestic demand.

b. A petroleum-financed, public sector surplus equal to 3 percent of GDP in 1973 was converted into a deficit of 2 percent of GDP by 1975 and 7 percent of GDP in 1983, the latter financed by heavy foreign borrowing.

c. The size of the public sector mushroomed during the 1973-1982 period. The sector's real value-added more than tripled, and it grew two times faster than GDP.

The negative effects of these policies became obvious by the 1982-1983 period. Interest payments alone on the public external debt had risen from 1.3 percent of GDP in 1973 to 4.1 percent in 1982. The world's financial crisis of 1982 and the foreign commercial banks' unwillingness to continue large lending programs to Latin America in general only precipitated an already impending disaster.

Cut off from external sources, the GOE's main quest became one of financing the fiscal deficit. Local financing was difficult since no institution was set up to market the public debt and since interest rates had been kept artificially low. By 1983 the GOE had resorted to inflationary finance through the Central Bank to cover its deficit. As a result of this and of natural disasters, inflation surged from 16 percent in 1982 to 53 percent in 1983. Determined efforts by the GOE reduced this to a better, but still unacceptable, 25 percent by the end of 1984.

Ecuador must continue to revise and restructure its fiscal sector. It cannot afford to repeat the expansionary policies and deficit financing schemes of the past. At least for the medium term its international debt is so large that a return to external borrowing would be extremely risky - even if the international banks were willing to increase their lending. The course chosen by the current administration calls for a restructuring of public sector financing mechanisms, increased domestic resource mobilization, and spending reductions in order to reduce the fiscal deficit. The government intends to maintain current expenditures at 22 percent of GDP while letting capital expenditures grow only slightly in 1985. At the same time, the basis for a projected fiscal surplus in 1985 is an anticipated increase in oil revenues.

Most experts believe that it is possible for Ecuador to maintain fiscal equilibrium or even small surpluses as long as current policies of public austerity and expenditure reduction are maintained. However, two main factors may intervene in this delicate equation: (1) petroleum revenues to the central government could fall if world oil prices soften further; and (2) anticipated tax revenues may not rise as rapidly as expected. On the expenditure side, it is possible that as projected domestic oil price hikes are decreed, inflation could push up public sector salaries and interest rates which, in turn, would increase GOE expenditures.

2. Impact on the External Sector. Oil also affected Ecuador's exchange rate, allowing it to appreciate in real terms without causing financing problems. This made imports cheaper for Ecuadorean industrialists and consumers, but it also meant that Ecuadorean non-oil exports suffered. Like the public sector, the external sector would also have encountered problems after 1980, had it not been for recourse to large external borrowings. The oil receipts enhanced the country's creditworthiness and led to the external debt build-up. The current account deficit in the balance of payments during 1981-82 exceeded US\$1 billion each year, over 10 percent of GDP.

3. Impact on Domestic Financial System. Monetary policies paralleled both exchange rate and fiscal policies. Ecuador's financial system was able to expand credit rapidly in nominal and real terms, assisted by Central Bank credit expansion. Ecuador's financial institutions became dependent on the Central Bank for resources; by 1983,

three-fifths of the resources of the financieras, and over a third of the banks', came from the Central Bank. The Central Bank was able to expand credit rapidly because the public sector often overborrowed and deposited the excess funds in it. The open economy, with a fixed exchange rate, relieved what otherwise would have been inflationary pressures by increasing the supply of goods to the economy through imports. Copious external borrowing provided the needed foreign exchange. What Ecuador did not pay in inflation, it now has to pay in debt service. Low interest rates--indeed, negative in real terms--led to a decline of relative financial savings. Thus, financial institutions, like the public and external sectors, became dependent on petroleum (through the Central Bank) and ultimately on external borrowings through guarantees. They, too, encountered severe problems when, in 1982, the petroleum receipts stagnated and Ecuador's access to external funds was limited.

By 1982 the economic situation had reached crisis proportions. The Central Bank had practically no foreign liquidity, payments on the external debt were in arrears, and the country's access to foreign exchange was severely hampered. The GOE began to deal with these serious problems in 1982 and 1983 by devaluing the sucre, prohibiting many imports and limiting others, consolidating and renegotiating public official debt, and implementing a fiscal austerity program.

In 1983, however, the economy received another serious blow when severe flooding in the coastal areas had a disastrous effect on agricultural production, severely damaged and destroyed physical infrastructure, and contributed to a decline of 3.3 percent in real GDP. In addition, because of an additional 14 percent decline in petroleum prices, the terms of trade continued to decline. Nevertheless, the fiscal austerity and other measures implemented the previous year did begin to pay off in spite of these reverses. The overall public sector deficit was reduced to about one percent of GDP in 1983, as compared to about 7 percent in 1982. The external sector also noted some improvement as the current account deficit in the balance of payments was reduced to about one percent of GDP from almost 12 percent in 1982. As a result, the overall balance of payments deficit was reduced to \$50 million as compared to \$420 million in 1982.

However, the process of economic stabilization is still incomplete. In 1984, the exports of unprocessed cocoa are projected to be the only non-petroleum exports that increase in volume. Bananas, coffee, and fish and seafood exports will probably fall. For 1985, a reasonable recovery from the effects of the 1983 floods and the more attractive exchange rate regimen may lead to volume increases in most of the important non-petroleum exports.

Data for 1984 are projected to show an overall increase in GDP of about 2.2 percent which, if realized, would translate into a per capita income

decrease of 0.7 percent. For 1985, the GOE and the IMF predict overall GDP growth of 2.5 percent, assuming that inflation can be held to a maximum of 20 percent which will be difficult if projected increases in domestic gasoline prices are decreed. Inflation in 1984 is projected to average 25 percent over the 12 month period. If the 1984 GDP figure holds, and if estimates are close to correct for the 1985 calendar year, it will mean that the Ecuadorean economy will experience four consecutive years (1982-1985) of negative GDP growth.

During the past few years, Ecuador has experienced extreme economic difficulties, but it has responded both effectively and responsibly. During the same period, Ecuador made its first successful transition from one democratically elected administration to another in 25 years. Unfortunately, both declining world oil prices and the El Niño flood disaster made it impossible for Ecuador to sustain its debt service obligations and forced adjustment to a much slower rate of growth for the balance of this decade. As a result of this, the GOE has realized that its dependency on one export for economic growth is inadequate, but in order to enhance overall output, substantial restructuring of the economy is required. This transition will, in the best of circumstances, take some years to achieve. During the next few years, the financial situation, particularly with respect to external accounts, will be tenuous because of the dependence on oil and the volatility of world markets, including interest rates; hence the need for careful attention to economic management and reform.

B. Responses to the Need for Economic Restructuring. While the GOE has been implementing economic reforms since 1983, several international financial agencies are also involved in policy analysis, technical assistance, and management improvement activities designed to assist in and accelerate the restructuring process.

1. Government of Ecuador. The administration of President Febres-Cordero, which took office on August 10, 1984, has organized an exceptionally well-qualified team of private enterprise-oriented economists. This group has put together a package of economic measures that are designed to stabilize the economy in the immediate to short term, and lead to recovery in the medium term. Among those steps already taken in order to stabilize the economy are the following:

a. August 1984: To reduce energy subsidies, the new administration resolved to continue the two percent per month increase in electricity rates.

b. September 4, 1984: To align exchange rates, the GOE:

(1) created the official intervention market;

(2) moved all transactions except public sector transactions, selected imports, and debt servicing on external loans contracted prior to September 4, 1984, to the intervention and parallel markets;

(3) reduced the minimum financing period from 360 days and 180 days to 120 days for the majority of imports;

(4) lowered certain import duties; and

(5) removed most import prohibitions.

In the next few months the GOE will primarily continue to address economic stabilization, although it is likely that some initial policy adjustments aimed at restructuring the economy may take place. First among its priorities will be the negotiation of a new IMF Stand-By Arrangement for the 1985-1986 period. An IMF team will be in Ecuador during the month of November 1984 to prepare the initial documentation for this program. The GOE has requested an SDR 105 million Stand-By to be in place by March 1985. Before the end of CY1984 the GOE anticipates negotiating a debt rescheduling agreement with the U.S. private commercial banks. The GOE will seek a multi-year rescheduling agreement that will cover up to \$5 billion of internationally contracted debt and that will contain some new financing. With the private debt rescheduled, the GOE will seek a similar agreement with official lenders through the Paris Club.

Also before the end of the year, the GOE will most likely increase the domestic price of gasoline. The size of the increase will most likely be politically determined as the gasoline subsidy is a volatile consumer issue.

Early in 1985 the GOE will move to implement some of the measures agreed to in conjunction with the IMF Agreement. In this regard, the Mission expects some upward adjustment of interest rate ceilings, a contraction of money supply and Central Bank credit to the banking sector, a reduction (if not elimination) of import prohibitions, and further adjustments in the exchange rate regimen leading towards unification.

2. A.I.D. A.I.D. has actively sought ways of assisting the newly-elected GOE to analyze and implement policies related to management of the macroeconomic environment.

The GOE has decided that one of its main priorities is to address the economy's overwhelming dependence on oil exports for public sector financing and economic growth. One of the ways it is addressing this is by seeking to improve the efficiency and management of the public expenditure process. Another way is by seeking to increase the capacity of domestic financial intermediaries to mobilize savings and increase investment. This Project will assist the GOE in these areas.

Another of the ways the GOE is addressing the problem is through a determined effort to increase public sector revenues through improved tax collections. A.I.D. and the GOE are currently designing a major fiscal administration project which will enhance the revenue generation capability of the GOE. This project is a major complement to the fiscal sector analyses which focus on public expenditures to be financed under this Project.

Finally, in order to lessen its dependency on oil exports as the engine of development in Ecuador, the GOE has determined to undertake a major effort to promote non-traditional agricultural exports. A.I.D. is assisting in this effort with the Non-Traditional Agricultural Exports Project which was signed with the GOE in September 1984.

3. Other Donors. The GOE, in conjunction with the International Bank for Reconstruction and Development (IBRD), is currently designing a major effort in public sector administration. One of the major targets for assistance under this program will be the Ministry of Finance. The design of the IBRD project and the analyses to be conducted under this Project have been and will continue to be carefully coordinated.

### III. PROJECT DESCRIPTION

A. Project Goal and Purpose. The overall goal to which this Project contributes is to restructure the Ecuadorean economy in such a way as to promote and fortify a private sector-led, market-oriented development strategy, leading to long-term economic growth and stability. The purpose of this Project is to strengthen the Government of Ecuador's capability to design and implement sound economic policies which support Ecuador's process of structural adjustment and encourage increased investment, employment, and productivity in the private sector.

B. Project Strategy and Activities. The Project purpose will be achieved through three components. The first component will consist of a series of policy and institutional analyses undertaken by contracted experts in collaboration with GOE staff in key economic agencies. This strategy will produce two types of outputs. The first will be the analyses themselves, which will provide decision-makers with assessments of options in the selected policy areas, as well as identify critical institutional constraints to the effective formulation and implementation of new policies. Second, the Project will directly strengthen institutional capacities by means of limited "on-the-job" training and guidance provided by the contracted experts to their GOE counterparts in policy analysis and implementation techniques. USAID will carefully monitor the progress made in implementing the policy options developed under the Project. As the need for further analysis consistent with A.I.D. priorities or assistance in implementing policies is identified, the Mission will consider expanding the assistance under the Project. Specific Project activities will fall into the following general areas: fiscal policy and institutional analysis; capital market policy and institutional analysis with emphasis on savings mobilization; a series of short feasibility, training, and other studies; and evaluation and audit. The final activity will provide financing for necessary implementation follow-up to the studies and analyses to be contracted under the above-mentioned activities.

#### C. Detailed Project Description

1. Activity No. 1: Fiscal Sector Policy. This activity will address the expenditure side of GOE fiscal policy. It will address the process by which expenditure policies are translated into specific budgets and disbursements. The national financial planning function has never been well developed and the budgeting system is weak with respect to both operational and investment expenditures. While the new economic team assigns high priority to a comprehensive program to improve the design, structure, and functioning of the financial planning and budgeting systems, it requires a comprehensive diagnosis of the problems of the existing systems in order to design and effect adjustments.

The objective of the assistance to be provided in this area is to improve the administration of various aspects of the Ministry of Finance in this general area. The MOF has identified the following specific areas as subjects of analysis: organizational/functional structure analysis, institutional analysis, public expenditure policy analysis, public financing policy analysis, and external economic assistance management analysis. The analysis required in each of these areas will follow the same general outline, as follows:

- a. A detailed descriptive and analytical diagnostic of the current situation.
- b. Identification of priority areas for reform of operational, technical, and administrative areas.
- c. Presentation of a short to medium-term program for implementation of the reforms identified.

2. Activity No. 2: Capital Market Sector Development. The key issues in this area center on the mobilization of domestic savings and the effective functioning of the public and private financial sectors in generating and allocating resources. Currently, private domestic savings (formal sector fixed capital formation undertaken by the private sector) represent less than 3 percent of GDP, with capital flight and investment in high income housing apparently absorbing a considerable amount of those resources not supporting current consumption.

Under this activity, a series of studies will analyze the legal, institutional, and policy framework and key factors governing the mobilization of domestic savings, including interest rate, exchange rate, credit policies, and, generally, any other factor affecting the overall investment climate. This will require an assessment of how current interest rates and credit policies impact on different economic sectors and activities.

The principle objective of the analyses will be to present a comprehensive action plan designed to address the constraints to mobilization of domestic savings and development of capital markets in Ecuador. As such, these analyses will address both policy and institutional level constraints to development of this sector. The analyses will be designed and conducted in such a way as to lead to a presentation of policy options and to describe their probable consequences in social and economic terms. The analyses will describe the various options for managing interest rate policies with the central objective being to increase the flow of private savings to financial intermediaries where these resources can be channeled into productive investments. Likewise, alternative policy options for the GOE with

respect to managing exchange rates, credit policies, and tax policies so as to have the maximum effect on savings mobilization will be presented.

In addition, the analyses will identify specific public policy changes required to strengthen financial intermediaries, including: banks, finance companies, insurance companies, stock exchanges, bond markets, savings and loan associations, and exchange houses. The analyses will also identify a series of institutional level development assistance interventions which could increase the capacity of private capital market institutions to mobilize private savings and channel them to private sector firms in productive sectors.

3. Activity No. 3: Other Policy Analyses. In addition to the major policy analyses described as activities nos. 1 and 2, above, a series of very short term policy activities are contemplated. These will fall into four general categories: policy implementation feasibility studies, activities designed to strengthen MOF operational planning in a changing economic environment, training needs assessments, and other studies that may be identified in the course of policy implementation.

In the area of policy feasibility analyses, a series of short term studies will be financed that examine the success of specific policy implementation mechanisms in other countries and the degree to which those mechanisms may be applicable to Ecuador. For example, in the area of exchange rate reform, devaluation of the currency may be a recommended policy to be implemented. There are a myriad of alternatives to effect a devaluation: crawling pegs, creation of intermediate rates, declaring an overnight devaluation, etc. Most mechanisms have been tried in one country or another, and before the GOE decides exactly how to implement reform, the successes and failures of each of these types of mechanisms must be carefully evaluated. Under this activity, these types of short-term analyses would be financed in several areas; for example, exchange rate adjustments, interest rate adjustments, import/export control procedures, debt restructuring mechanisms, inflation controls, etc.

As policy reforms are decided upon and implementation begins, operational planning of the public sector agencies charged with implementing new policies must reflect the changes. Under this activity, a limited amount of assistance will be provided, essentially to the different agencies within the Ministry of Finance, to ensure that policy reforms are reflected in the operational planning. It is contemplated that this kind of assistance can most efficiently be provided by other than the most senior level advisors. However, solid training in economics will be required, and it is preferable that the individuals assisting in the process be objective and politically neutral. For these reasons, one of the modalities the GOE will attempt to utilize in contracting this assistance will be through the granting of graduate assistantships to

Ph.D. students from universities recognized for their economics programs. Since the summer months of the calendar year is when this assistance will be required, this mechanism appears particularly appropriate. The assistantships will be advertised and the grantee chosen by the Ministry of Finance.

In the course of the policy analysis, recommendation, and implementation process, it is anticipated that training needs of public sector economic managers will be identified. As needs are identified, short assessments of how best to accomplish the training will need to be conducted. In addition, specific courses or workshops will need to be identified or, in some cases, designed. This Project activity will address these needs by providing very short term assistance in assessing specific training alternatives and, as appropriate, providing limited financing for participation in workshops or conferences on specific subjects related to implementation of policy reforms.

4. Activity No. 4: Evaluation and Audits. One end-of-project audit and an end-of-project evaluation will be conducted.

The evaluation will examine the achievements of the Project in terms of both outputs and purpose-level indicators. It will review the studies produced and other work completed under the Project in terms of their quality and the relationship they had with the overall purpose of the Project. At the purpose level, the extent to which the Government of Ecuador designs and implements sound economic policies will be assessed. The quantity, quality and comprehensiveness of the policy changes effected will be evaluated. The results of the policy changes, in terms of social, economic, and political effects, will also be assessed.

In addition, funds will be set aside under this activity to conduct the required non-Federal audit of the Project.

5. Activity No. 5: Policy Implementation. All assistance to the GOE contemplated under activities nos. 1 through 4, will be provided by short-term advisors contracted under a variety of mechanisms. In order to ensure that the policy and institutional reform recommendations thus developed receive thorough review within the GOE and to ensure that action plans are developed and implemented, the Project will also finance a small core staff of Ecuadorean professionals, a U.S. economist, and a part-time social scientist. These individuals will both participate in the analyses and remain for a period of up to two years to assist in the subsequent dialogue about, and implementation of, policy reforms. They will represent a variety of disciplines on an as-needed basis, including financial, economic, administrative, and legal skills.

Principal functions of the U.S. economist will be to act as the manager of specific activities in the preparation of scopes of work for the

short-term technical consultants, to participate in the selection of these consultants, to coordinate the activities of the consultants, and to work with the long-term Ecuadorean advisors to encourage serious consideration of the various policy alternatives within the appropriate Ecuadorean institutions.

The principal function of the social scientist under this Project will be to work closely with the short-term expatriate advisors, the U.S. economist, and the Ecuadorean core staff, to ensure that social analyses are incorporated into the policy analyses and recommendations for reform. Specifically, the social scientist will be responsible for ensuring that social impact assessments are conducted for each of the policy recommendations and alternatives presented.

#### IV. PROJECT SPECIFIC ANALYSES

During the development of the PID, the Mission presented its case for not subjecting the Project to traditional economic and social analyses prior to PP approval and authorization. Instead, the Mission proposed to carry out traditional economic and social analyses as part of the policy analysis process itself. This strategy was approved by the DAEC which is reflected in the DAEC guidance cable contained in Annex B.

A. Technical Analysis. Both the overall goal and the specific purpose of this Project relate to the restructuring of the Ecuadorean economy. The focus of this technical analysis will address this aspect of the suitability of the Project and the Project design as it analyzes the following issues:

1. Given today's world economic environment and the current economic and political situation of Ecuador, is restructuring feasible at this time?
2. Are the proposed Project interventions appropriate and sufficient to achieve the Project purpose?

There is widespread agreement among recognized world economists and leading economic institutions that the world economy experienced a significant slow-down early in the 1980's. The countries most seriously affected by this slowdown were probably the developing countries. Many of the Latin American countries were particularly hard hit. With the relatively good prospects for growth in the 1970's many had begun to depend heavily on foreign commercial borrowing to finance growth. As fiscal deficits increased, they borrowed more, and commercial deficit financing became normal. The foreign commercial banks, especially the U.S. banks, during the same period found themselves holding larger and larger quantities of petrodollars. Anxiously searching for opportunities to lend, they collectively increased their exposure in Latin America to unprecedented levels. Ecuador, confident in its ability to earn hard currency from its petroleum exports, borrowed heavily. When the recession hit and the price of petroleum began to fall, Ecuador found itself holding a short-term, high interest commercial debt which by 1984 totals about \$7.0 billion. Debt service in 1985 alone on this debt is projected at 70 percent of exports, if it is not rescheduled.

It goes without saying that it is impossible in the current world economy for Ecuador to return to the economic growth model utilized during the 1970s. The banks are reducing their Latin exposure and petroleum prices continue to creep downward. Some sort of restructuring has been found necessary just to stabilize the economy. Restructuring is required in order for Ecuador to: (1) meet its obligations from the past; (2) live with the economic realities of the 1980's; and (3) regain and maintain a positive growth rate in order to preserve political stability within the democratic context.

The GOE plans to move forward with an economic restructuring that would stabilize the economy in the short term and reorient it towards market oriented, export-led growth in the medium term. To do this the GOE seeks to:

in the short term:

- a. reduce its short-term debt burden
- b. increase GOE revenues and reduce expenditures
- c. achieve equilibrium in its balance of payment accounts
- d. reduce explicit and implied subsidies through
  - (1) exchange rate unification
  - (2) adjustments in interest rates
  - (3) revisions in industrial protection codes
  - (4) gasoline and fuel oil price hikes
  - (5) reduction of government intervention in markets.

in the medium term:

- e. replace the need for future foreign borrowings with increased foreign investment
- f. diversify Ecuador's export base and increase non-traditional exports
- g. strengthen domestic financial systems and capital markets in order to mobilize domestic savings and reduce capital flight

Having established that economic restructuring is necessary, as described above, the question become one of feasibility. There are two aspects to this question: technical feasibility and political feasibility.

On the technical side, the Ecuadorean economy has many strong points. The country's economic foundations are good ones. It is natural resource rich. It's agricultural sector benefits from fertile soils, a climate for virtually every crop, and a great deal of earlier investment in agricultural infrastructure. It is essentially self-sufficient in food production. Its industrial foundations are newer and, therefore, weaker, but exist nevertheless. While there continues to be a lack of upper level managers and highly technical skilled labor, the labor force is large and literate, and possesses basic technical skills. Financial infrastructure (public and private banks, savings and loans mutual funds, stock exchanges, etc.) is well established and functioning.

In short, from a strictly economic viewpoint, Ecuador is probably one of a few countries in the world that can afford to go through the painful process of restructuring its economy. This is not to say it will be easy; displacement and readjustment never are.

However, assured income from increased petroleum exports will serve to cushion the blows that serious restructuring will cause and to grease the wheels for many of the structural changes to be made. Technically, ensured petroleum revenues will enable the GOE to buy the time necessary to effect a carefully planned, step-by-step restructuring. This should result in a process whereby the economic effects on different interest groups of the economy can be made weak enough to make the restructuring politically feasible. The GOE also plans to initiate a large public awareness campaign which explains the need for specific reforms. At the same time, the execution of several large, very visible investment projects aimed at addressing the basic needs of some of the poorest segments of Ecuadorean society will counteract potential criticism. Politically, the restructuring strategy is sound.

The other aspects of technical feasibility to be addressed by this analysis are the appropriateness and sufficiency of the Project interventions vis-a-vis the Project purpose: to strengthen the GOE's capability to design and implement sound economic policies.

As is thoroughly discussed in the administrative analysis, below, the top managers of the GOE's economic team are eminently well qualified. These managers, however, are a thin veneer on organizations where staff are generally not well qualified to collect and analyze economic data nor to design or implement policy reforms.

The Project addresses this constraint through a two-fold strategy: by financing expert technical assistance from an international pool to conduct the analyses; and by making available locally contracted technicians to ensure that the policy reforms decided upon by top GOE economic managers are effected.

What the Project does not address is the institutional adjustments that will have to be made in the longer term to fully institutionalize new procedures that result from policy changes. This aspect of policy reform and institutionalization is essentially the purview of an \$8 million IBRD Public Administration loan to be signed in 1985. The design of both this and the IBRD project have been carefully coordinated in order to ensure this detailed level of complementarity.

B. Administrative Analysis. The implementing agency for this Project is the Ministry of Finance and Public Credit (MOF). Overall Project implementation guidance will be provided directly by the Minister. The Minister's personal advisers will serve as advisers to the

externally contracted technical assistance contractor during the execution of the policy analyses and will serve as the core of the implementation unit.

In conducting this administrative analysis for the Project, the following elements of the MOF's operations were examined: organization, management, and staff.

1. Organization. The MOF is an integral part of the GOE. It is a line Ministry and forms part of the central government. With regard to Project implementation, the MOF has authority to act without approval of other government agencies. The Minister has authority to commit funds and contract for goods and services. For policy implementation, the objective of this Project, the MOF will be obliged to coordinate with other executive and legislative bodies depending on the nature and scope of the policy to be implemented. It is anticipated that proposed policy actions will flow from the office of the Minister. Other offices of the Ministry may be involved in certain follow-up actions (data collection, procedural analysis), but none will have direct responsibility for policy implementation, and it will be the responsibility of the Minister's personal staff to ensure performance within the Ministry.

2. Project Management. The Minister of Finance will be the only authority within the MOF who will initiate requests for action under the Project. For implementation actions to be executed by A.I.D., the Minister will request A.I.D. to initiate action and he will review most procurement documents (i.e., RFP's, scopes of work, etc.)

In order to facilitate this process and given severe constraints on the Minister's time, the Minister will recruit and hire a Project-financed Project Coordinator.

3. Staff. The administration of President Febres Cordero has organized an exceptionally well-qualified team of private enterprise oriented economists and placed them in key economic decision-making positions, including the Minister of Finance, the President of the Central Bank, the Economic Advisor to the President, the President of the Ecuadorean Development Bank (BEDE), and the President of the Monetary Board. Most of these have received advanced degrees from well-known U.S. universities. Hence, the top managers of the key economic policy decision-making agencies possess excellent credentials and are politically oriented toward restructuring the economy along competitive lines. All are experienced managers with relevant experience in both the public and private sectors.

These individuals have a clear vision of how they want to orient the economy. They have already addressed some of the policy issues during their short time in office and have an agenda of corrective actions that

need to be taken from the present until early 1985. However, more than good intentions and attacking the more obvious economic problems will be required in order to effect the kind of restructuring they desire.

Detailed economic political and social analyses of some of the less obvious GOE economic policies will be required in order to fine-tune the policy environment. Data, a special constraint in terms of availability and quality, need to be compiled and analyzed before the economic team can readjust and realign its economic priorities. In this area, the team is especially constrained by lack of staff capable of conducting these analyses and then analyzing and effecting the steps necessary to implement decisions. The Project design addresses this constraint directly by providing expert outside assistance to the Minister to analyze policies and recommend alternative policy scenarios. In addition, as part of their task, the outside advisers will examine certain of the institutional constraints to policy analysis and implementation within the MOF and recommend areas for follow-on assistance.

This same staff constraint will affect the ability of the GOE to implement policy reforms. Again, the Project design will address this constraint in two ways. First, a multidisciplinary policy implementation unit will be established within the MOF, as described under Activity No. 5 above. These individuals will be selected and contracted by the MOF using host country contracting procedures. Secondly, the U.S. contractor which provides the technical assistance in policy analysis will subcontract with a local firm which will conduct follow-up data collection and analysis tasks as required during the policy implementation period. This outside capability will assist the Minister's personal staff to move quickly during the policy decision-making and implementation process.

V. FINANCIAL PLAN

This Project represents \$1,300,000 in assistance to the Government of Ecuador to assist with the policy and institutional analyses and implementation assistance required for economic restructuring. The total program cost over the planned two and one-half year implementation period is \$1,735,000, which includes a Government of Ecuador contribution of \$435,000, approximately 25 percent of total program costs.

The following table summarizes the overall financial plan of the Project:

MACROECONOMIC POLICY ANALYSIS PROJECT  
FINANCIAL PLAN BY ACTIVITY  
( \$000 )

<u>Activity</u>	<u>A.I.D.</u>		<u>Ecuador</u>	<u>Total</u>
	<u>FX</u>	<u>LC</u>		
1. Fiscal Sector Policy	350		200	550
2. Capital Markets	250			250
3. Other Studies	190			190
4. Evaluation/Audit	10			10
5. Project Liaison/ Implementation	250	250	235	735
TOTAL	1,050	250	435	1,735

Inputs into each of the activities itemized above will consist of technical assistance. Foreign exchange financed technical assistance is anticipated to consist of 80 person-months of short term technical assistance to complete the policy analyses and evaluation required, and two person-years of long term technical assistance in overall project coordination and in-country policy guidance. Cost of short-term technical assistance is calculated at an average of \$10,000 per person-month; and long-term technical assistance, at \$125,000 per person-year.

The following table presents a detailed line-item planned expenditure schedule of the Project for the two and one-half year period ending in CY1987. The expenditure schedule is presented in calendar years. As is demonstrated by the planned expenditures, the initial year of the Project is essentially a start-up period.

**MACROECONOMIC POLICY ANALYSIS PROGRAM**  
**PLANNED EXPENDITURE SCHEDULE**  
(A.I.D. funds in \$000)

<u>ACTIVITY</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>TOTAL</u>
1. <u>Fiscal Sector</u> Technical Assistance (35 p/m)		233	117		350
2. <u>Capital Mkts</u> Technical Assistance (25 p/m)		250			250
3. <u>Other Studies</u>		(53.5)	(136.5)		(190)
a. Internships		3.5	5		8.5
b. Feasibility Analyses		50	30		80
c. Training Studies			50		50
d. Other Analyses			51.5		51.5
4. <u>Evaluation/Audit</u>				10	10
5. <u>Implementation</u>	(13.5)	(175.5)	(223)	(88)	(500)
a. GOE Policy Implementation Unit		50	64		114
b. Economist		45	125	80	250
c. Social Scientist		10	4		14
d. Special Adviser	13.5	60.5			74
e. Project Coordinator		10	30	8	48
<b>TOTAL</b>	<b>13.5</b>	<b>712</b>	<b>476.5</b>	<b>98</b>	<b>1,300</b>

## V1. PROJECT IMPLEMENTATION

A. Host Country Arrangements. A Limited Scope Grant Agreement will be signed by the Minister of Finance and the Minister of Foreign Relations. Resources will be granted directly to the Ministry of Finance which will directly allocate its counterpart to the Project.

The Ministry of Finance will negotiate and execute A.I.D. approved host country contracts for all Ecuadorean nationals anticipated under the policy implementation activity.

The Minister of Finance will have primary project management responsibility but day-to-day implementation responsibility will be delegated to the Undersecretary for Public Credit and the designated MOF Project Coordinator.

B. A.I.D. Arrangements. Project management responsibility will rest with the office of Development Resources which will be assisted by the Controller's Office. In developing the scopes of work for the various policy analyses, the Private Sector Development Office will play a key roll, and serve in an advisory capacity during the execution of the capital markets development study. No increase in USDH Mission staffing is anticipated for this Project, although an economist will be contracted as described under the policy implementation activity. The economist will work under the direction of the Chief of the Office of Development Resources, the USDH Project Officer.

1. Disbursement Procedures. For the policy analysis activities, A.I.D. will disburse directly to the U.S. contractor or contractors. For those individuals recruited and selected by A.I.D. under the Policy Implementation Activity, disbursement will be made directly by A.I.D. For those contracted pursuant to host country procedures, A.I.D. may serve as the fiscal agent on an individually justifiable basis. Disbursements for some Ecuadorean contractors, however, will be effected through a fiscal agent of the Cooperating Country.

2. Procurement Procedures. For the policy analysis activities, formal competitive procedures will be followed in order to identify, select, and execute a direct A.I.D. contract with a qualified U.S. firm or joint venture. Joint proposals from or subcontracting with an Ecuadorean firm will be encouraged especially with respect to follow-up policy implementation activities.

Under the policy implementation activity, A.I.D. will identify, select, and negotiate a personal services contract with qualified U.S. citizens for the economist and social scientist positions to be financed under this Project. For all Ecuadorean nationals to be contracted, host country procedures will be followed.

3. Project Monitoring. Careful monitoring of Project activities will be an integral part of this Project. While evaluation will focus more on impact (i.e., policies that are modified as a result of the technical assistance provided, and recommendations made to the GOE), monitoring will focus on the policy process - the studies, recommendations, decision making, domestic and international policy dialogue, etc. Much of the monitoring and reporting responsibility will rest with the Ecuadorean Project Coordinator. The Coordinator will prepare written quarterly reports which will cover not only "Project activities", but GOE policy movements, as well. In addition, the Mission anticipates that quarterly economic briefings will be held in a round-table fashion.

Additional, detailed reporting on the implementation of the policy studies themselves, and the general status of contracts and grants under execution will fall within the responsibilities of the Project-funded economist, who will report directly to the USAID Project Officer.

C. Implementation Schedule. The Project Implementation Schedule as presented herein outlines the timing of Project inputs only. Given the nature of the Project, only Project inputs and certain studies outputs lend themselves the pre-project scheduling. Quarterly reports on this Project will contain a special section to report on the status of specific macroeconomic policy reforms proposed or effected that are related to this Project.

1984	Project Authorized	September 28
	Project Agreement Signed	September 28
	Recruit/Select/Contract Economic Adviser to the Minister	October 15
	Advertise U.S. Economist Position	November 15
	Begin Recruitment/Selection of HC Team	November 15
	Project Coordinator Contracted	December 31
1985	Continue Recruitment and Selection of MOF Team	January
	Prepare PIO/T for Initial Feasibility Grant	February 15
	Finalize negotiations on RFP with MOF	February 28
	Review Economist Candidates	February 28
	Recruit/Select/Contract Social Scientist	March 15
	Advertise RFP for Major Studies	March 31
	Select Contractor	June 31

	Studies Commence	August 1
	Renew Host Country Contracts	September 30
	Initial Capital Markets Study Presented	November 30
1986	Initial Fiscal Sector Policy Study Presented	January 31

D. Evaluation and Audit Plan. Project funds have been set aside for a Mission evaluation/audit of the Project. The evaluation will take place at the end of the Project implementation period. It will focus on both output and purpose level indicators of performance, as described under Activity No. 4, above. The planned audit will be an end-use audit, and it will take place at the end of the Project implementation period. It will be conducted by a local firm.

## VII. CONDITIONS, COVENANTS, AND NEGOTIATING STATUS

A. Conditions and Covenants. This Project has been carefully designed with detailed inputs and guidance from the Ministry of Finance and other GOE institutions, as described in the Report on Economic Advisory Services to USAID/Ecuador (contained in LAC/DR and USAID/Ecuador bulk files). Given that the Project essentially consists of technical assistance for policy related endeavors, which will be carefully analyzed for impact as the Project is being implemented, the Mission proposes that no Conditions Precedent or Covenants be required. If additional assistance were to be requested by the GOE, careful examination of implementation progress might indicate the need for administratively oriented conditions or covenants.

B. Negotiating Status. The Project is fully negotiated, and agreement has been reached by all parties as to the terms, conditions, and obligations of each towards the Project. The official letter of application for the Project is included in Annex D.

OPIC 1002-20 (11-79)  
SUPPLEMENT 1

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:  
From FY 84 to FY 87  
Total U.S. Funding: \$1,300,000  
Date Prepared: 9/28/84

Project Title & Number: MACROECONOMIC POLICY ANALYSIS 518-0050

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>To restructure the Ecuadorean economy in such a way as to promote and fortify a private sector-led, market-oriented development strategy, leading to long-term economic growth and stability.</p>	<p>Measures of Goal Achievement: (A-2)</p> <ol style="list-style-type: none"> <li>1. Return to positive GDP per capita growth by 1989.</li> <li>2. Non-petroleum export earnings increase by avg. of 30% per year, 1987-1995.</li> <li>3. Debt service ratio falls from 70% (1985 projected) to 20% (1995, actual).</li> <li>4. Unification of exchange rate regimen at free floating, free market rate by 1987.</li> <li>5. Elimination/reduction of interest rate controls; creation of free market in capital by 1987.</li> <li>6. Across the board reduction in explicit and implied subsidies by 1988.</li> <li>7. Domestic, consumer subsidies on petroleum products eliminated by 1988.</li> <li>8. Significant reduction in government intervention in productive sectors by 1988.</li> <li>9. 100% increase in foreign investment between 1985 and 1990.</li> </ol>	<p>(A-3)</p> <p>IBRD Reports IMF Reports</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <p>Political stability</p>

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PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project: \_\_\_\_\_  
From FY 84 to FY 87  
Total U.S. Funding \$ 1,300,000  
Date Prepared: 9/28/84

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Project Title & Number: MACROECONOMIC POLICY ANALYSTS 518-0050

PAGE 2

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose (B-1)</p> <p>To strengthen the GOE's capability to design and implement sound economic policies which support Ecuador's process of structural adjustment.</p>	<p>Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)</p> <p>1. GOE expenditure policies rationalized to changing economic environment and institutional adjustments necessary to implement them achieved by 1987.</p> <p>2. Macro-policy recommendations related to capital market development implemented by 1987.</p>	<p>(B-3)</p> <p>Project Evaluation</p>	<p>Assumptions for achieving purposes (B-4)</p> <p>1. IBRD Public Sector Administration Project approved and executed.</p> <p>2. Stability of leadership within key economic ministries.</p>

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PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project: \_\_\_\_\_  
From FY 84 to FY 87  
Total U.S. Funding \$1,300,000  
Date Prepared: 9/28/84

AID 1976-20 11-211  
SUPPLEMENT 1

Project Title & Number: MACROECONOMIC POLICY ANALYSIS 518-0050

PAGE 3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Outputs: (C-1)	Magnitude of Outputs: (C-2)	(C-3)	Assumptions for achieving outputs (C-4)
1. Fiscal Expenditure Policy Analyses.	1. Organizational/functional structure analysis, institutional analysis, public expenditure policy analysis, public financing policy analysis, and external economic assistance management analysis completed and recommendations reviewed by 1/28/86.	Project reports Controller reports	Leadership stability within MOF.
2. Domestic Capital Market and Savings Mobilization Analyses.	2. Comprehensive action plan designed to address the constraints to mobilization of domestic savings and development of domestic capital markets in Ecuador completed and recommendations for policy change reviewed by 12/31/85.		
3. Other Studies.	3. Other feasibility, planning, and training studies and assessments completed on an as-needed basis.		
4. Evaluation/Audit.	4. Output and purpose level evaluation completed by September 1987.		
5. Policy Implementation.	5. Policy recommendations analyzed, Ministerial decisions made and implemented.		

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PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project:  
From FY 84 to FY 87  
Total U.S. Funding \$1,300,000  
Date Prepared: 9/28/84

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APPENDIX 1

Project Title & Number: MACROECONOMIC POLYCI ANALYSIS 518-0050

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Inputs: (D-1)</p> <p>Technical Assistance</p>	<p>Implementation Target (Type and Quantity) (D-2)</p> <p>AID: \$1,300,000 GOE: 435,000</p>	<p>(D-3)</p> <p>Obligating documents</p>	<p>Assumptions for providing inputs: (D-4)</p> <p>Funds available on a timely basis.</p>

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UNCLASSIFIED  
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ATTACHMENT B  
Page 1 of 1

OUTGOING  
TELEGRAM

PAGE 01 STATE 290645  
ORIGIN AID-08

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PP SHOULD DESCRIBE THE MECHANISMS THAT WILL BE USED TO ENSURE INTERNAL GOE COORDINATION IN REVIEW AND APPROVAL OF POLICY RECOMMENDATIONS.

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INFO AALA-01 [ASA-0] LADP-04 PPCE-01 PPPB-02 GC-01 GCLA-03  
GCFL-01 PPDC-01 FM-02 CMGT-02 CTR-02 PPR-01 ES-01 RELO-01  
MAST-01 PRE-06 /036 A4 J29

INFO OCT-08 COPY-01 /001 R

DRAFTED BY AID/LAC/DR: EZALLMAN:RJW  
APPROVED BY AID/AA/LAC: VRIVERA  
AID/LAC/SA: KJOHNSON (DRAFT)  
AID/LAC/D,: LDASH (DRAFT)  
AID/RARCHER (DRAFT)  
AID/LAC/A: FALHAGUER (DRAFT)  
AID/LAC/DR: JHESTER (DRAFT)  
AID/LAC/DR: ILEVY  
AID/LAC/DR: DJOHNSON  
AID/DAA/LAC: MDBROWN

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SUBJECT: MACROECONOMIC POLICY ANALYSIS PROJECT (518-0050)

THE SUBJECT PID WAS REVIEWED ON THURSDAY, SEPTEMBER 20, 1984. FOLLOWING IS GUIDANCE TO BE USED IN DRAFTING PROJECT PAPER.

1. SELECTION OF AREAS OF CONCENTRATION. THE PP SHOULD EXPLAIN THE PROCESS FOLLOWED IN SELECTING THE AREAS ON WHICH ASSISTANCE WILL BE CONCENTRATED DURING IMPLEMENTATION AND THE CRITERIA THAT WOULD BE USED IF CHANGES IN EMPHASIS ARE NEEDED OR DESIRABLE DURING IMPLEMENTATION.

A. CAPITAL MARKETS. THE PID PROPOSES TO MOVE TOWARD POSITIVE INTEREST RATES, BUT DOES NOT MENTION MOVING TOWARDS A MARKET ALLOCATION SYSTEM FOR CREDIT, I.E. THROUGH DECONTROL OF INTEREST RATES. THE DAEC ENCOURAGES THE MISSION TO SEEK GOE COMMITMENT TO MOVE TOWARDS OPEN MARKET INTEREST RATES AS BEST METHOD OF ENSURING ECONOMICALLY SOUND ALLOCATION SYSTEM.

B. PETROLEUM REVENUE ENHANCEMENT AND EFFICIENCY. IT WAS DECIDED THAT THIS ACTIVITY SHOULD NOT BE INCLUDED IN THE PROJECT. AS SUGGESTED IN PRICE WATERHOUSE REPORT, WE BELIEVE FUNDING FROM OTHER SOURCES IS MORE APPROPRIATE.

2. RELATIONSHIP TO OTHER IFI PROGRAMS. IMF, WORLD BANK, IDB AND OTHER DONORS HAVE MAJOR ONGOING AND PLANNED PROGRAMS IN ECUADOR. ALL OF THEM ARE INVOLVED IN POLICY DIALOGUE WITH GOE TO SOME EXTENT. THE PP SHOULD DESCRIBE THE STEPS THAT WILL BE TAKEN TO ENSURE THAT THE IFI'S ARE WORKING TOWARDS THE SAME OBJECTIVES. AT A MINIMUM, THE PP SHOULD EXPLAIN HOW THE MISSION WILL ENSURE THAT THE EFFECTIVENESS OF POLICY CHANGES RECOMMENDED UNDER THIS PROJECT WILL NOT NEGATE, NOR BE NEGATED BY, ASSISTANCE PROVIDED THROUGH OTHER DONORS.

3. GOE POLICY COORDINATION. THE ANALYSES CARRIED OUT WILL ASSIST SPECIFIC MINISTRIES AND OTHER GOE AGENCIES TO EXAMINE DIFFERENT ASPECTS OF THE GOE'S POLICY LOCUS. THE

4. ROLE OF ADVISERS AND CORE STAFF. THE ADVISERS AND CORE STAFF MEMBERS WILL PREPARE POLICY ANALYSES AND THE CORE STAFF (U.S. ECONOMIST AND FIVE ECUADORIAN PROFESSIONALS) WILL CONTINUE POLICY DIALOGUE AND ASSIST GOE TO IMPLEMENT POLICY CHANGES. THE DAEC WAS CONCERNED THAT THIS ARRANGEMENT COULD LEAD TO SEVERAL UNDESIRABLE RESULTS: RESISTANCE ON THE PART OF KEY GOE PERSONNEL TO IMPLEMENTATION OF POLICY CHANGES; A MISMATCH BETWEEN THE SKILLS OF THE CORE STAFF AND THOSE NEEDED FOR IMPLEMENTATION OF THE POLICY CHANGES; AND UNAVAILABILITY OF ADVISERS TO ASSIST IN IMPLEMENTATION OF THEIR RECOMMENDATIONS. THE DAEC SUGGESTS THAT THE POLICY ANALYSES BE DEVELOPED TO THE MAXIMUM EXTENT FEASIBLE WITH THE REGULAR STAFF OF THE BENEFITTING GOE MINISTRY OR AGENCY; THAT ONE OR TWO CORE STAFF BE HIRED FOR THE DURATION OF THE PROJECT AND OTHERS BE HIRED FOR SPECIFIC ACTIVITIES ONCE THE GOE HAS TAKEN DECISIONS TO GO AHEAD WITH RECOMMENDED REFORMS; AND THAT THE INITIAL POLICY ANALYSES IDENTIFY THE MIX OF LOCAL PROFESSIONALS AND OUTSIDE ADVISERS NEEDED FOR SUBSEQUENT POLICY DIALOGUE AND IMPLEMENTATION OF THE RECOMMENDATIONS.

5. PP ANALYSES. THE DAEC AGREED THAT SOCIAL AND ECONOMIC FEASIBILITY COULD BE CARRIED OUT AS PART OF SPECIFIC POLICY ANALYSIS STUDIES. HOWEVER, THIS WOULD REQUIRE THAT THE CONTRACTORS FOR EACH ANALYSIS HAVE BOTH ECONOMIC AND

SOCIAL SCIENCE ANALYTICAL CAPABILITIES. THIS COULD CREATE UNNECESSARY IMPLEMENTATION DIFFICULTIES (I.E. GREATER COST, DUPLICATED EFFORT, MORE COMPLICATED CONTRACTING PROCEDURES). THE DAEC SUGGESTED THAT THE MISSION FURTHER EXAMINE THE COSTS AND THE BENEFITS OF THE APPROACH PROPOSED IN THE PID AND DO AS MUCH ANALYSIS AS POSSIBLE DURING PP DEVELOPMENT.

6. CONTRACTING. THE PP SHOULD FULLY DESCRIBE THE PROCEDURES THAT WILL BE USED IN CONTRACTING THE ADVISERS AND CORE STAFF FINANCED UNDER THE PROJECT. THE POLICY ANALYSES SHOULD BE CONTRACTED WITH FIRMS AS OPPOSED TO INDIVIDUALS. IT IS NOT CLEAR IF MISSION CONTEMPLATES CONTRACTING BY AID/V OR BY MISSION. IN MAKING THIS DETERMINATION, MISSION SHOULD CONSIDER WORKLOAD IMPLICATIONS, AND AVAILABILITY OF REQUIRED TECHNICAL EXPERTISE. MISSION MAY WISH TO CONSIDER USE OF EXISTING IGC'S, AND/OR DEVELOPMENT OF A SINGLE MISSION IGC (WITH ASSISTANCE FROM REGIONAL CONTRACTS OFFICER). THE CORE STAFF SHOULD NOT BE CONTRACTED BY AID; TO AVOID CONFUSING REPORTING AND RESPONSIBILITY RELATIONSHIPS, THESE SHOULD BE HOST-COUNTRY CONTRACTS.

7. MISSION PROJECT MANAGEMENT. THE PP SHOULD IDENTIFY THE MISSION OFFICE RESPONSIBLE FOR PROJECT IMPLEMENTATION AND THE USDM WHO WILL SERVE AS PROJECT MANAGER.

8. IEE. COPY OF APPROVED IEE BEING POUCHED TO MISSION. SHULTZ

UNCLASSIFIED

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COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY  
ELIGIBILITY

1. FAA Sec. 481; FY 1984  
Continuing Resolution. Has it  
been determined or certified  
to the Congress by the  
President that the Government  
of the recipient country has  
failed to take adequate  
measures or steps to prevent  
narcotic and psychotropic  
drugs or other controlled  
substances (as listed in the  
schedules in section 202 of  
the Comprehensive Drug Abuse  
and Prevention Control Act of  
1971) which are cultivated,  
produced or processed  
illicitly, in whole or in  
part, in such country or  
transported through such coun-  
try, from being sold illegally  
within the jurisdiction of  
such country to United States  
Government personnel or their  
dependents, or from entering  
the United States unlawfully?

It has not been so determined.  
The GOE has an active narcotics  
program with USG support.

2. FAA Sec. 620(c). If assist-  
ance is to a government, is  
the government liable as  
debtor or unconditional  
guarantor of any debt to a  
U.S. citizen for goods or  
services furnished or ordered  
where (a) such citizen has  
exhausted available legal  
remedies and (b) the debt is  
not denied or contested by  
such government?

No such case is known.

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
  
4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No.
  
5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981. N/A
  
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? No.
  
7. FAA Sec. 620(1). Has the country failed to enter into an agreement with OPIC? Yes.

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? Yes, taken into account by the Administrator at the time of approval of Agency OYB.
- (b) If so, has any deduction required by the Fishermen's Protective Act been made? N/A
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? No.
- (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? No.
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) Yes, taken into account by the Administrator at the time of approval of Agency OYB.

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) Payment status is current.
13. FAA Sec. 620A; FY 1982 Appropriation Act Sec 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime? No.
14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.
15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? No.

Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

Yes.

Yes.

Yes, taken into account by the Administrator at the time of approval of Agency OYB.

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.

N/A.

18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No such determination has been issued.

**B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY**

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

The Department of State has not determined that Ecuador is a violator of human rights.

2. Economic Support Fund Country  
Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? N/A

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.? N/A

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (b) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier? N/A

PROJECT CHECKLIST

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

(a) Congress was formally notified by an activity data sheet dated August 17, 1984.

(b) Yes.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Detailed financial and implementation plans are included in the PP.

(b) Reasonably firm cost estimates are presented in the PP.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No such action is required.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? N/A.
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No. The Project is designed to strengthen the GOE's capability to design and implement sound economic policies based on a series of policy and institutional analyses in key economic agencies of Ecuador.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. The project purpose is not directed to any of these areas.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). The project will finance technical services provided by private U.S. consultants.
9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. Host country contributions, including in-kind support, are estimated at 30 percent of total project costs.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.
12. FY 1982 Appropriation Act. Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A.

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?

Yes. A categorical exclusion from A.I.D. environmental analysis requirement was approved by the LAC Chief Environmental Officer.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A

**B. FUNDING CRITERIA FOR PROJECT**

**1. Development Assistance Project  
Criteria**

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

The project will help insure wide participation of the poor in the benefits of development on a sustained basis by strengthening the capacity of the GOE to design and implement sound economic policies which contribute to economic growth and development of the country.

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b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes, consistent with Section 105, the project is intended to strengthen public administration in Ecuador, specifically in the area of economic policy planning. The project will promote equitable development by improving national budgeting and planning, project implementation, and institutional efficiency and effectiveness.

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A.

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the cost of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

No.

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f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes. The project will contribute to the mobilization of domestic resources which will support the development of the country's physical and human infrastructure which, in turn, is necessary for sustained economic growth.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

The project responds to the serious economic crisis of Ecuador and seeks to provide solutions which are consistent with the capacities of the public sector implementing organizations. The project will provide technical assistance to develop institutional capacity of the Ministry of Finance and Central Bank of Ecuador.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

The GOE is currently involved in renegotiation of its external public debt. It is assumed that, successful conclusion of these renegotiations will allow the GOE to meet future repayment obligations.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N/A.

c. ISDCA of 1981, Sec. 724(c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?

N/A

3. Economic Support Fund  
Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? N/A
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? N/A
- c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? N/A
- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

STANDARD ITEM LIST

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?  
It is expected that the U.S. technical services will be competitively contracted. The resulting contract will require participation of small and disadvantage entities through subcontracting or other mechanism, at a minimum of 10% of the value of the total contract.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?  
Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?  
Ecuador does not discriminate against U.S. marine insurance companies.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)  
N/A.
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas?  
No.

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6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per cent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.? No.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes. The package of U.S. technical assistance will be competitively contracted.
8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes, the Project Agreement will so state.
9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes, direct contracts entered into by A.I.D. under this project will contain such a provision.

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B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used? N/A.
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A.
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N/A.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N/A.
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A.
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.
4. Will arrangements preclude use of financing: Yes, for all items.

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- a. FAA Sec. 104(f); FY 1982 Appropriation Act. Sec. 525:  
(1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?
- b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?
- c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?
- d. FAA Sec. 662. For CIA activities?
- e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?
- f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?

g. FY 1982 Appropriation Act, Sec. 505. To pay U.N. assessments arrearages or dues?

h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?

i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?

j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights.?

k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

REPUBLICA DEL ECUADOR  
MINISTERIO DE FINANZAS

Oficio No. 3011

Quito, - 7 SET. 1984

REPLY DUE	9/13/84
<input type="checkbox"/> NO REPLY NEEDED	
<input type="checkbox"/> REPLIED BY	
On	Date
	Initials

Señor Arquitecto  
ORLANDO MUENZA  
Director  
Agencia para el Desarrollo  
Internacional (A.I.D.)  
Ciudad

ACTION:	ODEP
LI	
A/DIR	
EXO	
O/CUNT	
C/CP	
S/BA	✓
V/RNG	
REU	
GDJ	✓
PSD	✓
TRG	
ROO	
FND	
U/M	
TC	
RF -2	✓
MBB	✓
EMB	
WASH	

Señor Director:

Por medio de la presente deseo ratificar a usted las conversaciones mantenidas con la A.I.D., tanto en Washington como en Quito, relacionadas con necesidades de cooperación técnica por parte del Gobierno del Ecuador en materia de implementación de Estudios de Diagnóstico sobre aspectos de políticas sectoriales de desarrollo y de mejoramiento de esquemas institucionales que son prioritarios para el Gobierno Nacional.

El reciente Estudio realizado por la firma Price Waterhouse de Washington, nos ha presentado una serie de opciones para implementar estudios de diagnóstico dentro de los lineamientos generales mencionados en el párrafo anterior, opciones éstas que nosotros vamos a poner a consideración de las distintas instituciones de cooperación internacional, tanto bilaterales como multilaterales.

En el caso específico de A.I.D. y, nuevamente ratificando conversaciones mantenidas con ustedes sobre el tema, me permito solicitar la cooperación de A.I.D. para implementar algunas de las opciones contenidas en el Estudio de Price Waterhouse, sobre las que se ha considerado que A.I.D. tiene un particular interés y una capacidad institucional especializada de cooperación.

Específicamente, me permito solicitar cooperación técnica de A.I.D. en tres áreas: (1) sector fiscal; (2) sector monetario y de desarrollo de mercado de capitales; y (3) sector de la pequeña y mediana empresa, incluyendo aspectos institucionales y de desarrollo de recursos humanos a nivel de educación técnica-vocacional orientada hacia profesiones intermedias. La cooperación técnica de A.I.D. en estos tres sectores se daría mediante la contratación, por parte de USAID/Ecuador, de expertos que colaboren con el Gobierno del Ecuador en la implementación de estudios de diagnóstico que contengan recomendaciones de acción concretas sobre aspectos de política sectorial y de desarrollo institucional, que le permitan

... / ...

*Handwritten initials*



REPUBLICA DEL ECUADOR  
MINISTERIO DE FINANZAS

Pag. 2

al Gobierno, en el mediano plazo, llevar adelante programas específicos en estos campos.

El monto de la Cooperación solicitada, y dada la naturaleza de la misma, es de aproximadamente US\$1.300.000 en fondos no reembolsables. Por su parte, el Gobierno Nacional dispondría de una contribución de contrapartida de un monto aproximado de US\$335.000, que estarían dados básicamente en términos de los costos de personal profesional y técnico que actúe como contraparte de los asesores a ser contratados, apoyo logístico, servicios de traducción y secretariado, transporte, espacio de oficina, etc.

Tan pronto tengamos noticias de ustedes, y entendiendo que de formalizarse esta cooperación se deberían comprometer los fondos antes del cierre del Año Fiscal de los Estados Unidos, esto es el 30 de septiembre del año en curso, nosotros estaríamos dispuestos a negociar y tramitar rápidamente el Convenio de fondos no reembolsables correspondiente.

Muy atentamente,  
DIOS, PATRIA Y LIBERTAD

Francisco X. Swett M.  
Ministro de Finanzas y Crédito Público

MACROECONOMIC POLICY ANALYSIS PROGRAM  
Methods of Implementation and Financing

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Appr. Amount (\$000)</u>
<u>A. Technical Assistance</u>		
1. AID Direct Contract	Direct Payment	800
<u>B. Coordination</u>		
1. AID Direct PSC (Macroeconomist and Social Scientist)	Direct Payment	225
2. Host Country Contracts (Coordination Unit)	Direct Reimbursement	275
<b>TOTAL PROJECT</b>		<u>1,300</u>

I concur in the above planned methods of implementation and financing for the Macroeconomic Policy Analysis Program. The methods to be used for implementation and financing are in accordance with the Payment Verification Policy Implementation Guidance memo issued December 30, 1983 by the Assistant Administrator for Management.

*William D. Ross*  
William D. Ross,  
Controller