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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

5170101

ECUADOR - FEASIBILITY STUDIES

A.I.D.
Reference Center
Room 1656 NE

AID-ILC/P-841

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PD-AAR 575

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-841
June 20, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Ecuador - Feasibility Studies

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$2,000,000 to the Government of Ecuador to assist in financing the costs of economic and engineering studies to determine the feasibility of, and to develop adequate data for the consideration of investors and for the preparation of loan applications for, specific development projects in Ecuador.

Please advise us as early as possible but in no event later than close of business on Friday, June 27, 1969, if you have a basic policy issue arising out of this proposal.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-V

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ECUADOR - FEASIBILITY STUDIES

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June 20, 1969

ECUADOR - FEASIBILITY STUDIES

SECTION I - SUMMARY AND RECOMMENDATIONS

1. **BORROWER:** The Government of Ecuador (GOE). The project will be executed by the National Planning and Economic Coordination Board.
2. **LOAN:**
 - (a) Amount.- Not to exceed U. S. \$2,000,000
 - (b) Terms.- The terms will be 40 years including a grace period of 10 years with interest rate of 2% per annum during the grace period and 3% per annum thereafter.
 - (c) Local Cost Component.- It is estimated that approximately 25% or \$500,000 of the loan will be used to meet local cost elements of the project.
3. **PROJECT DESCRIPTION:** The AID loan will be part of a larger GOE program to produce a permanent pipeline of economic and technical studies to form the basis of financing for development projects. The loan proceeds and approximately U.S.\$1,000,000 in local currency costs contributed by the GOE will be used to finance contracts with prequalified U. S. and Ecuadorean firms for engineering prefeasibility and feasibility studies for specific priority projects in the areas of irrigation, agricultural diversification, secondary road transportation, and airports. The contracts will include technical services and necessary equipment procured by and for the account of the contractor.

The Mission was permitted to submit this Capital Assistance Paper without formal IRR approval in order to facilitate expeditious processing of the loan in light of favorable experience under the first feasibility loan which is described in detail in the paper.
4. **PURPOSE:** The purpose of the loan is to secure a continuing flow of feasibility studies to develop projects suitable for financing by U. S., foreign, local and international institutions in priority development areas.

5. FINANCIAL PLAN:

<u>Program Costs</u>	<u>Foreign Exchange Costs</u> (U.S. Dollar Equivalents)	<u>Local Costs</u>	<u>Total</u>
IDB Loan for Guayas Basin Studies	\$ 1,170,000		\$1,170,000
GOE Contribution to IDB Loan Financed Studies		\$ 562,000	562,000
AID Loan	2,000,000		2,000,000
GOE Contribution to AID Loan Financed Studies		1,035,000	1,035,000
<u>Total</u>	<u>\$ 3,170,000</u>	<u>\$1,597,000</u>	<u>\$4,767,000</u>

<u>Source of Financing for AID Loan Financed Studies</u>	<u>U. S. Dollar Cost</u>	<u>Local Costs</u>	<u>Total</u>
AID Dollar Loan	\$ 1,455,000	\$ 545,000	\$2,000,000
GOE Contribution	<u>1,455,000</u>	<u>1,035,000</u>	<u>1,035,000</u>
		<u>\$1,580,000</u>	<u>\$3,035,000</u>

6. ALTERNATIVE SOURCES OF FINANCING: There is an existing IDB feasibility loan for the equivalent of U.S.\$1,170,000 for studies relating to Guayas River Basin development. The National Planning Board has explored the possibility of financing for a feasibility studies loan with the World Bank, the Inter-American Development Bank (IDB), and the Export-Import Bank, all of which institutions have indicated that they are not interested in financing this project. Formal comments from these organizations will be received before loan authorization.
7. STATUTORY CRITERIA: All statutory criteria have been met as indicated in the Statutory Checklist, Annex III.
8. VIEWS OF COUNTRY TEAM: Primarily because of the strained relations which existed between the U. S. Government and the previous GOE administration, no new AID lending has been authorized for Ecuador for three years. The more favorable political situation prevailing at the present time makes an active developing lending program a

desirable element in U. S. relations with Ecuador. Unfortunately, there is not presently available a well developed diversified group of thoroughly studied capital projects from which AID and other lending institutions can select suitable projects for financing. The first Feasibility Studies loan is now fully committed and almost fully disbursed. Studies financed under that loan do not deal with certain critical areas of interest dealt with in the proposed loan. As lending in the areas to be covered by this loan must await satisfactory completion of the studies, the Country Team considers the immediate initiation of the feasibility study efforts to be necessary in order to carry on a balanced program of economic development in Ecuador. This loan will develop studies which will support the primary objectives of AID strategy in Ecuador, improvement of the economic and social situation of low income groups and improvement of the near and middle term foreign exchange position of the country.

9. ISSUES: None
10. LOAN ADMINISTRATION: The project will be administered by the National Planning Board. Procurement and disbursement will follow routine procedures for these activities. AID's role in the administration of the loan will be limited to the usual monitoring activities. Close collaboration with other lending institutions will be maintained.
11. RECOMMENDATIONS: On the basis of the conclusions of the Capital Assistance Committee that the project is technically, economically and financially justified, it is recommended that a loan for U. S. and local costs to the GOE for an amount not to exceed US\$2.0 million be authorized subject to the following terms and conditions.

(a) Interest and Terms of Repayment

Borrower shall repay the loan to the Agency for International Development (A.I.D.) in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to AID in United States Dollars, on the disbursed balance of the loan, interest of two (2) percent per annum during the grace period and three (3) percent per annum thereafter.

(b) Other Terms and Conditions

(1) Equipment, materials and services financed under the loan shall have their origin in and be procured from the United States or Ecuador. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.

(2) United States dollars utilized under the loan to finance local currency shall be made available to Borrower or its designee through appropriate procedures and shall be identified with procurement in the United States.

(3) The loan shall be subject to such other terms and conditions as AID may be deem advisable.

Project Committee:

Loan Officer: Charles S. Blankstein
Economist: Clarence Zuvekas
Legal Counsel: Christopher Hatlock
Engineer: Sterling Hedgpeth
Sterling Nichols
Program Officer: Richard J. Greene
Controller: Guss Nolan

Drafting Officer: Charles S. Blankstein

SECTION II - NATURE OF THE PROJECT

A. Introduction

The proposed loan will finance a series of feasibility studies of projects in areas of economic activity where there is a clear need for capital inputs and for which likely sources of financing exist. The areas of interest under this loan include irrigation, agricultural diversification, secondary roads, and airports.

The objective of the loan is to provide financeable projects in particular mutually agreed areas of interest to assure the continued expansion of necessary infrastructure in Ecuador and to identify key development opportunities to facilitate increases in agricultural production. In identifying these objectives for this loan the Mission has taken into account representations by World Bank and IDB officials concerning the lack of availability of financeable project proposals in the areas of activity covered by the loan. This loan will meet requirements in specific areas of activity rather than support a general effort in project planning. Justification for the particular areas of concern is treated in the Economic Analysis.

This project is part of an overall GOE program for developing financeable capital projects. This program, under the general direction of the National Planning and Economic Coordination Board, is presently being assisted by an IDB loan to finance studies of development possibilities in the Guayas River Basin.

The Mission was permitted to submit this Capital Assistance Paper without formal IRR approval in order to facilitate expeditious processing of the loan in light of favorable experience under the first feasibility loan which is described in detail in the paper.

B. History and Background

1. Past Participation by AID

The first AID Feasibility Studies Loan for Ecuador (518-L-017) for \$2,000,000, was signed on September 4, 1963. This loan is now fully committed and will be fully disbursed by March 31, 1970. This project, details of which are presented in Annex II, is considered to be a success. The loan was utilized for financing of a Supervised Agricultural Credit program study for the Banco Nacional de Fomento which was utilized in the establishment of such a program by the Bank and seven construction project studies as follows:

- 1) A study of the Pisayambo Hydroelectric Power and Irrigation Project on the Yanyacu and Patate rivers, northeast of Ambato, as submitted by the Harza Engineering Company in June 1967. Harza recommended the development of 140 megawatts of hydroelectric power and the irrigation of up to 21,400 hectares of land. The report was approved by the Planning Board and AID and the GOE has contracted with the firm Italconsult for the next stage of development, the final design of the project.
- 2) The Jubones-Paute Hydroelectric Projects in southern Ecuador were studied by Charles T. Main International which submitted a prefeasibility report in December, 1968. The prefeasibility study recommended, with the concurrence of the Planning Board and USAID, the development of the Paute project. The consultant has been authorized to proceed with the full feasibility study of the Paute river project under financing from the first feasibility study loan. The World Bank has indicated interest in financing construction of this project and now has the matter under active consideration.
- 3) A study of the Guayaquil Land Reclamation Project was undertaken by the Tudor Engineering Company, whose report was submitted to the Planning Board in June 1967. AID/W approved an IRR for the financing of this project on April 10, 1969. The project will be submitted for AID financing in fiscal year 1970.
- 4) Hazen and Sawyer submitted a report concerning a potable water project for the municipality of Machala. The report was accepted and approved by the National Planning Board and AID. The GOE has applied to IDB for financing this project. It is understood that IDB is favorably considering this application.
- 5) Charles T. Main International submitted a study for irrigation in the Milagro-M. J. Calle area of the Guayas River Basin in January 1968. Under this project, two small irrigation projects near Guayaquil would be rehabilitated and extended to serve 12,000 hectares by gravity flow to grow a wide variety of tropical crops. Groundwater studies as part of the project would lay the basis for a subsequent development stage. The IBRD has this project under active consideration for financing at the present time.

- 6) and 7) TAMS Engineering submitted reports in 1966 on proposed highways from Guayaquil to Empalme and from Nobol through Jipijapa to Montecristi. The Nobol-Jipijapa-Montecristi road was considered not feasible for financing at the present time because of a low benefit-cost ratio. The IDB has indicated interest in financing the Guayaquil-Empalme highway project.

On the basis of the foregoing it appears that the first feasibility studies loan, while not yet completely disbursed, should be considered a success. Six of the seven construction projects studied under the loan are now under active consideration for financing by international lenders. The seventh was found not to be feasible. The supervised agricultural credit study resulted in establishment of a banking operation of this nature. With respect to the administration of the loan by the Planning Board, it is the view of the Mission staff that the Board has handled the loan very well and that it is clearly capable of handling the proposed loan.

It should be noted that the projects studied under the first loan were weighted heavily in the electric power sector. Requirements in other sectors suggest the desirability of other types of studies in the proposed new loan.

2. Background of the Proposed Loan

In April 1967 the Planning Board, on behalf of the GOE, submitted to the AID Mission an application for a loan of up to US\$3,500,000 to assist in financing a group of 25 studies the estimated total cost of which exceeded US\$5 million. While the Mission was prepared to give favorable consideration to the application on its merits, the strained relations between the previous administration and the United States led to the paralyzing of any new lending operations in Ecuador until José María Velasco Ibarra took office in September 1968.

During the succeeding months, both the Ecuadorean Government and the Mission have reevaluated their objectives and priorities and this effort has resulted in, among other projected activities, an application by the GOE for this proposed feasibility study loan and concurrence by the Mission in the desirability of undertaking such an effort. The final application dated May 8, 1969, includes one project from the old application, secondary roads.

The new studies reflect the recently recognized urgency of needs relating to irrigation, agricultural diversification and airport and the growing capacity of CENDES (Centro de Desarrollo Industrial) to handle industrial feasibility studies which constituted a major part of the earlier proposal.

C. Relation of the Loan to AID Objectives in Ecuador

The primary objectives of AID strategy in Ecuador are:

1. To promote economic and social betterment of low income elements of the population and
2. To assist in meeting near and medium term economic problems of the country by providing assistance emphasizing development of agricultural and agro-industrial activities having immediate effects on the foreign exchange position of the country.

In addition, the Mission has a general interest in promoting the flow of development capital into the country from sources such as the IBRD and the IDB. In this connection, the Mission views itself as having a catalytic role in promoting development investment throughout the Ecuadorean economy though it may have selected specific activities for the primary focus of its own energies.

The proposed loan relates to the objectives of social and economic betterment of low income groups primarily through those projects relating to irrigation, agricultural diversification, and secondary roads. These projects and the airports study also relate to the economic objective of improvement in Ecuador's foreign exchange position. The paragraphs below describe these relationships for each of the areas of study proposed under the loan. Part III. B. and Annex III provide more details on these studies.

1. The area to the south and east of Babahoyo for which a ground-water irrigation survey is proposed is potentially one of the most productive in the Guayas River Basin. The land is flat, and soils are well-drained and suitable for the development of high-yield crops. Transportation facilities are good and communications with the major market of Guayaquil will be even better with the completion of the Guayas River Bridge in 1971.

The major crops now grown are rice and sugar; pineapples and cotton are also important. Irrigation will permit double-cropping of rice and a diversification into tobacco, corn, tomatoes, watermelons and other truck crops.

Rice, once a major export crop, has been imported since 1967 but again could become an important export item. (See Part III. C.) Some 65-75% of Ecuador's rice, including that in the proposed groundwater survey area, is grown by small farmers whom the USAID is assisting in cooperative development programs. The socioeconomic advancement of these low income groups would be greatly assisted by irrigation, which would allow them to grow two rice crops annually and to diversify into other crops.

Sugar is grown in this area on large plantations, producing for the export market, expansion of which is limited by world sugar trading arrangements. Among the other commodities mentioned above, tobacco and cotton are now imported, but self-sufficiency could be achieved within a few years with increased production in the Babahoyo and other areas. Pineapples are a potential export crop. Except for sugar and cotton all of the above commodities can be grown economically by small farmers.

Irrigation will greatly benefit agricultural production in many other parts of the country. The present loan addresses this need by also proposing irrigation studies in the provinces of Cotopaxi, Azuay, Manabí, and Esmeraldas. These others, which are described in Annex III, have been selected as being of the highest priority among the various irrigation studies in which the GOE is interested.

2. The north-central zone of the Guayas River basin is now devoted primarily to bananas. However, banana production in this zone is declining, as production is shifting southward to El Oro province where growing conditions are more favorable for the Cavendish varieties now in favor in world markets. Also, Ecuador is facing increasing competition from Central America and other producers. CIAP expects banana exports to fall from \$108 million in 1968 to \$95 million in 1969 and \$85 million in 1970 and 1971.

The decline in banana production in the Quevedo-Santo Domingo area is resulting in increased unemployment and migration from the area into the cities, particularly Guayaquil. The problem is now serious that CIAP regards diversification in the Quevedo-Santo Domingo area and urban development in Guayaquil as two of the three highest priority areas with which the GOE should be concerned.

There are numerous commodities whose production could be expanded in this area, including corn, soybeans, african palm, peanuts, rubber, fibers (main abaca), pastures, and fruits. In addition, beef cattle and pig raising could be considerably expanded. As CIAP recognizes, a detailed feasibility study of the area is needed to identify more precisely these possibilities of the commodities mentioned above. Beef, pork and fibers have good export potential, while increased production of african palm, soybeans, peanuts, and rubber would result in import substitution. Beef cattle, soybeans, african palm and abaca require medium or large-scale production units, but the other commodities can be produced efficiently by small farmers.

3. The proposed feasibility study of secondary and penetration roads will emphasize the opening up of new agricultural lands in areas where it appears that spontaneous colonization by small farmers can result in significant increases in production both for domestic consumption as well as for export and import substitution. Most of these new agricultural production areas will be located in the Coastal region.
4. As described in Section III, C., new airports in Quito and Guayaquil are essential for increasing Ecuador's foreign exchange earnings from tourism. In addition to its balance of payments effects, an expanding tourist industry can make an important contribution toward providing increased employment opportunities for lower income groups.

D. Relation of the Project to Activities of Other Financing Institutions

The Mission conceives of this loan as financing feasibility studies for projects which will be eligible for financing not only by AID but also other interested institutions.

Informal inquiries have been made with the World Bank and IDB representatives concerning the proposed list of feasibility studies projects and the Mission has been informed that each project on the list would be of interest if feasible to one or both of the institutions in question. Indeed these representatives indicated that in general the proposed loan will be highly desirable from the point of view of the planning operations of these institutions in Ecuador. To assure that each study will be as useful as possible,

proposed studies will be submitted to the World Bank and the IDB for comment and no study will be approved unless the World Bank, the IDB, the Mission or other institution indicates a strong interest in financing the project: if it proves to be technically and economically feasible.

Worth of emphasis is the interrelationship of the proposed loan with the overall GOE effort in project development which is currently being supported by the IDB loan for Guayas River Basin development as well as the first AID feasibility study loan. With respect to two of the studies to be financed under the proposed loan, AID will finance studies of projects identified and studied at the prefeasibility stage with IDB financing. Project execution financing for a number of activities studied under the loan will in many cases be handled by other institutions.

The Mission is particularly gratified to be able to participate in an overall program of project identification, feasibility studies, and project financing involving inputs by the GOE and several international lending institutions at different stages of project development. The Mission considers this a good example of the kind of close working relations that have developed between the various international institutions in Ecuador and believes that a continuation of this type of integrated activity is highly desirable.

SECTION III - DESCRIPTION OF THE PROJECT

A. Borrower

The Borrower will be the GOE. The project will be administered by the National Planning and Economic Coordination Board, an autonomous agency of the GOE in charge of surveying and supervising the national development plan and, within the context of the plan, identifying and developing specific projects needed to achieve the objectives of the plan. In the estimation of Mission staff based on experience under the first Feasibility Study Loan, the Planning Board is fully capable of carrying out its responsibilities under the proposed loan. Furthermore, it has proven itself capable of dealing effectively with international lending institutions and it is anticipated that it will make optimal use of the studies which will be financed under the loan.

B. Studies to be Financed Under the Loan

This loan will finance a series of feasibility studies and related activities in the area of irrigation, agricultural diversification, secondary road construction and airports. These studies are defined with reasonable precision at the present time and are described in Annex III to this paper. Additional categories or individual studies may be included under the loan by the mutual agreement of the GOE and USAID.

The following paragraphs briefly describe the objectives sought under the studies.

1. Irrigation

Ecuador is and will probably remain into the foreseeable future primarily an agricultural country. Unfortunately, its water resources have been the cause of a significant obstacle to development of the agricultural sector. Not only have natural conditions such as severe drought in some of the potentially rich agricultural areas been a problem but also a general scarcity of water in many areas which are now the centers of agricultural production of the country are a significant limiting factor to development. The Velasco Government has identified irrigation as one of the critical areas of the national concern and the Mission concurs in this judgment. The Government has proposed an

ambitious program of irrigation projects. Unfortunately, it does not appear that there are domestic or foreign resources in sight to support such an effort. However, it is considered necessary and appropriate to assist the GOE in prefeasibility and feasibility studies for a specific group of priority irrigation activities. These activities, which focus on those provinces which would have rich agricultural potential if adequate water supplies were available, will involve storage and distribution studies in Cotopaxi and Azuay, the use of the Toachi River to irrigate large areas of Manabí Province and a preliminary study of efficient uses of the abundant water potential of Esmeraldas. These projects, studies of which will cost \$550,000, are listed and described in Annex III.

In addition to the foregoing, \$640,000 of project funding has been allocated for a survey of ground water irrigation potential in a 4,200-square kilometer area to the east and south of Babahoyo in the southern Guayas Basin. This study was proposed by the Guayas River Study Commission which, with support of an IDB loan, is studying development potentials in the key Guayas Basin area.

2. Agricultural Diversification

The north central area of the Guayas River Basin is presently devoted primarily to the exploitation of Gros Michel bananas which during the past few years ^{have} become increasingly less competitive in world markets. To maintain its present level of banana exports, Ecuador will have to continue shifting to the more productive Cavendish varieties. It is generally believed that this shift will result in the concentration of banana production on a much smaller number of hectares and will in addition result in a considerable decline in banana production in the north central Guayas River Basin as other areas appear to be more suitable for the production of Cavendish bananas. Diversification of production is thus imperative to maintain employment opportunities in this area which potentially is one of the most socially explosive areas of the country.

The changing economics of banana production and marketing as well as Ecuador's need greatly to expand and diversify food production make it highly desirable to study the possibilities of agricultural diversification in this area. As pointed out

in Section III. C. (Economic Analysis), Ecuador's per-capita food production has been declining in recent years, and this in the face of already low levels of per-capita food consumption and nutrition.

Since the Guayas River Basin Study Team has already carried out extensive soil, climate, water and other studies in the area, the major emphasis of the proposed feasibility study would be on crop studies and marketing. These studies, carried out by system analysis methods, will define the optimum economic alternatives for diversification and development in this area. It is believed that most of the benefits from agricultural diversification will accrue to smaller farmers, thus contributing to the Country Team objective of social and economic advancement of lower income groups. Additional details concerning this proposed study which will cost \$360,000 are set out in Annex III.

3. Secondary Road Construction

One of the critical problems facing the planners of economic development in Ecuador is that of the handling of the question of proposed road construction. The Ministry of Public Works has submitted to the World Bank, the IDB and AID a proposal for the so-called "Third Phase Highway Construction Program", a seven billion sucre effort involving roads of all types in every province of the country. This program has little likelihood of being financed and indeed appears to reflect primarily political considerations in the selection of projects to be undertaken.

The view of the Mission and the unofficial view of various other informed officials is that the resources available to Ecuador for road construction should be concentrated in the development of secondary and penetration roads in the coastal regions of the country where the economic impact in terms of increased agricultural production and facilitation of marketing would be most significant. In the view of the Mission the most effective way of dealing with the problems of road priority selection is to see that sound feasibility studies are available for those road projects which appear to be most desirable. Studies financed under the loan will relate only to such secondary and penetration roads. In addition, a general study of the road system will assist in defining more effectively the real road and highway requirements of the country.

The proposed study will include a complete inventory of the existing road system west of the Pan American Highway to the Coast; a determination of standards for various types of roads; a comprehensive traffic count and analysis on the highways and roads under consideration; an investigation of existing and potential areas of production and consumption in selected regions ranging west from the Sierra to the Coast; the preparation of a master plan for contemplated road improvement; the establishment of priorities for secondary and penetration roads; and the prosecution of feasibility studies of four to six top priority secondary road routes. In the selection of these studies the contractor will be required to take into account the possible relation of the construction of secondary roads to spontaneous colonization in areas where there is reason to believe such activity might lead within a short period of time to important increases in agricultural production.

Further details on this effort which will cost almost \$1,200,000 are provided in Annex III.

4. Airports

Ecuador is facing serious civil aviation problems because of a failure to develop critical airport facilities. The most serious problem is that caused by the obsolescence of the two major airports of the country, those in Guayaquil and Quito. A thorough prefeasibility study has been carried out by civil aviation officials of the Federal Republic of Germany. The German study recommended, among other things, the following activities: the installation of certain navigation aids and repair of runways in both Quito and Guayaquil; construction of a new runway at the Guayaquil airport to meet necessary standards; and the construction of a new airport for Quito.

The implications of the problem of key airports in terms of economic development with particular reference to tourism are obvious especially in light of technological advances in air transport such as the new "jumbo jets" which could not use present airport facilities. The proposed feasibility study will utilize the German study as a basis for a final study of the recommendations made. This effort will cost

approximately \$100,000 of which \$15,000 will be local costs.

In addition to the international airports problem, there is a serious lack of adequate regional airport facilities. For example, it appears that the lack of a regional airport in the area of Manta-Portoviejo-Rocafuerte is beginning to have a limiting effect on the development of Manabí Province. It should be noted that such an airport would in all likelihood serve Bahía de Caráquez where a major AID guaranty development operation will be started shortly. Similarly, it is necessary to consider airport improvements in the areas of Esmeraldas-Atacames, San Lorenzo and Machala. Finally, the development of the Oriente will require the use of more civil aviation facilities as the cost in time and money of depending on the construction of roads for opening these areas appears to be excessive.

The proposed loan will finance appropriate studies of these problems which will cost approximately \$200,000 of which \$40,000 will be local costs.

The Mission is of the view that a serious development obstacle will develop if resources are not dedicated to civil aviation activities in the near future. The proposed feasibility studies will be the first step in this direction.

5. Substitutions for Studies Described

It is anticipated that the Feasibility Studies described above will be the studies which will be carried out under this loan, and the financial plan for this loan is based upon the analysis of those studies as set forth in Annex III. During the administration of the loan it may become appropriate to substitute other studies for those described herein, or to add additional studies. Should a substitution be deemed appropriate, the GOE, acting through the Planning Board, will notify the USAID of its proposed plan of action and submit to the USAID with respect to each feasibility study which it proposes to substitute for those on the approved list, sufficient detail to permit the USAID to consider the proposal and approve or disapprove the proposed action. The GOE will not be obliged

to undertake a study if the USAID does not approve its being withdrawn from the approved list. However, a new study not on the approved list will not be financed without AID approval.

C. Economic Analysis

1. Introduction

The feasibility studies proposed under this loan, with the one exception of airport development, will lead to projects that will contribute toward more rapid agricultural development in Ecuador in ways that are consistent with AID country objectives. Section II. C. describes how these projects are expected to contribute to these objectives. The present section will be concerned primarily with demonstrating the importance to the Ecuadorian economy of a more rapid growth of its agricultural sector. It will then touch briefly on the importance of airport development for tourism, where foreign exchange earnings could be substantially increased.

Agricultural development in Ecuador is of high priority for a number of reasons: (1) per-capita food consumption in Ecuador is low in calorie and nutritional terms* and per-capita food production is declining; (2) export diversification is imperative in view of the uncertain future outlook for bananas, coffee, and cacao; and (3) the slow growth of the agricultural sector has been primarily responsible in recent years for Ecuador's mediocre rate of economic growth, (4) the agricultural sector has created insufficient employment opportunities, and (5) agriculture has provided little opportunity for the economic and social advancement of lower income groups in rural areas thus resulting in serious political implications.

2. Economic Growth and the Performance of the Agricultural Sector

Ecuador's average annual rate of growth of Gross Domestic Product (at market prices) in the 1960's (1960-68) has been 4.5% compared with a rate of 5.0% in the period 1950-60. In per-capita terms, the decline has been more pronounced--from

* In 1963, the latest year for which data are available, average daily caloric intake per-capita was 1,830 calories, and daily protein consumption per-capita was 43.7 grams, 14.2 of which were of animal origin. Inter-American Development Bank, Socio-Economic Progress in Latin America (Social Progress Trust Fund, Eight Annual Report, 1963), p. 159.

1.9% in the 1950's to 1.0% in the 1960's--given an increase in the population growth rate. Thus Ecuador's performance has been considerably short of the Alliance target on an average annual GDP increase of 2.5% in per-capita terms. For 1968, CIAP has estimated the total GDP growth rate to have been 4.3%, slightly less than the rate for the 1960's as a whole. This represents a slowing down from the 5.5% rate calculated for 1967. The decline was attributed in large part to drought conditions that adversely affected agricultural production.

During the 1960's, the rate of growth of the manufacturing sector has risen significantly and exceeded the rate of growth of the economy as a whole, a reversal of the situation in the 1950's. The agricultural sector, on the other hand, has exhibited a marked deterioration in performance from the 1950's to the 1960's.

The following figures summarize these trends:

REAL GROWTH RATES OF GDP, MANUFACTURING, AND AGRICULTURE
(At Factor Cost)
(Average annual percentage increases)

	<u>GDP</u>	<u>Mfg.</u>	<u>Agric.</u>
1950-60	4.9	4.7	4.4
1960-67	4.6	5.8	3.1

This poor performance of the agricultural sector is attributable more to a slower growth of production for domestic consumption than to a slower growth of production for export. According to USAID/ERS, per-capita agricultural production in Ecuador fell from an index of 108 in 1960 (1957-59 = 100) to 107 in 1967.* Excluding, however, the four major export crops (bananas, coffee, cacao, and sugar), the decline in per-capita agricultural production is much more pronounced: from 98 in 1960 to 92 in 1967 (1957-59 = 100).**

It is evident that a significant increase in

* Indexes of Agricultural Production for the Western Hemisphere Excluding the United States. ERS-Foreign 44 (1968) Table 30, p. 32.

** Calculated from Ibid.

Ecuador's present rate of GDP growth--4.5% for the 1960's-- is heavily dependent upon more rapid increases in production in the agricultural sector, which accounts for about a third of GDP, or twice as much as the manufacturing sector. This loan represents a needed contribution towards achieving this objective.

3. The Need for Export Diversification

Since the early 1950's, 85% of Ecuador's commodity export earnings have been accounted for by bananas, cacao and coffee, with bananas increasing in relative importance to the point that in the 1960's they have provided 55%-60% of total commodity export earnings.

Total commodity export earnings have increased at satisfactory levels, growing at an average annual rate of 6.7% from 1950 to 1960, at 4.4% in the period 1960-1968, despite a period of stagnation from 1950 to 1963.* In the last few years, however, banana exports have stopped increasing, and a decline of about 10% in 1969 is very probable. Ecuador has been steadily losing its competitive position in the U. S. market as the more favorably located Central American countries have recovered from their banana disease problems and have converted rapidly to the smaller Cavendish bananas now favored by U. S. consumers. Ecuador is also beginning to lose in the Western European market, which several years ago replaced the U. S. as Ecuador's number one banana customer. The two major markets --Eastern Europe and Japan-- are still very uncertain and unstable. Ecuador's inability to purchase significant amounts of commodities from the Eastern European countries under the bilateral agreements governing most of this trade casts doubt on whether or not these agreements will be renewed. The Japanese market, into which Ecuador entered in the early 1960's, fluctuates considerably from year to year depending on the damage caused to the Taiwanese banana crop by typhoons and other factors. Also, in the future, Ecuador must face the possibility of increasing competition in the Japanese market from the Philippines.

* Balance-of-payments export figures.

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Thus the long-term outlook for Ecuador's banana exports is bleak. Even maintenance of the present level of exports will require that the industry take rapid strides in conversion from the Gros Michel to the Cavendish varieties, improvement of quality control and lowering of production and marketing costs.

Exports of cacao, after growing spectacularly in the past two years due both the rising prices and to good harvests, are not likely to be such a dynamic factor in 1969. Though prices should continue to rise, a decline in output has been predicted, as growing and harvesting conditions have not been so favorable and as supply is inelastic in the short run. In future years, Ecuador must contend with increased competition from Ghana, Nigeria and other major producers as they recover from disease and war problems that have adversely affected production. Recovery of production in these countries may well result in lower prices within a year or two. Nevertheless, in the long run and leaving aside the problem of wide swings in prices, Ecuador seems to have a reasonably good future in cacao production.

Exports of coffee, Ecuador's third major export, are limited by the International Coffee Agreement and the slow growth of world demand.

Balance-of-payments pressures, which have been a problem since late 1968, will probably continue to be a threat for the next four to five years given the outlook for the three major exports and the prospects for export diversification during this period. While exports of manufactured products are increasing at a satisfactory rate, they are still at a very low absolute level and cannot be expected to provide a major share of export earnings for many years. Among agricultural products, the most important export prospect is rice, which Ecuador once exported in quantity but has not exported at all since 1966 in light of domestic consumption catching up with production. It has been estimated that Ecuador could export as much as \$25 million of rice annually within five years. However, even to achieve a more modest goal of half that amount will require efforts on the part of the government and the private sector to stimulate rice production much greater than those evident now. Among other

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agricultural products, exports of a number of minor items --including tea, canned mushrooms, and abaca-- are likely to be increased in the next few years but these increases will probably not total more than \$10 million (less than 5% of current total exports) by the end of the 4 to 5 year period now under consideration.

For the longer run, balance-of-payments prospects are brighter. Most importantly, Ecuador is expected to begin to export substantial amounts of petroleum in late 1972 or early 1973. In addition, developments now underway may result in significant exports of lumber and lumber products and livestock products and increased exports of fish and seafood in five to ten years. Still, Ecuador will need to seek and develop other sources of foreign exchange earnings from tourism as well as from goods. A major objective of the studies proposed in this loan is to contribute toward this need.

4. Airport Development and Tourism

Ecuador's two major airports, those in Quito and Guayaquil, are for several reasons rapidly becoming obsolete. In addition to increased urbanization around the airports resulting in serious safety problems the airports are not equipped to handle the "jumbo" jets that will come into service in the early 1970's. Inability of the airports to handle these jets, as well as increasing inability to handle present jets, will result in a by-passing of the country by significant numbers of tourists thus endangering the growth of the tourist industry which has made important advances in recent years, with tourists' spending in Ecuador rising from an annual average of \$4.4 million in 1960-62 to an annual average of \$7.5 million in 1965-67. Improved airport facilities, by contrast, will increase the attractiveness of Ecuador for tourism. At the same time, it is recognized that better airports alone are not sufficient to ensure a significant increase in tourism. Ecuador simultaneously will have to increase its tourist promotion efforts and increase the attractiveness and accessibility of points of interest to tourists.

5. Absorptive Capacity and Financing for Projects under this Loan

For the past few years, the state of Ecuador's public finances has deteriorated and sizeable budget deficits have been incurred. To keep these deficits down to manageable levels, the GOE has primarily relied on reductions of budgeted expenditures with much of the reductions unfortunately being made in capital rather than in current expenditures. Some of the cuts have involved local contributions to foreign-financed projects. There are, however, several reasons for expecting that local contributions for the studies to be undertaken with this loan will be forthcoming without any serious difficulties. In the first place, the present government has already announced its intention of undertaking projects in each of these fields which it regards as being of high priority for the country's development. Secondly, it is particularly interested in the development of the Guayas River Basin. CEDEGE has continued to receive adequate funds for its contribution to the survey now being carried out by the IDB financed study team.

Assuming all studies result in positive recommendations and further assuming 50% of construction costs are in foreign exchange, construction of the projects studied under this loan can be estimated to cost approximately \$40 million (\$20 million foreign exchange costs, \$20 million local costs), using the 1:20 ratio of feasibility studies to construction costs assumed above. This amount, spread over several years, should not impose any serious burden on Ecuador's capital absorptive capacity.

6. Repayment Prospects

Ecuador's ratio of debt service to commodity exports in 1968 was approximately 10.4%, a rather low ratio in comparison with other Latin American countries. However, debt service payments are expected to rise from US\$21.9 million in 1968 to US\$53.1 million by 1973* as grace periods on loans contracted during the 1960's begin to run out. At the same time exports will be rising rather slowly, probably by no more than 3.5%-5.0% annually. This would put the debt service/commodity export ratio at about 20%-21% in 1973. This moderately high ratio, however, should be very shortlived. After 1973 the rate of increase in debt service payments is expected to slow down,

*Planning Board estimate prepared in connection with the revision of the 10-Year Plan.

while at the same time the rate of increase of commodity export earnings should increase very sharply given the expected initiation of substantial petroleum exports as well as the good prospects for additional export diversification and expansion to which this loan will contribute. The debt-service ratio could thus fall to 12%-13% by the late 1970's.

Ecuador has had a good record in meeting its loan repayment obligations to AID and other international lending institutions.

On the basis of the foregoing, the Loan Committee concludes that Ecuador has the capacity to meet the repayment obligations of this loan.

7. Justification of Local Currency Financing

For the past several years, the GOE has had serious budget difficulties as revenues have been insufficient to cover rising expenditure demands. Even with austerity policies on budgeted expenditures, sizeable budget deficits have been incurred. The 1968 cash deficit is estimated at \$/560 million or about 18.5% of total expenditures. The technical and political difficulties of correcting this situation are such that several years will be required to effect a significant improvement in public finances through improved tax administration. The present government, in office only eight months, has not had time to make significant progress in this field. In addition to these difficulties, Ecuador is now in the midst of a balance-of-payments crisis and has just received an \$18 million standby from the IMF. Since the standby requires Ecuador to limit the size of its budget deficit, dollar financing of local currency costs under this loan is justified.

8. Justification of Concessionary Terms

This proposal calls for granting the loan to the GOE on the most concessionary terms available, 3% for 40 years with a 10 year grace period during which interest will be 2%. The nature of the financial problems facing the Ecuadorean Government has been referred to elsewhere in this section. The Government is presently facing a serious budgetary crisis and

it is anticipated that critical needs for government expenditures will continue to absorb financial resources available to the government well into the future. While substantial improvements in certain elements of the GOE financial picture are anticipated during the next decade, the requirements for financing will probably continue to outrun available resources through the end of the century. All previous AID financing in Ecuador in recent years has been on the most concessionary terms available and other international lending institutions pursue a similar policy. Furthermore, the loan proposed will not begin to generate favorable economic consequences until the projects contemplated by the studies are financed and constructed. On the basis of the foregoing, the Loan Committee has concluded that this loan should be made on the most concessionary terms possible.

D. Financial Analysis

1. Introduction

The proposed \$2.0 million AID loan will be used to cover all U. S. foreign exchange and certain local costs of contracts with consulting firms or individuals. It will not finance the local costs of any COE Ministry or autonomous agency personnel, either directly, via reimbursement, or through any other means.

The cost of a feasibility survey will vary according to the type of investigation and the amount of information available at the time of the study. A general approximation that the studies will not cost more than 5% of the total construction costs can be used for estimating purposes.

It is expected that approximately 75% of AID loan proceeds will be used to finance the U. S. dollar costs of contracts with U. S. engineering firms. Some local costs of contracts with U. S. consultants and/or AID prequalified Ecuadorean firms would also be financed from this proposed loan to the extent that such costs are not considered the local contribution described in the next paragraph.

The GOE, the National Planning Board, other autonomous bodies, and local groups concerned with each study will contribute such time, personnel, office space and other support

which may be reasonably expected and required as well as certain local costs of contracts as the Ecuadorean contribution to the cost of each survey. Estimates of such costs are reflected in the detailed analysis in Annex III.

2. Overall GOE Planning Program*

BID Assisted Operations

BID Loan	\$1,170,000	
GOE Contribution	<u>562,000</u>	\$1,732,000

AID Assisted Operations

AID Loan	\$2,000,000	
GOE Contribution	<u>1,035,000</u>	\$3,035,000

\$4,767,000

The GOE contribution to IDB assisted project is approximately 32.4% while the contribution to the proposed AID loan is 34.9%.

3. Costs of Projects Financed Under this Loan*

<u>PROJECTS</u>	<u>Foreign Exchange Costs</u>	<u>Local Currency Costs</u>	<u>Project Total</u>	<u>Grand Total</u>
<u>Water Resources</u>				
Groundwater Expl.	425	215	640	
Selected Irrigation Projects	<u>80</u>	<u>470</u>	<u>550</u>	1190
Total	505	685		
<u>Agricultural Diversification</u>	<u>215</u>	<u>145</u>		360
	215	145		

* All figures expressed in thousand of dollars or dollar equivalent at official exchange rates.

<u>PROJECTS</u>	<u>Foreign Exchange Costs</u>	<u>Local Currency Costs</u>	<u>Project Total</u>	<u>Grand Total</u>
<u>Secondary Roads</u>				
Evaluation Studies	265	290	555	
Road Feasibility Studies	<u>225</u>	<u>405</u>	<u>630</u>	
	490	695		1185
<u>Airports</u>				
Quito-Guayaquil	85	15	100	
Regional Airports	<u>160</u>	<u>40</u>	<u>200</u>	
	245	55		300
GRAND TOTAL	<u>1455</u>	<u>1580</u>		<u>2035</u>

4. Sources of Funding of Projects to be Financed Under this Loan*

	<u>Foreign Exchange Costs</u>	<u>Local Costs</u>	<u>Total</u>
AID Loan	1455	545	2000
GOE		<u>1035</u>	<u>1035</u>
Totals	<u>1455</u>	<u>1580</u>	<u>3035</u>

5. Alternative Sources of Financing

There is an existing IDB feasibility loan for the equivalent of U. S. \$1,170,000 for studies relating to Guayas River Basin development. The Planning Board has explored the possibility of financing for a feasibility studies loan with the World Bank, the Inter-American Development Bank (IDB), and the Export-Import Bank, all of which institutions have indicated that they are not interested in financing this project. Formal comments from these organizations will be received before loan authorization.

* All figures expressed in thousand of dollars or dollar equivalent at official exchange rates.

SECTION IV - LOAN ADMINISTRATION

This loan is to be administered by the National Planning Board which will negotiate and administer the feasibility study contracts to be financed thereby.

Assuming authorization of this loan by June 30, 1969, it is anticipated that the loan agreement will be signed by September 1, 1969. As conditions precedent are routine in nature, they should be met within two months after signing the agreement.

It is anticipated that all studies will be under contract no later than 12 months after the signing of the loan agreement. Consultants will be chosen through normal procurement procedures for such services, including prefeasibility and small business notices. USAID will assist the GOE in locating reputable U. S. economic-engineering firms which might contract for particular feasibility studies through the usual procedures. The GOE will negotiate with prequalified U. S. economic-engineering firms, local firms, consortia of local and U. S. firms, or occasionally a highly specialized U. S. or Ecuadorean individual or individuals. Each contract will be approved by USAID prior to contract execution by the GOE and the consulting firm or individual in its entirety. U. S. contracts will be financed under letter of commitment procedures and local costs by SLC procedures.

Where appropriate, contracts will call for a procedure under which the contractor will be required to submit a report subject to AID and Planning Board approval to assure that the study will conform to all requirements necessary to assure construction financing such as adequacy of methodology of economic analysis and the like. To the extent that the Mission staff is unable to provide the appropriate expertise for such analysis, the assistance of AID/W will be required.

Prior to the disbursement of loan funds for each project, the Planning Board will submit, for the approval of AID, the following information:

- 1) Description of the project.
- 2) Justification of study
- 3) Results of review of existing data
- 4) Objectives of study

- 5) Detailed scope-of-work
- 6) Detailed plan of operations
- 7) Budget, personnel, and equipment requirements

Most of this information has already been compiled for the studies to be undertaken.

During project execution, it will be the responsibility of the USAID Capital Development and Engineering Office to monitor the project to assure that:

- 1) The Planning Board executes each project in accordance with the approved work plan, specifications, and time schedules;
- 2) The Planning Board submits periodic reports on the progress made and on preliminary findings;
- 3) Work progress is satisfactory and there is compliance with specifications, work plans and other conditions of the loan.

Upon completion of the studies the data will be presented in some permanent type report. These reports will be reviewed by the Planning Board and AID staff for compliance with the scope-of-work. USAID will also discuss/^{with} relevant GOE ministries the action plans to be developed as a result of the reports.

SECTION V - EFFECT ON U. S. ECONOMY

The project will not have any unfavorable impact on the U. S. economy. It will not lead to competition with U. S. enterprises but instead afford them the opportunity of examining and possibly participating in worthwhile opportunities.

It is anticipated that most of the funds will be expended on contracts for U. S. engineering firms and consultants. After surveys are completed, it is anticipated that the subsequent investment and loan projects will lead to an increased demand for U. S. goods, services, and equipment and thus resulting in a positive effect on U. S. balance of payments.

SECTION VI - ISSUES

None.

CERTIFICATE OF USAID DIRECTOR

I hereby certify to the Administrator of the Agency for International Development that to the best of my knowledge and belief Ecuador possesses both the financial and human resources effectively to maintain and utilize the project to be undertaken pursuant to the terms of the AID loan proposed in this paper for feasibility studies between the Government of Ecuador and the United States of America. In so certifying I have taken into account the utilization of similar projects in Ecuador previously financed or assisted by the United States, and I have more particularly taken into account the demonstrated capability of Ecuador to effectively utilize development projects of this nature.

5/13/69

(Date)



Robert J. Minges
Director
AID Mission to Ecuador

STUDIES FINANCED UNDER FIRST FEASIBILITY STUDIES LOAN (518-L-017)

Name	Type of Project	Name of Consulting firm	Date of Contract	Date of Acceptance of Contract	AID Contributions (\$ Millions)	Contract Amount		Projected cost of proposed or recommended project (\$ Millions)
						Dollars	Sucres	
System of Supervised Agricultural Credit for Banco Nacional de Fomento	Agricultural Credit	International Development Services, Inc.	11/13/64	Imp. Letter No. 5 (12/28/64)	0.030	0.025	0.005	16.0
Survey of two Roads	Highways	TAMS	8/26/65	Imp. Letter No. 7 (10/13/65)	0.125	0.087	0.038	8.7 (Guayaquil-Empalme) 2.75 (Nocol-Jipijapa-Montecristi)
Machala Water Supply	Potable Water	Hazen and Sawyer	6/25/65	7/1/65 (Reconfirmed approval by Imp. Letter #6 6/12/65)	0.030	0.026	0.004	3.75 approx.
Pisayambo	Hydroelectric-Irrigation	Harza Engineering Co.	10/15/64	Imp. Letter No. 4 (11/2/64)	0.499	0.423	0.076	64.2
Guayaquil Land Reclamation	Land Reclamation	Tudor Engineering Co.	3/31/66	Imp. Letter No. 8 (10/29/65)	0.417	0.256	0.161	5.81
Milagro-M. J. Calle	Irrigation	Charles T. Main International, Inc.	7/30/65	Imp. Letter No. 6 (8/12/65)	0.525	0.341	0.184	7.3 (1st. stage) 2nd. stage to be determined after construction of 1st. stage
Jubones - Paute	Hydroelectric	Charles T. Main International Inc.	6/15/66	Imp. Letter No. 8 (10/29/65)	0.374	0.265	0.109	245.2

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DETAILS OF PROPOSED STUDIES TO BE
FINANCED UNDER THE LOAN

A. Water Resources

1. Ground Water Exploration Program

This proposal was made by the Comisión de Estudios para el Desarrollo de la Cuenca del Río Guayas (CEDEGE) to the National Planning Board which in turn incorporated the proposal in its application to AID for feasibility study financing.

The proposed study calls for ground water explorations in an area of approximately 4,200 square kilometers in the region of Milagro, Yaguachi, Babahoyo, Catarama in the southeastern portion of the Guayas River Basin.

The scope of work for the study will include the following:

Review of data on existing wells; organization of an integrated geological/geophysical/drilling program; elevation survey; geological/geophysical (resistivity) survey; test drilling and pump tests, chemical tests of water; interpretation and final report on groundwater production; preparation of area maps for farmers showing, drilling depth, well diameter, potential yield; benefit/cost analysis of irrigation by groundwater based on potential-water yields, increase in agricultural production and cost of water; engineering cost analysis including well installation costs and methods of irrigation using groundwater; and preliminary design of typical well installation and typical irrigation system.

The project is to be completed within 18 calendar months, Geophysical field work will be completed in 12 months.

Project cost analysis for dollar and sucre costs are as follows:

GROUNDWATER EXPLORATION
PROGRAM
PERSONNEL AND COST ESTIMATES

<u>DOLLAR ACCOUNT</u>	<u>Mos.</u>	<u>\$ per man/mo.</u>	<u>Amt.</u>
(1) <u>North American Personnel</u>			
Geologist/geophysicist	12	1350,00	16,200,00
Geophysicist	10	1150,00	11,500,00
Geophysicist	8	1150,00	9,200,00
Hydrogeologist/Drilling Supervisor	10	1350,00	13,500,00
Civil Engineer	18	1500,00	27,000,00
Economist	3	1500,00	4,500,00
	<u>61</u>		<u>81,500,00</u>
(2) Overheads and Fees			81,500,00
(3) Main Office Support			3,000,00
(4) International Travel (5x3x800; 1x800)			12,800,00
(5) Foreign living Allowances (6lm/m x \$400)			24,400,00
(6) Field living Allowances (\$10 x 22 x 30.5)			6,710,00
(7) Resistivity Equipment Rental			50,000,00
(8) Drilling & Pumping Equipment purchase*			120,000,00
(9) Administration and Direct Costs			5,000,00
			<u>384,910,00</u>
(10) Contingencies			40,000,00
		TOTAL DOLLARS	<u>\$424,910,00</u>

*Equipment includes one rotary drilling rig, basic support vehicles, drill pipe, casing, drillbits and other expendables, large pump for testing purposes.

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Table 2, Page 2 of 2

SUCRE ACCOUNT

(1) <u>Ecuadorean Personnel</u>	<u>Mos.</u>	<u>S/ per man/mo.</u>	<u>Amount</u>
3 Geologists	36	7,000.00	252,000.00
1 Chief Driller	12	5,000.00	60,000.00
1 Drill Crew	72	1,500.00	108,000.00
2 Surveyors	24	3,000.00	72,000.00
2 Surveys Crews	192	1,500.00	288,000.00
3 Resistivity Crews	72	1,500.00	108,000.00
	<u>408</u>		<u>888,000.00</u>
(2) Overheads and Fees			888,000.00
(3) Vehicle Rental (6 veh. x S/4,000 x 18 ms.)			432,000.00
(4) Vehicle Operation and maintenance			250,000.00
(5) Field living costs (100x22x408)			897,600.00
(6) Laboratory Services			50,000.00
(7) Drafting and Report Production			<u>125,000.00</u>
(8) Contingency			3,530,600.00
			<u>350,000.00</u>
TOTAL SUCRE COSTS			S/3,880,600.00

Sucre Costs Expressed in Dollars

$$S/3,880,600 \div 18.18 = 213,454 \text{ or say } \underline{\underline{\$ 215,000}}$$

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2. Irrigation

The following irrigation projects will be studied under the loan:

1) Cotopaxi Plan

This project will benefit approximately 33,700 hectares (83,239 acres) in Cotopaxi Province in the Sierra south of Quito.

In order to irrigate as much as possible, the Province of Cotopaxi and the Instituto Nacional de Recursos Hidráulicos (INERHI) have made preliminary studies of all the possible irrigation and drainage projects which appear feasible. The plan to be studied consists of four sub-projects and covers all arable land of the province below 3,000 meters above sea level.

The project consists of three storage reservoirs and one direct diversion as follows:

a. Rio Negro Dam

This dam is to accumulate waters from the rivers Blanco and Negro that form part of the river Pumacunchi, which has a watershed of 213 square kilometers, with a canal of 20 km. The canal is planned have a capacity of 5 cubic meters per second (approximately 175 c.f.s.) to irrigate approximately 11,100 hectares (27,417 acres).

b. Alagues Dam

This dam will store waters from the Alagues river, which has a watershed of 184 square kilometers, and will have an average of 5 meters per second (176 c.f.s.) coming in. Of this amount 3.7 cu. meters per second will be used to irrigate 8,200 has. (20,254 acres) and the balance to be used in the Latacunga-Salcedo project.

c. Cutuchi Dam

This dam will store water from the Cutuchi River which has a watershed of 507 square kilometers. The capacity of the canal will be 5.07 cubic meters per second (179 c.f.s.)

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to irrigate a total of 10,400 hectares (25,688 acres).

d. Latacunga-Salcedo Sub-Project

This sub-project to irrigate approximately 4,000 hectares (9880 acres) from the Cutuchi River in the Province of Cotopaxi and approximately 4,400 hectares (10,868 acres) in Tungurahua Province.

2. Tomebamba Watershead

This project is to study the best uses of the waters of the Tomebamba River for sources of potable water, irrigation, and hydroelectric development in the Province of Azuay.

3. Toachi-Manabí Project

This project will investigate the possibilities of diverting the water of the Toachi River which flow from the Sierra northwest to Esmeraldas to reservoirs for irrigation purposes in the potentially rich Province of Manabí which suffers from recurrent drouths. The provision of irrigation water to areas of Manabí will not only assure the production of crops now being grown, but will also enable these areas to grow two crops per year which is now impossible. The project could affect up to 80,000 hectares of farm land.

4. Esmeraldas Preliminary Survey

Esmeraldas is one of the provinces which has an abundance of water resources which can be used for irrigation and water power. Additional amounts over and above the needs of the province should be diverted to other areas where there are shortages. The purpose of this preliminary survey will be to make an inventory of possible uses of the water resources of the Province of Esmeraldas.

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Table 3, Page 1 of 1

Project cost summary for dollar and sucre costs are as follows:

<u>Project</u>	Foreign Exchange Cost	AID Loan Local Cost Element	GOE Contribution	<u>Total</u>
Cotopaxi	\$10,000	40,000	25,000	75,000
Tomebamba	30,000	50,000	20,000	100,000
Toachi-Manabí	40,000	190,000	100,000	330,000
Esmeraldas (Preliminary)	-	30,000	15,000	45,000
	<u>\$ 80,000</u>	<u>310,000</u>	<u>160,000</u>	<u>550,000</u>

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B. Agricultural Diversification Study in North Central Zone of the Guayas Basin

This proposal was also made by CEDEGE to the Planning Board, which incorporated the proposal in its application to AID for financing.

The purpose of this study is to establish through systems analysis methods the optimum economic alternatives for diversifying the agriculture of the North Central Guayas Basin area; the establishment of investment priorities in the area; and the training of Ecuadorian personnel to utilize the system in response to changing economic and agronomic conditions.

Basic data to be collected and analyzed include: yields of crops suited to the area under existing and optimal conditions; cost of production under present and improved conditions; and gross and net revenues under present and improved conditions. The following factors will also be studied to ascertain their present state and to evaluate expected improvements: infrastructure; internal and external markets for primary products of the area; markets for processed products; extension services; agricultural credit; agricultural cooperatives; vocational agricultural training; and agricultural research programs.

From this data it will be possible to determine an optimal agricultural development and production pattern and to identify investment priorities and pay-off rates. The design for the implementation program will include a regional management scheme to establish and maintain optimum production in line with changing internal and external conditions. The management scheme would coordinate with all national and international agencies working in the region.

The cost analysis for dollar and sucre expenditures is as follows:

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Table 4, page 1 of 2

AGRICULTURAL DIVERSIFICATION
DESIGN OF MANAGEMENT PROGRAM

PRELIMINARY COST ESTIMATES

<u>DOLLARS</u>	<u>Mos.</u>	<u>\$</u>	<u>Amount</u>
(1) Personnel Salaries			
Agronomist	12	1,000	12,000
Economist	12	1,250	15,000
Management Information Specialist	12	1,250	15,000
Agricultural Credit Specialist	6	1,250	7,500
Civil Engineer	2	1,000	2,000
Animal Husbandry Specialist	2	1,500	3,000
Tropical Horticulturalist	2	1,250	2,500
	<u>48</u>		<u>57,000</u>
(2) Overheads and Fees			57,000
(3) Main Office Support			15,000
(4) International Travel and Foreign Allowances:			
Air Fares 4x 3 x \$800		\$ 9,600	
Moving Expense 4x \$1,000		4,000	
3 x 300		900	
Allowances 48 x \$400		<u>18,400</u>	32,900
(5) Office Equipment			3,000
(6) Field Equipment			2,000
(7) Other Direct Costs			15,000
Contingencies			<u>30,000</u>
			<u>\$ 211,900</u>

Note: The following personnel are also required but will be supplied from other sources:

Land Tenancy Expert 2 months
Agricultural Education Specialist 2 months
Community Development Specialist 2 months

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Table 4, page 2 of 2

<u>SUCRES</u>	<u>Mos.</u>	<u>S/</u>	<u>Amount</u>
(1) Ecuadorean Professional Salaries			
Management Information Assistant	12	12,000	S/ 144,000
Senior Agronomist	12	10,000	120,000
Economist	12	7,000	84,000
Veterinarian	2	12,000	24,000
Civil Engineer	6	10,000	60,000
Agronomist	<u>12</u>	<u>12,000</u>	<u>144,000</u>
	56		576,000
(2) Professional Overheads and Fees - 90%			520,000
(3) Non-Professional Salaries			
Typists	18 mo. x S/ 3,000	54,000	
Drivers	48 mo. x S/ 1,700	81,600	
Tech. Assistants	30 mo. x S/ 5,000	150,000	
Draftsmen	30 mo. x S/ 3,000	90,000	
Misc.		<u>10,000</u>	386,000
(4) Non-Professional Overheads and Fees - 40%			154,000
(5) Travel in Ecuador			50,000
(6) Living Expenses			200,000
(7) Vehicle Operation and Maintenance 4 x 12 x S/ 3,000			144,000
(8) Field Expenses			40,000
(9) Office Equipment			100,000
(10) Other Direct Costs			<u>200,000</u>
			2,370,000
			<u>230,000</u>
			<u>2,600,000</u>
		TOTAL	2,600,000

Total Sucre Costs Expressed in Dollars,
2,600,000 - 18.18 = \$142,960 or say \$145,000

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C. Secondary Roads Study Program

This project will include a complete inventory of the existing road system west of the Pan American Highway to the Coast; a determination of standards for various types of roads; a comprehensive traffic count and analysis on the highways and roads under consideration; an investigation of existing and potential areas of agricultural production and consumption; the preparation of a master plan for contemplated road improvement; the establishment of priorities for secondary and penetration roads; and the prosecution of feasibility studies of four to six top priority secondary road routes.

Project cost estimates are given below. These are divided into two parts:

1. evaluation studies and 2. feasibility studies

1. EVALUATION STUDIES

<u>Dollars</u>	<u>Mos.</u>	<u>Rate in US\$</u>	<u>Amount</u>
(1) Personnel Salaries			
Project Engineer	12	1,550	\$ 18,600
Economist	6	1,550	9,300
Geologist	2	1,550	3,000
Highway Engineer	12	1,300	15,600
Traffic Engineer	6	1,550	9,000
Maintenance Engineer	8	1,400	11,200
Demographer	3	1,500	4,500
Report Writer	4	1,500	6,000
	<u>53</u>		<u>\$ 77,200</u>
(2) Overheads & Fees (85%)			65,620
(3) Main Office Support			15,000
(4) International Travel and Foreign Allowances			
Air Fares	17 at 450	= 7,650	
Moving Exp.	2 x 1,000	= 2,000	
	6 x 300	= 1,800	
Allowances	32 x 400	= 12,800	
	21 x 750	= 15,800	
			40,050

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(5) Office Equipment	3,000
(6) Field Equipment & Vehicles	29,000
(7) Other Direct Costs	<u>10,000</u>
	239,870
Contingencies - say 10%	<u>23,987</u>
TOTAL	<u>263,857</u>

<u>Sucres</u>	<u>Mos.</u>	<u>Rate in \$.</u>	<u>Amount \$.</u>
(1) Ecuadorean Professional Salaries			
Agronomist	6	12,000	72,000
Soils Engineer	5	15,000	75,000
Economist	12	12,000	144,000
Highway Engineer	12	12,000	144,000
Traffic Engineer	8	12,000	96,000
Structural Engineer	5	9,000	45,000
Assistant Agronomist	4	9,000	36,000
Office Engineer	7	9,000	63,000
Field Engineer	18	8,500	153,000
Assistant Office Engineers	80	5,250	420,000
	<u>157</u>		<u>\$1,248,000</u>
(2) Professional Overheads and Fees -65%			811,200
(3) Non-Professional Salaries			
Secretaries 48 at 3,000	144,000		
Translators 24 at 5,000	120,000		
Messengers 24 at 2,000	48,000		
Draftsmen 87 at 3,000	261,000		492,000
(4) Non-Professional Overheads and Fees -40%			196,800
(5) Travel and expenses in Ecuador			460,000
(6) Vehicle operation			<u>290,000</u>
(7) Traffic and soils studies crews and drivers for consultants			1,300,000
			<u>4,798,000</u>
Contingencies - 10%			<u>479,800</u>
TOTAL			<u>\$5,277,800</u>

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Table 5, page 3 of 5

Total dollar costs
Total sucre costs in dollars
5,277,800 + 18.18

\$290,308
554,165

Say

\$554,200

2. FEASIBILITY STUDIES

Total Length of Road Considered: 500 Kilometers (About four to six projects)

<u>Dollars</u>	<u>Mos.</u>	<u>Rate in US\$</u>	<u>Amount</u>
(1) Personnel Salaries			
Project Engineer	15	1,600	\$ 24,000
Location Engineer	12	1,400	16,800
Economist	6	1,600	9,600
Soils Engineer	3	1,500	4,500
Bridge Engineer	4	1,500	6,000
Report Writer	4	1,500	6,000
			<u>6,000</u>
			\$ 66,900
(2) Overheads and Fees, 85%			56,865
(3) Main Office Support			15,000
(4) International Travel and Foreign Allowances			
Air Fares	14 at 450	6,300	
Moving Expenses	2 at 1000	2,000	
	4 x 300	1,200	
Allowances	25 x 400	10,000	
	17 x 750	<u>12,750</u>	
(5) Office Equipment			32,250
			3,000
(6) Field Equipment and Vehicles			15,000
(7) Other Direct Costs			<u>15,000</u>
			204,015
		Contingencies 10%	<u>20,402</u>
		TOTAL	\$224,417

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<u>Sucres</u>	<u>Mos.</u>	<u>Rate in S/</u>	<u>Amount</u>	
(1) Ecuadorean Professional Salaries				
Assistant Project Engineer	15-	15,000	S/ 225,000	
Agronomist	12	12,000	144,000	
Highway Design Engineer	12	12,000	144,000	
Structural Engineer	4	9,000	36,000	
Office Engineer	12	9,000	108,000	
Assistant Office Engineer	100	5,250	525,000	
Assistant Location Engineer	10	9,000	<u>90,000</u>	
				1,272,000
(2) Professional Overheads and Fees - 65%				826,800
(3) Non-Professional Salaries				
Secretaries	30	3,000	90,000	
Translators	15	5,000	75,000	
Messengers	24	2,000	48,000	
Draftsmen	100	3,000	<u>300,000</u>	
				513,000
(4) Non-Professional Overheads - 40%				205,200
(5) Travel Expenses in Ecuador -				250,000
(6) Vehicle operation				150,000
(7) Survey Subcontracts 500 Kms. at 5,000				2,500,000
(8) IGM Air Photo Subcontracts				300,000
(9) Traffic and soils studies, crews and drivers for consultants				650,000
				<u>S/ 6,667,000</u>
Contingencies - 10%				666,700
				<u>7,333,700</u>
		TOTAL		
Total dollar costs		\$224,417		
Total sucre costs in dollars		7,333,700 @ 18.18		40,394
		Say		<u>\$627,800</u>

The total cost of the evaluation (prefeasibility) studies and the feasibility studies (dollar plus dollar equivalent of sucres) is therefore \$554,200 plus \$627,800, or \$1,182,000, tabulated as follows:

	<u>Dollar Equivalent</u>		<u>Total</u>
	<u>of Sucres</u>	<u>Dollars</u>	
Prefeasibility Studies	\$290,308	\$263,857	\$554,165
Feasibility Studies	403,394	224,417	627,811
	<u>\$693,702</u>	<u>\$488,274</u>	<u>\$1,181,976</u>
	\$693,700	\$488,300	\$1,181,000

D. Proposal for Feasibility Studies for Airport Improvement

The purpose of the study will be to determine the economic, financial and technical feasibility of a series of airport construction and repair projects. Airport facilities to be considered under the loan will include Quito, Guayaquil, Esmeraldas-Atacames, Manta-Fortoviejo-Rocafuerte, Machala, San Lorenzo and possible airports in the Oriente.

To carry out this effort, it is estimated that at least the following technicians will be required: one airport engineer, one architect, one specialist in economic studies of air transportation and one specialist in air transportation. Forty-eight man months of labor of these specialists will be required. Activities under this effort will include field studies in meteorology, hydraulogy, topography, the use of land and air, natural resources, public services, and main highways and access roads. Also required will be office studies in statistics, economic and financial analysis and prediction on the increment of air traffic; data analysis, formulation of operational plans; and planning, designing and budgeting for each construction and repair project.

The cost for the proposed study of the Quito and Guayaquil Airports will be \$100,000 of which \$85,000 will be foreign exchange costs financed under the loan. The equivalent of \$15,000 in local costs will be financed by the Ecuadorean Civil Aviation authority. The cost of other studies to be financed under the loan will total \$200,000 of which the entire local cost element estimated to be \$40,000 will be financed by the Civil Aviation Authority.

FEASIBILITY STUDIES LOAN

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer, or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1968.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1969.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA §.208; §.251(b).

A. Describe extent to which country is:

(1) *Making appropriate efforts to increase food production and improve means for food storage and distribution.*

Ecuador has placed high priority on agricultural activities, although its efforts have been hindered by serious fiscal problems.

(2) *Creating a favorable climate for foreign and domestic private enterprise and investment.*

Legislation favorable for private enterprise and investment is in force, and the private sector is healthy and active in Ecuador.

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(3) *Increasing the public's role in the developmental process.*

Ecuador has a constitutional government which is responsive within the limits of budgetary restraints to active public interest sectors in various types of developmental activity.

(4) (a) *Allocating available budgetary resources to development.*

Despite severe budgetary restraints, and inefficiencies in the establishment of priorities in public sector expenditures, the public sector as a whole is allocating significant budgetary resources to development.

(b) *Diverting such resources for unnecessary military expenditure (See also Item No. 18.) and intervention in affairs of other free and independent nations. (See also Item No. 17.)*

The GOE is not diverting budgetary resources for unnecessary military expenditures.

(5) *Willing to contribute funds to the project or program.*

Willingness to contribute funds to the project consistent with budgetary restraints has been expressed.

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

As a constitutional democracy, the rule of law, freedom of expression and of the press, individual initiative and private enterprise exist in Ecuador. Economic, social and political reform are objectives of the government although progress has been slight.

(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

Ecuador adheres to the principle of the Act of Bogotá and Charter of Punta del Este.

(8) Attempting to repatriate capital invested in other countries by its own citizens.

Ecuador attempts to repatriate capital primarily by trying to promote a sound climate for investment in the country and maintaining the stability of the sucre.

(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

The GOE appears to have good intentions, but its performance has been limited.

B. Are above factors taken into account in the furnishing of the subject assistance?

The project will finance studies of projects the objectives of which are consistent with these factors.

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Treatment of U.S. Citizens

2. FAA §.620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on 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) debt is not denied or contested by such government?*

The USAID and the Embassy are investigating a potential 620 (c) situation involving two contracts. If 620 (c) is determined to be applicable, the loan agreement will not be signed until the GOE satisfied the requirement of 620 (c)

3. FAA §.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?*

It has not been determined that the GOE has taken any steps which require the application of the sanctions prescribed by this Section.

4. App. §.106. *If country attempts to create distinctions because of their race or religion among Americans in granting personal or commercial access or other rights otherwise available to U.S. citizens generally, what steps (will be) (have been) taken during loan negotiations to influence elimination of such distinctions?*

Ecuador does not take such action.

5. FAA §.620(o); Fishermen's Protective Act. §.5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*
- Since January 1, 1968, arrest incidents have been reported as follows: March 20, 1968, 1 boat; August 7, 1968, 4 boats; December 10, 1968, 1 boat. Protests have been lodged with the GOE.
- a. *has any deduction required by Fishermen's Protective Act been made?*
- With respect to the boat arrested and fined after August 12, 1968, (the effective date of Section 5 of the FPA, as amended) no amount has yet been expended by the United States and thus no deduction is required at this time by this Section.
- b. *has complete denial of assistance been considered by A.I.D. Administrator?*
- The loan will not be authorized unless the A.I.D. Administrator considers denying assistance to the GOE and determines nevertheless to permit the authorization.

Relations with U.S. Government and Other Nations

6. FAA §.620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, 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?*

Not Applicable

7. FAA §.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.

8. FAA §.620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason? Ecuador has instituted such a program.
9. FAA §.620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country? No.
10. FAA §.620(t). Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
11. FAA §.620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget? Ecuador is not up to date in payment of UN obligations. The loan will not be authorized unless the A.I.D. Administrator takes into account the status of the GOE with respect to its UN obligations, and determines nevertheless to permit the authorization.
12. FAA §.620(a); App. §.107(a) and (b). Does recipient country furnish assistance to Cuba, sell strategic material to Cuba, or permit ships or aircraft under its flag to carry cargoes to or from Cuba. No.

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13. FAA §.620(b). *If assistance is to a government, has Secretary of State determined that it is not controlled by the international Communist movement.* The Secretary of State has determined that Ecuador is not controlled by International Communist movement.

14. FAA §.620(f), App. §.109. *Does recipient country have a communist government* No.

15. FAA §.620(i). *Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression.* No.

16. FAA §.620(n); App. 107(b) and 116. *Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?* No.

Military Expenditures

17. FAA §.620(s). *What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? Is U.S. P.L. 480 or development assistance used for military purposes? Are country's resources devoted to unnecessary military expenditures to a degree which materially interferes with* The Military budget is approximately 9% of the GOE budget. A marginal amount of foreign exchange is spent in military equipment. PL-480 or other development assistance is not used for military purposes. The country's resources are not devoted to military expenditures to a degree that materially interferes with its development.

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its development? (Consideration of these points to be coordinated with PPC/MAS.)

18. FAA §.620(v). App. §.119. How much spent by country during current U.S. fiscal year for sophisticated military equipment purchased since January 1, 1968? Has corresponding amount been deducted from current OYB, or is the weapons purchase determined by the President to be important to U.S. national security? (Responses to these questions to be coordinated with PPC/IAS.)

Sophisticated military equipment has not been purchased since January 1, 1968.

CONDITION/ OF THE LOAN

General Soundness

19. FAA §.201(d). Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

The terms and conditions of the loan are considered reasonable and consistent with the laws of Ecuador and the United States.

20. FAA §.251(b)(2); §.251(·). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner.

The activity is considered economically and technically sound and the COE has submitted an application for the loan.

21. FAA §.251(b). *Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*
- The borrower has made an application for this assistance and has provided assurances to indicate that the funds will be used in an economically and technically sound manner. The borrower is considered capable of repaying the loan.
22. FAA §.611(a)(1). *Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?*
- All necessary plans for the project, including a reasonably firm estimate of the cost to the U.S. of the assistance have been prepared. See Annex III to the Loan Paper.
23. FAA §.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 purposes of loan?*
- No further legislative action is required within Ecuador for the Loan.
24. FAA §.611(e). *If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?*
- The Mission Director's certification appears in Annex I of the Loan Paper.
25. FAA §.251(b). *Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.*
- On the basis of appropriate inquiry, it appears that financing for this project is not available from other free-world sources.
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Loan's Relationship to Achievement
of Country and Regional Goals

26. FAA §.207; §.251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.

This project related to the criteria indirectly as it will finance studies for projects which will relate to various of these objectives.

27. FAA §.209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

No.

28. FAA §.251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.

This project is clearly consistent with other development activities in Ecuador as reflected in the project description and contributes to realizable long-range objectives.

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29. FAA §.251(d)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*
- As reflected in the paper, the activity will contribute to the achievement of self-sustaining growth in Ecuador.
30. FAA §.281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.*
- The project contributes indirectly to the stated objectives as it will finance feasibility studies for capital projects with Title IX implications in the future.
31. FAA §.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 civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*
- As reflected in the Loan Paper the project meets all the stated criteria.

32. FAA §.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, 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.

This project clearly will encourage the efforts of Ecuador relating to criteria a), b), and e); and c), d) and f) may be indirectly encouraged.

33. FAA §.619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

Not applicable.

34. FAA §.251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.

The activity is consistent with the recommendations of the CIAP.

35. FAA §.251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.

The project is not directly related to the Cooperative movement, but cooperatives are expected to be major beneficiaries of the capital projects resulting from the two feasibility studies in the Guayas River Basin.

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36. FAA §.209; §.251(b)(8).
Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

This project does not relate directly to regional activities.

Loan's Effect on U.S. and A.I.D Program

37. FAA §.251(b)(4); §.102.
Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

Activities of U.S. consultants will be financed under this loan. Assistance will be rendered in a manner consistent with U.S. balance of payments objectives.

75. FAA §.601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

U.S. consultant firms will be involved in the activity to be financed and the studies resulting will lead to further creating investment opportunities in Ecuador.

39. FAA §.601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*

Yes.

40. FAA §.602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.*

The Loan agreement will contain the standard provisions to insure that U. S. small business will participate equitably in the furnishing of goods and services financed by the loan.

41. FAA §.620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*

No.

42. FAA §.621. *If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*

Assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprises on a contract basis.

43. FAA §.252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.
- Studies will be carried out by private firms.

Loan's Compliance with Specific Requirements

44. FAA §.201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?
- Yes.
45. FAA §.608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.
- The loan agreement will provide for compliance with excess property procurement regulations.
46. FAA §.604(a); App. §.108. Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?
- Yes.

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47. FAA §.604(b). *What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?*
- The loan agreement will provide for compliance with bulk commodity procurement regulations.
48. FAA §.604(d). *If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?*
- The loan agreement will provide that if it is determined that discrimination exists against U.S. marine insurance companies the requirement will be imposed that marine insurance be placed in the U.S.
49. FAA §.604(e). *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?*
- The project does not contemplate the procurement of any agricultural commodity or product.
50. FAA §.611(b); App. §.101. *If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?*
- The project does not involve water or water-related land resource construction projects or programs.
51. FAA §.611(c). *If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?*
- No construction contracts will be financed under the loan.

52. FAA §.620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
- An appropriate provision will be included in the loan agreement to insure that proceeds of the proposed loan will not be used to compensate for expropriated or nationalized property.
53. FAA §.612(b); §.636(h). 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 to meet the cost of contractual and other services.
- As reflected in the financial plan, maximum feasible local contributions have been sought and obtained.
54. App. §.104. Will any loan funds be used to pay pensions, etc., for military personnel?
- No.
55. App. §.111. Compliance with requirements for security clearance of U.S. citizen contract personnel.
- Requirements for security clearance of U.S. citizen personnel will be complied with.

56. App. §.112. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?
- A.I.D. will approve any firms or individuals providing services under the loan and the terms of contracts under which such services are provided.
57. App. §.114. Will any loan funds be used to pay U.N. assessments?
- No.
58. App. §.115. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).
- Not applicable. The project to be financed under the proposed loan does not involve construction contracts.
59. FAA §.636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?
- No.
60. App. §.401. Will any loan funds be used for publicity or propoganda purposes within U.S. not authorized by the Congress?
- No.

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61. FAA §.620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?

Loan proceeds will not be used for the construction of productive enterprises.

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DRAFT LOAN AUTHORIZATION

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C.

Provided from: Alliance for Progress
ECUADOR: Feasibility Studies

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan (the "Loan") pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Ecuador ("Borrower") of not to exceed two million United States dollars (\$2,000,000) to assist in financing the costs of economic and engineering studies to determine the feasibility of, and to develop adequate data for the consideration of investors and for the preparation of loan applications for, specific development projects in Ecuador, the Loan to be subject to the following terms and conditions:

1. Interest and Terms of Repayment: Borrower shall repay the Loan to the Agency for International Development ("A.I.D.") in United States dollars within forty (40) years from the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in United States dollars on the disbursed balance on the Loan interest of two (2) percent per annum during the grace period, and three (3) percent per annum thereafter.
2. Other Terms and Conditions:
 - (a) Equipment, materials and services financed under the Loan shall have their origin in and be procured from the United States of America or Ecuador. Shipping financed under the Loan shall be procured from the United States, and marine insurance financed under the Loan shall be placed in the United States with a company authorized to do a marine insurance business in any state of the United States.

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ANNEX V, Page 2 of 2

- (b) United States dollars utilized under the Loan to finance local currency shall be made available to Borrower or its designee through Special Letters of Credit and shall be used only for procurement in the United States of equipment, material and services.
- (c) The Loan shall be subject to such other terms and conditions as AID may deem advisable.

Deputy U.S. Coordinator

(Date)

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10 DEC 1969

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: EXSEC

FROM: AA/LA, James R. Fowler *JRF*

Problem: To amend existing authorizations for loans authorized but unsigned as of November 1, 1969, in order to carry out the President's decision to "untie" aid to Latin America.

Discussion: The President's decision to untie aid applies to loans to be authorized after October 31, 1969, and also to all loans which, as of that date, were authorized but not yet signed. To implement this decision, all of the relevant authorizations must be amended. The attached "blanket" amendment will achieve this end. Basically, this amendment does the following:

1. It modifies those authorizations provisions with eligible source and origin of goods and services procured under loans.

2. It modifies provision of the authorizations which deal with local cost financing mechanisms. The provisions presently speak of Special Letters of Credit tied to U.S. procurement. The amendment will make the provision flexible enough so as to avoid any further authorization amendment when the decision on how to handle local cost financing has been made.

Recommendation: That you sign the attached blanket amendment to the authorizations.

2.c.d
Drafted: LA/AGC:IALevy:clp:12/10/69

Cleared: AA/LA:HKleine *HK*

Attachment: Loan Authorization
. . . Amendment

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON 25. D. C.

DEC 18 1969

OFFICE OF
THE ADMINISTRATOR

LOAN AUTHORIZATION
AND
PROGRAM ASSISTANCE APPROVAL DOCUMENT
AMENDMENT

Pursuant to the authority vested in the Administrator, Agency for International Development (hereinafter referred to as "A.I.D."), by the Foreign Assistance Act of 1961, as amended, I hereby amend the Loan Authorizations and Program Assistance Approval Documents (collectively hereinafter referred to as "Authorizations") for the following loans:

AID Loan No.	511-L-038	Bolivia
	512-L-067	Brazil
	512-L-068	Brazil
	512-L-069	Brazil
	512-L-074	Brazil
	512-L-077	Brazil
	512-L-079	Brazil
	512-L-078	Brazil
	513-L-042	Chile
	513-L-044	Chile
	513-L-043	Chile
	514-L-056	Colombia
	514-L-057	Colombia
	515-L-021	Costa Rica
	517-L-022	Dominican Republic
	517-L-023	Dominican Republic
	518-L-030	Ecuador
	518-L-031	Ecuador
	518-L-032	Ecuador
	519-L-013	El Salvador
	519-L-014	El Salvador
	519-L-015	El Salvador
	520-L-016	Guatemala
	520-L-017	Guatemala
	522-L-015A	Honduras
	525-L-008A	Panama
	525-L-029	Panama
	525-L-032	Panama
	525-L-033	Panama
	525-L-034	Panama
	525-L-035	Panama
	526-L-019	Paraguay

as follows:

1. With respect to those Authorizations listed above which authorize the financing of only United States dollar costs, the source and origin provisions are amended to read as follows (except that, with respect to loans 514-L-056 and 514-L-057, the presently existing provision pertaining to marine insurance shall continue in effect, and the second sentence below shall not apply):

"Except for marine insurance, goods and services financed under the loan shall have their source and origin in the United States or any independent country of the Western Hemisphere south of the United States except (a) Cuba and (b) the country of the Borrower. Marine insurance financed under the loan shall have its source and origin in the United States or any independent country of the Western Hemisphere south of the United States except Cuba, provided, however, that such insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies."

2. With respect to those Authorizations listed above which authorize the financing of United States dollar and local currency costs

(a) the source and origin provisions are amended to read as follows:

"Except for marine insurance, goods and services financed under the loan shall have their source and origin in the United States or any independent country of the Western Hemisphere south of the United States except Cuba. Marine insurance financed under the loan shall have its source and origin in the United States or any independent country of the Western Hemisphere south of the United States except Cuba, provided, however, that such insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies."

(b) Notwithstanding subparagraph (a) above, any limitation presently existing in a loan authorization upon the amount of local currency costs to be financed under any loan shall remain in full force and effect.

(c) The Special Letter of Credit provisions are amended to read as follows:

"United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D."

3. With respect to those Authorizations listed above which provide for commodity financing in accordance with A.I.D. Regulation No. 1, to the extent that any of the above provisions of this authorization amendment are inconsistent with the applicable provisions of said Regulation 1, the provisions of this authorization amendment shall govern.

Except as expressly stated herein the Loan Authorizations listed above shall remain in full force and effect.

Richard L. Pate
Deputy Administrator

12/8/69
Date

Clearances:

LA/DR, F. Kimball	<u>FW</u>	Date	<u>12/5</u>
PPC/CA, H. Folk	<u>H.Folk</u>	Date	<u>12/11/69</u>
A/CONT, C. Flinger	<u>CF</u>	Date	<u>12/11/69</u>
GC/LA, I. Levy	<u>I.L</u>	Date	<u>12/4</u>
GC, S. Ives	<u>S.I</u>	Date	<u>12/11</u>
AA/LA, H. Kleine	<u>H.K</u>	Date	<u>12/11/69</u>
AA/LA, J. Fowler	<u>J.F</u>	Date	<u> </u>

GC/LA, I. Levy:lb:12/4/69

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

UNITED STATES COORDINATOR

ALLIANCE FOR PROGRESS

A.I.D. Loan No. 518-L-030
(Ref: AID-DLC/P-841)

LOAN AUTHORIZATION

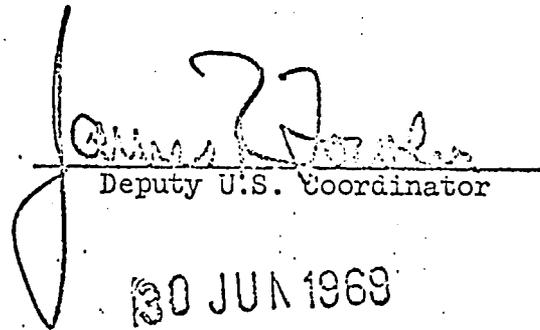
Provided from: Alliance for Progress
ECUADOR: Feasibility Studies

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan (the "Loan") pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to the Government of Ecuador ("Borrower") of not to exceed two million United States dollars (\$2,000,000) to assist in financing the U.S. dollar and local costs of economic and engineering studies to determine the feasibility of, and to develop adequate data for the consideration of host country and international lending institutions and for the preparation of loan applications for, specific development projects in Ecuador, the Loan to be subject to the following terms and conditions:

1. Interest and Terms of Repayment: Borrower shall repay the Loan to the Agency For International Development ("A.I.D.") in United States dollars within forty (40) years from the first disbursement under the Loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the Loan interest of two (2) percent per annum during the grace period and three (3) percent per annum thereafter.
2. Other Terms and Conditions:
 - (a) Equipment, materials and services financed under the Loan shall have their origin in and be procured from the United States of America or Ecuador. Shipping financed under the Loan shall be procured from the United States, and marine insurance financed under the Loan shall be placed in the United States with a company authorized to do a marine insurance business in any state of the United States.

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- (b) United States dollars utilized under the Loan to finance local currency shall be made available to Borrower or its designee through Special Letters of Credit and shall be used only for procurement in the United States of equipment, material and services.
- (c) The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.


Deputy U.S. Coordinator

30 JUN 1969
Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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July 10, 1969

MEMORANDUM FOR THE FILES

SUBJECT: Dollar Development Loan
Ecuador: Feasibility Studies

In accordance with the Memorandum (AID-DIC/P-841/1) dated June 23, 1969, a telephone poll was concluded on June 30, 1969, confirming that there were no objections to the recommendations for authorization of a loan in an amount not to exceed \$2,000,000 to the Government of Ecuador to assist in financing the costs of economic and engineering studies to determine the feasibility of, and to develop adequate data for the consideration of investors and for the preparation of loan applications for, specific development projects in Ecuador.

The results of the poll were as follows:

State	(Mr. Duncan)	No objections
Treasury	(Mr. Cozman)	No objections
Eximbank	(Mr. Lilley)	No objections
Commerce	(Mr. Berger)	No objections
A.I.D.	(Mr. Folk)	No objections

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

DISTRIBUTION:

LA/DR	5 copies
PPC/CA	Mr. Folk
PPC/CA/LRD	Mr. Bass
ENGR	Mr. Hale
PROC	Mr. Spreyer

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-841/2
AID-DLC/P-842/2
AID-DLC/P-854/2

June 25, 1969

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Ecuador - Feasibility Studies
Ecuador - Cooperative Bank - Second Loan
Ecuador - Land Sale Guaranty

There are two general issues concerning A.I.D. lending to Ecuador to be resolved by the Administrator before authorization of these loans. Under Section 620(o) of the Foreign Assistance Act, the Administrator must consider denial of assistance to a country which has signed or imposed any penalty or sanction against any U.S. fishing vessel on account of its fishing activities in international waters. Under 620(u) the A.I.D. Administrator must take into account in determining the current A.I.D. Operating Year Budget the status of arrearages, if any, in payment of a country's U.N. obligations. A recommendation that A.I.D. authorize these loans despite Ecuador's seizure of fishing boats and U.N. arrearages has gone forward to the Administrator.

It is requested that you review these papers and advise us as early as possible but not later than noon on Monday, June 30, 1969 of your concurrence in order that these loans can be authorized this fiscal year if the Administrator determines to permit their authorization under the statutory provisions cited.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

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