

# Annual Budget Submission

FY 1984

## ECUADOR



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Agency for International Development  
Washington, D.C. 20523

E C U A D O R  
ANNUAL BUDGET SUBMISSION  
FY - 1984

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FY 1984 ANNUAL BUDGET SUBMISSION

TABLE I - LONG RANGE PLAN BY APPROPRIATION ACCOUNT (\$ Thousands)

Country/Office 518 - Ecuador

DEVELOPMENT ASSISTANCE	FY 1982 EST.	FY 1983 EST.	FY 1984 REQUEST	PLANNING PERIOD		
				1985	1986	1987
<u>Agriculture, Rural Development &amp; Nutrition</u>						
Grants	1,699	2,120	3,731	4,450	4,000	2,600
Loans	5,000	6,000	7,000	5,000	10,000	7,000
<u>Population</u>						
Grants	900	1,020	1,369	2,000	-	1,000
Loans	-	-	-	-	-	-
(of which centrally procured commodities)						
<u>Health</u>						
Grants	560	250	250	350	600	900
Loans	1,200	-	-	-	-	2,000
<u>Education</u>						
Grants	650	420	200	200	400	800
Loans	-	-	-	-	-	-
<u>Selected Dev. Activities</u>						
Grants	1,220	2,190	1,450	1,500	2,000	2,700
Loans	900	1,500	2,000	5,500	4,000	6,000
<u>SUBTOTAL FUNC. ACCOUNTS</u>						
Grants	5,029	6,000	7,000	8,500	7,000	8,000
Loans	7,100	7,500	9,000	10,500	14,000	15,000
<u>Other DA ACCTS. (Specify)</u>						
Grants	-	-	-	-	-	-
Loans	-	-	-	-	-	-
<u>TOTAL DA ACCTS.</u>						
Grants	5,029	6,000	7,000	8,500	7,000	8,000
Loans	7,100	7,500	9,000	10,500	14,000	15,000
<u>Economic Support Fund</u>						
Grants	-	-	-	-	-	-
Loans	-	-	-	-	-	-
<u>TOTAL DA AND ESF</u>	<u>12,129</u>	<u>13,500</u>	<u>16,000</u>	<u>19,000</u>	<u>21,000</u>	<u>23,000</u>
<u>PL 480 (non-add)</u>						
Title I						
(of which Title III)						
Title II	1,169	1,282	1,264	*	*	*
*New Title II Program being developed. See PL-480 Title II narrative						
Housing Guaranties (non-add)	25,000			25,000		
<u>TOTAL PERSONNEL</u>						
USDH (workyears)	11	14	14	15	16	16
FNDH (workyears)	19.5	19	19	21	21	23

1984 ANNUAL BUDGET SUBMISSION

TABLE IV PROJECT BUDGET DATA

PROJECT	OBLIGATION DATE	TYPE OF PROJECT COST	COM. PIPELINE AS OF 9/30/81	FY 1982		FY 1983		1984 AAYL	FUNDED TO MO/YR	FY OBLIGATIONS				ITEM #
				OBL	EXP	OBL	EXP			1985	1986	1987	FUTURE YRS	
				ACTY	PLANN	ACTY	PLANN							
18-0005	79	G	83	200	250	150	160	150	9-84	100	200	200	800	6215
18-0006	80	G	7	-	7	-	-	-	-	-	-	-	-	6216
18-0012	80	G	400	300	400	500	3000	400	12-84	500	-	-	-	6222
18-0019	80	L	9800	500	500	-	-	-	-	-	-	-	-	6223
18-0023	84	G	1000	-	-	-	-	500	2-85	500	-	-	-	6222
18-0024	84	L	3000	-	-	-	-	3000	5-85	-	-	-	-	2223
18-0027	83	G	2100	-	-	200	100	650	12-84	700	550	-	-	6236
18-0031	83	L	6000	-	-	6000	1500	-	-	-	-	-	-	6237
18-0032	82	G	449	299	30	148	200	-	6-85	-	-	-	-	6245
18-5997	84	G	1000	-	-	-	-	500	6-85	500	-	-	-	6246
	84	L	6000	-	-	-	-	4000	6-85	2000	-	-	-	6247
	80	G	340	100	237	-	-	-	-	-	-	-	-	6250
	80	G	3200	800	400	1000	1300	1300	3-85	1000	-	-	-	6246
	82	L	5000	531	531	-	2147	-	-	-	-	-	-	6247
	82	G	-	-	-	222	150	231	-	350	400	400	1200	6250
Total Grant			11573	6699	2255	8120	9057	10731		5650	1150	1600	2000	
Loan			1773	1699	1224	2120	2410	3731		3650	1150	1600	2000	
			9800	5000	1031	6000	6647	7000		2000	-	-	-	
POPULATION PLANNING														
18-0013	79	G	11	-	11	20	1135	20	9-84	-	-	-	-	6224
18-0026	81	G	351	900	480	1000	1135	1349	3-85	2000	-	-	-	1240
Total Grant			362	900	491	1020	1135	1369		2000	-	-	-	
Appropriation			362	900	491	1020	1135	1369		2000	-	-	-	

\* 12,055; \*\* 12,298; \*\*\*29,800



TABLE IV PROJECT BUDGET DATA

M-V-IER	PROJECT TITLE	GL	OBLIGATION DATE		LIFE OF PROJECT COST	CUM PIPELINE AS OF 9/30/81	FY 1982		FY 1983		ESTIMATED U.S. DOLLAR COST (\$000)				ITEM #		
			INITIAL	FINAL			G&L	EXP	O&L	EXP	O&L	1984 AAPL	FUNDED TO NO/YR	FY OBLIGATIONS			
														1985		1986	1987
<b>SCIENTIFIC DEVELOPMENT ACTIVITIES</b>																	
518-0003	Local PVO Institutional Dev. OPC-U-R	G	80	82	450,420	157	170	297	-	-	-	-	-	-	6213		
518-0004	Special Development Activities (PC)	G	79	-	-	24	100	124	100	100	100	100	100	100	400		
518-0006	Iatqui Cooperative & Community Development OPC-U-R	G	79	81	490,490	77	-	77	-	-	-	-	-	-	6218		
518-0011	Program Development & Support	G	79	-	-	84	250	150	160	200	100	200	200	800	6221		
518-0021	Integrated Community Development OPC-I-R	G	82	84	400	-	100	20	200	200	100	-	-	-	-		
518-0022	Integrated Shelter & Urban Dev.	G	82	83	330,130	-	200	100	130	230	-	-	-	-	6235		
518-0029	Alternative Energy Sources	G	81	83	800,800	100	400	100	300	200	-	-	-	-	6241		
		L	81	82	1900,1900	1000	900	200	-	800	-	-	-	-	6242		
518-0034	Private Interprise Development	G	83	83	1000	-	-	-	1000	400	-	-	-	-	6248		
518-0035	Graduate Management Training	G	84	86	3000	-	-	-	-	-	1000	1000	1000	7	-		
518-0036	Revenue Generation for Dev.	L	83	84	3500	-	-	-	1500	400	2000	2000	6-85	-	-		
518-9957	Proposed OPGs	G	83	-	-	-	-	-	300	200	150	300	400	400	1200		
	Appropriation		Total		3970,1840	1442	2120	1048	3690	2650	3450	1500	1700	700	2400		
			Grant		2070,6440	442	1220	848	2190	1450	1450	1500	1700	700	2400		
			Loan		1900,5400	1000	900	200	1500	1200	2000	-	-	-	-		
	Country		Total		a* b*	19593	12129	5877	13500	15181	16000	9500	3500	2800	6200		
			Grant		c* d*	3993	5029	3646	6000	6034	7000	7500	3500	2800	6200		
			Loan		e* f*	15600	7100	2231	7500	9147	9000	2000	-	-	-		

a\*: 36,682; c\*:18,982; e\*: 17,700  
 b\*: 69,300; d\*: 28,100; f\*: 41,400

518 - ECUADOR  
FY-1984 ABS  
PROJECT NARRATIVE

Project No. and Title: 518-0027 Trade and Productivity  
Development

Functional Account: ARDN

<u>Funding:</u>	<u>FY 84</u>	<u>LOP</u>
Loan	4,000,000	6,000,000
Grant	<u>500,000</u>	<u>1,000,000</u>
Total	4,500,000	7,000,000

I. Project Purpose

This project will develop Ecuador's private sector capacity for developing new trade opportunities and bringing about production and productivity improvements needed to take advantage of those opportunities. Emphasis will be placed on those goods and products which Ecuador will likely be able to export and on basic foodstuffs.

II. Project Description

Given the projected disappearance of its exportable oil surplus before the end of this decade, Ecuador must increase and diversify its exports. The stimulus for a rapidly expanding export sector must come from the private sector. The project will promote the establishment of one or more trading companies that will be able to develop new markets for Ecuadorean producers and assist those producers meet the standards and requirements of these markets. The project also will work with private sector associations of producers in order to help them organize to take advantage of market opportunities and to find, adapt, and disseminate appropriate technologies for increasing productivity.

The project is comprised of: (a) a loan to be used by one or more Ecuadorean trading companies that will be established to implement the project; and (b) a series of grants directly to selected associations of producers.

The loan will provide resources for relending for plant and equipment needs of local enterprises, for working capital

needs for processing and marketing, and for related technical assistance. Agro-industries would be emphasized, but other activities that would promote Ecuadorean exports (e.g., wood products, fish resources, etc.) also would be eligible. In addition, activities that would improve the local production and marketing of basic foodstuffs would also be considered for financing. Past ready access to foreign exchange has encouraged large increases in food imports to satisfy a rapidly growing population. Consequently, development of a modern production and distribution system has lagged. Therefore, although the project's principal focus would be on exports, agro-industries that can improve the availabilities of basic foodstuffs and contribute to a foreign exchange savings also would be considered candidates for assistance.

The grant will provide resources to strengthen local associations of producers. There are over 50 of these organizations grouping private sector entrepreneurs involved in such diverse areas as: cacao processing; shrimp farming; short cycle crops (corn and soybeans); rice production; wood products; edible vegetable oils; poultry and hog production; and export and agro-industries

Grant funded technical assistance and training will assist selected producer associations to increase their capacity to organize and better serve their members. Information centers will be developed under the grant in order to facilitate the dissemination of technical information. Among other things, the technical assistance and training will be used to promote linkages with similar private sector organizations in the United States.

By strengthening the local level producers associations, this component of the project will directly complement the establishment of the trading companies. Better organized and more progressive producers will assist the trading companies in developing the linkages to potential markets. Better organized producer associations will be able to lobby more effectively for improved government production and trade policies. At the same time, access to the financial management and marketing skills of the trading companies are indispensable to the producers associations if they are to take advantage of new market opportunities.

### III. Beneficiaries

The project will benefit the farmers and agro-industries which are furnished with improved markets and production tech-

nologies. By generating increased employment opportunities, the project will directly benefit farm workers and industrial employees.

#### IV. Implementing Agencies

The project will be implemented by the trading company or companies that receive A.I.D. loan resources/services and the producer associations which receive individual A.I.D. grants. The A.I.D. loan will be guaranteed by the Government of Ecuador and complementary financing for agro-industries will be secured from the Central Bank of Ecuador or other sources.

518 - ECUADOR  
FY-1984 ABS  
PROJECT NARRATIVE

Project No. and Title: 518-0019 Entrepreneurship for Small  
Scale Enterprise Development

Functional Account. ARDN

<u>Funding:</u>	<u>FY-84</u>	<u>LOP</u>
Loan	3,000,000	3,000,000
Grant	500,000	1,000,000
Total	<u>3,500,000</u>	<u>4,000,000</u>

I. Project Purpose

The project will develop a private sector institutional capacity to promote small scale enterprises in rural areas, market towns and secondary cities, and possibly low income sectors of Quito and Guayaquil. The enterprises to be assisted will be selected based on their contribution to local and regional needs and on their employment generation and geographic decentralization effects. The project will also be designed to complement a number of other USAID programs.

II. Project Description

Ecuador's economic growth in the 1970's benefited largely the middle and upper income levels in the urban centers of Quito and Guayaquil. During the same time, production and productivity in the agricultural sector stagnated. The resulting outward migration to the urban centers worsened the already severe social problems in the slums of Quito and Guayaquil.

The current GOE administration recognizes that the imbalance in growth must be corrected during the 1980s. An integrated rural development (IRD) program is being funded and put into operation to provide effective new mechanisms to reach the campesino with credit, technical assistance, productive infrastructure (irrigation and roads), and improved access to markets. A major effort is underway to obtain technical assistance and training from U.S. Title XII universities to develop and disseminate the rural technologies needed to improve agricultural productivity. Also, a new program initiative for

promoting low income housing in secondary cities and market towns has begun, supplementing similar projects previously approved for Quito and Guayaquil.

USAID's portfolio of planned and existing projects is directly supporting these efforts. Each one of these other projects, however, can be enhanced significantly through tapping a resource base that has largely remained beyond the reach of GOE and external donor development agencies: viz, the small scale entrepreneur. The project will identify mechanisms for reaching them and will seek to eliminate their constraints in access to credit and other promotional mechanisms. To do this, private sector institutions will be evaluated in their outreach capacity, and public sector mechanisms will also be analyzed in their constraints to achieve the project's objectives. Part of the research has already been undertaken, both by the AID Mission as well as by GOE agencies.

For example, the manufacture of small hand tools and simple machinery can help improved campesino productivity in the integrated rural development programs. Achievement of the production objectives of these programs can be facilitated by developing small scale packing and agro-industries for processing farm output. The establishment of service industries such as machinery repair also will support these production objectives. Similarly, low cost housing programs can be assisted through the establishment of small scale enterprises to provide construction materials and carpentry and masonry services.

The GOE has attempted to create an institutional infrastructure to assist small enterprises. Some of these efforts have received international assistance. All have proven to be ineffective in reaching a large number of potential entrepreneurs. The National Development Bank (BNF) and the National Finance Corporation (CFN) both offer credit lines to small industry. Many potential clients, however, do not meet their banking requirements. The Ministry of Industries has a Center for Promotion of Small Enterprises and Artisans (CENAPIA). Although it has had interesting experiences on limited, pilot bases, the center has been ineffective on a national scale.

Rather than working with or through these institutions, the project will strengthen their potential client base. It will work with selected private sector entities that offer the essential characteristics for assisting small entrepreneurs lacked by the public sector institutions--namely, operational flexibility and responsiveness and a sense of business acumen.

Local Private Voluntary Organizations (PVO's), for example, are presently organizing campesinos for off-farm employment opportunities in rural areas. Others offer small business skills training in urban areas. At least one private bank has its own flexible small loan window for locally owned and managed enterprises in marginal urban areas. Local municipal development groups and organizations are attempting to promote small business opportunities in their respective communities.

The commonality between all these organizations (e.g., chambers of industries and commerce) is their need to be better able to identify and select potential entrepreneurs, and to bring out those traits and skills that are necessary to operate businesses successfully. The project will work with selected private organizations of the type described above to help develop a methodology to promote entrepreneurship for small scale enterprises. Information will be collected and shared between these organizations on what works and what does not work in small business promotion in Ecuador. Successful small scale entrepreneurs will be interviewed and requested to assist in this effort. Additionally, the project will:

- generate policy and other recommendations to promote small enterprise development, through an analysis of existing mechanisms, incentives, and promotional instruments.
- direct technical assistance to small entrepreneurs, including, technological transfer, marketing, planning, programming and evaluation of their efforts;
- disseminate information of research and evaluations of previous experiences (in Ecuador and abroad);
- promote establishment/improvement of financial and credit assistance programs, taking into account the special conditions and needs of small entrepreneurs.
- train beneficiaries so as to assure the transfer of information on technical and administrative areas.

Technical assistance will be contracted with grant funds to: provide information on successful similar programs in other countries; organize and carry out in-country training programs; advise and assist the participating private organizations with their entrepreneurship promotion efforts; and evaluate overall project programs. The loan funds under the project will be used to test and demonstrate alternative

mechanisms for funding the start up costs of new and expanded small scale enterprises. Flexible means that minimize collateral requirements and fixed repayment schedules must be developed. At the same time, the mechanism must show promise of viability or self-financing so that the initial AID seed capital can be replaced and expanded with locally generated resources.

The fundamental hypotheses of the project are: (1) entrepreneurship and venture start up capital are the two key constraints facing small scale enterprise development; and (2) private sector organizations are best equipped to resolve these constraints. If these hypotheses are correct, the project will generate a base of entrepreneurs who eventually will be able to "graduate" their enterprises to a level that will permit access to public sector mechanisms for credit and technical assistance.

### III. Beneficiaries

The direct beneficiaries will be the owners and workers of the small scale enterprises established or expanded under the project. Many of these are expected to be women. Household and cottage type business are frequently operated by female members of the family, especially in rural areas. Further, women are frequently workers in small scale food processing enterprises. Farmers and other suppliers of raw materials used by assisted enterprises will also benefit from the increased demand for their products. Finally, the rural and urban consumers of locally produced goods and services will benefit from the increased availability of these items.

### IV. Implementing Entities

The implementing entities will be private sector organizations committed to promotion of small scale enterprises. It is expected that up to six different entities may be involved. Given the innovative nature of the project, USAID will work directly with each participating organization and serve as the coordinating mechanism.

An experimental project currently being planned with the International Center for Research on Women (ICRW) and the Overseas Education Fund (OEF) will help identify useful private sector mechanisms. The project will identify and develop employment opportunities for women in an AID financed low income housing project in Quito and possibly in other areas.

518 - ECUADOR  
FY-1984 ABS  
PROJECT NARRATIVE

Project No. and Title:    518-0036    Revenue Generation for  
Development

Functional Account:    SD

<u>Funding:</u>	<u>FY-1983</u>	<u>FY-1984</u>	<u>LOP</u>
Loan	\$1,500,000	\$2,000,000	\$3,500,000

I.    Project Purpose

To finance technical assistance, training and other costs that can strengthen the institutional and technical capacity of Ecuadorean agencies crucial for the generation of foreign exchange and fiscal revenues needed to finance Ecuadorean development programs in the 1980s. Major emphasis will focus on improving petroleum sector institutions (the Ministry of Natural Resources and Energy--MNRE, and the National Petroleum Corporation--CEPE), the tax and custom services of the Ministry of Finance and municipal revenue generations.

II.   Project Description

Ecuador is facing a rapidly deteriorating economic situation. Economic growth rates have fallen from an average of 9 percent per year in the 1970s to 4.2 percent in 1981. A recent World Bank study concludes that "the rate of growth that the country could achieve from 1981 to 1985 probably cannot exceed 4 percent per year" and some local economists even see the growth rate in 1982-83 declining to below 3 percent per year. With population growing at 3.4 percent per year, real per capita income increases will virtually cease.

Already, deficits are appearing in the central government's budget which are forcing major reductions in national and municipal development programs. A number of Ecuador's larger private companies are near bankruptcy or are encountering serious financial difficulties. Ecuador's balance of payments deficit in 1981 was \$287 million compared to a surplus of \$280 million in 1980. All of these factors led to a major devaluation of the Ecuadorean currency on May 14, 1982 which highlights the country's growing economic difficulties and declining standard of living for large segments of the population.

The deterioration of the Ecuadorean economy can be attributed to several key factors as follows: (i) the end of the country's "mini-oil boom" of the 1970s, declining petroleum exports and the worldwide oil glut; (ii) stagnating agricultural exports of Ecuador's traditional products (bananas, coffee, cacao, sugar) exacerbated by the worldwide recession; and (iii) a fiscal system at the national and municipal levels that cannot generate sufficient public sector savings to replace revenues lost from declining or stagnating exports and depressed international prices of practically all of the country's export commodities. (For example, non-petroleum tax revenues as a percentage of GDP declined throughout the 1970s as the availability of oil-derived revenues diminished the GOEs incentive to collect tax revenues from other sources.)

Even more serious, Ecuador's economic problems reflect the underlying weakness in the development model that the country has been following for nearly three decades--a model that favored urban-oriented and capital intensive import substitution industries with little or no regard to promoting exports and improving agricultural production. Most international agencies and local observers agree that Ecuador in the 1980s must expand its petroleum and other exports. (For example, a recent World Bank report concludes that in the 1980s "petroleum is still Ecuador's most promising export product and hence it would be advisable to concentrate efforts on increasing petroleum production and exports.") Greater efforts are also needed to increase public and private sector savings mobilization, to improve productivity especially in the agricultural sector, and to reorient Ecuador's development model so as to better promote exports and agricultural production.

The project proposed herein forms a part of a more comprehensive program that the Mission is designing to assist Ecuador attack the above problems. (A new Ecuador CDSS will be prepared for presentation to AID/W in January 1983.) It will help the GOE improve the institutional and technical capacity of petroleum sector institutions (MNRE and CEPE) so that the country can produce and export additional petroleum in the 1980s. It will also help the GOE upgrade its tax and custom administration so that additional public sector revenues can be generated by the central government to finance national development projects. And a major effort will be made to improve municipal revenue generation so as to relieve pressure on the central government budget and finance more local government needs from local sources. Other complementary USAID initiatives are being proposed to also promote exports and increase agricultural production.

The major component of the project (\$2.0 to \$3.0 million) will finance technical assistance, training and other costs needed to overcome technical and institutional weaknesses in the National Petroleum Corporation (CEPE) and those units of the Ministry of Natural Resources and Energy involved in petroleum planning, exploration, production and export. High level petroleum exports will be financed in such areas as petroleum exploration and production, accounting, logistical support, maintenance, management training, etc. and expanded in-country and foreign training programs will be funded. This project will continue the Mission's efforts (initiated with an FY-1981 Alternative Energy Loan/Grant) to fill critical institution-building and technology-transfer gaps in the energy sector that are not being addressed by other donors. (This component of the proposed project was discussed and justified in an extensive action memorandum and report on Ecuador's petroleum situation that was prepared for the AID Administrator, dated February 25, 1982. The AID Administrator approved in early March 1982 the Mission's recommendations that USAID consider funding for a technical assistance/training program in the Ecuadorean petroleum sector.)

The second component of the project (approximately \$1.0 million) will finance long and short-term technical assistance and training expenses to upgrade the Ministry of Finance's tax and customs administration. Both agencies (Rentas and Aduanas) have serious human resource and technical weaknesses that greatly limit GOE revenue collections. This component of the project will be based on studies carried out in 1981 by U.S. teams from the IRS and Customs Service (financed by TDP) to determine long-term technical assistance and training requirements for the Ecuadorean custom and tax services. GOE austerity measures and growing budget deficits, however, prevented the Ministry of Finance from implementing the technical assistance and training recommendations included in these studies.

A final component of the project (\$1.0 million) will focus technical assistance and training resources on municipal revenue generation problems. Most municipal investment projects in Ecuador are financed by national government revenues. If additional local revenues could be generated, this is one major way of reducing budget pressures on the central government while continuing critically important local development programs. Technical assistance and training will be financed to accelerate and update property cadasters, improve municipal level capability to administer user charges, promote revenue generating enterprises, etc.

### III. Beneficiaries

This project will directly benefit all Ecuadoreans since it will help increase the country's economic growth by promoting greater petroleum production and exports and by generating public sector revenues to continue desperately needed development projects at the national and local levels. However, the Ecuadorean poor majority (which totals over 50% of the population) will receive substantial benefits from this project. As GOE budget deficits increase and public sector austerity measures are introduced, major GOE programs aimed at better serving the poor will have to be reduced. This project will help the GOE ensure that sufficient foreign exchange and budget resources are available to meet its ambitious growth and equity objectives.

### IV. Implementing Agencies

The project proposed herein will be implemented by the Ministries of Natural Resources and Energy (MNRE), the National Petroleum Corporation (CEPE) and the Ministry of Finance. The implementing agency for the municipal revenue generation component is yet to be defined.

518 - ECUADOR  
FY-1984 ABS  
PROJECT NARRATIVE

Project No. and Title: 518-0035 Graduate Management Training

Functional Account: SD

<u>Funding:</u>	<u>FY 84</u>	<u>LOP</u>
Grant	1,000,000	3,000,000

I. Project Purpose

To develop a high quality Graduate School of Business Administration that can meet the urgent and growing need for graduate level management training in Ecuador.

II. Project Description

Leaders from both the public and the private sectors in Ecuador have identified a need for top quality graduate level training for Ecuadoreans who are moving into managerial roles. This need will become even more urgent as Ecuador attempts to diversify its exports and stimulate agro-industry in order to overcome a stagnant rural sector. The consensus for such training is heightened by the fact that many top level public sector positions are filled by appointments from the private sector. This project will help build an Ecuadorean Graduate Business School similar to INCAE in Central America and ESAN in Peru both of which were initiated with AID funding.

USAID is currently conducting a prefeasibility study to assess in detail the management training needs in Ecuador. The study will help identify the exact nature of training programs for which the greatest demand exists. It will also identify the institutional approach that is most likely to succeed in the Ecuadorean context.

One option is to establish a full time graduate level school of management in the private sector. Initial indications are that the private sector would be willing to support such an entity provided its quality could be assured. The project would support such an endeavor by financing a relationship between the new school and a recognized U.S. school of business administration. (Through AID-funded contracts, the Harvard Business School assisted the development of INCAE and the

Stanford Business School assisted in the development of ESAN.) The assistance provided during the start-up phase would include: U.S. and third country professors to teach courses; training of Ecuadorean professors; technical assistance in the development and administration of the school; teaching aids and equipment, books, and materials. Local counterpart from the private sector and possibly from the GOE would cover the investment of campus facilities.

Other options being studied include the development of a management curriculum in one of Ecuador's public or state supported universities. The types of A.I.D. expenditures would be similar in any of these alternatives.

The training provided in any of the options would emphasize Ecuador's agricultural needs. If the agricultural sector is to undergo the rapid technological transformation necessary to meet escalatory production demands, the sector will need trained corps of managers who can identify specific problems and implement solutions for both large and small scale activities. In this respect, the opportunity to combine management and administrative training with specific agricultural expertise should also assist in providing the skilled human resources necessary to implement government rural development programs.

Banking, finance and international trade would also be an important emphasis of the curriculum. There are a number of development finance institutions already established in Ecuador's private sector. These entities have emulated the model successfully established when A.I.D. made seed capital available to a newly formed private financiera in the 1960's. These banks as well as commercial banks have access to a development oriented rediscount facility at the Central Bank initiated with A.I.D. seed capital in the 1970's. This financial infrastructure is not being tapped by the private sector to its full development potential due in part to the dearth of properly trained executives. Moreover, except for traditional agricultural crops, there is little experience in international trade and finance. If Ecuador is to diversify its exports, improved knowledge and understanding of this area must be disseminated.

### III. Beneficiaries

The project will directly benefit the students who receive training by increasing their earnings potential. Many of these students will not have had access to alternative training overseas because of the high expense involved. In turn, the students will directly benefit the enterprise in which they work. This project will also strengthen the Ecuadorean private sector and a healthier, more vigorous private sector will generate increased employment opportunities for the entire population.

### IV. Implementing Agencies

The implementing agencies can be determined only after the A.I.D. financed prefeasibility study is complete. Most likely, the project will be implemented by one or more private sector training organizations, including the possibility of incorporating a new graduate management school.

518 - ECUADOP  
FY-1984 AEF  
PROJECT NARRATIVE

Project No. and Title: 518-HG-007 Private Sector Low Cost  
Housing

Functional Account: HG

<u>Funding:</u>	<u>FY 83</u>	<u>FY 84</u>	<u>LOP</u>
Housing Guaranty Loan	25,000,000		25,000,000

I. Project Purpose

The major portion of this project will strengthen private sector housing institutions by assisting the savings and loan system and its individual associations to fulfill their responsibilities as established in the GOE National Development Plan to finance low cost housing projects throughout the country. The project may also initiate a small pilot project with the Cooperative Bank of Ecuador to finance low cost housing and home improvement loans through credit unions and housing cooperatives.

II. Project Description

The Ecuadorean Savings and Loan System was initiated in the early 1960s with AID seed capital and technical assistance. During the past twenty years, eleven Savings and Loan Associations have developed that mobilize over 30 percent of all Ecuadorean savings. AID financing has successfully contributed to the development of a strong and stable (although conservative) S&L System in the private sector that mainly serves a middle and upper-middle class clientele. However, if additional funding and technical assistance resources were available, significant opportunities exist in the 1980s for encouraging the Ecuadorean Savings and Loan Associations to better serve lower income groups.

Likewise, during the decade of the 1960s and 1970s substantial AID funding was dedicated to developing credit unions, cooperatives, and the Ecuadorean Cooperative Bank. There are over 400 credit unions in Ecuador many of which are financing

home improvement loans and the construction of new homes. Some of these credit unions have in turn created housing cooperatives and pre-cooperatives for their members. (By some estimates there are over 200 housing cooperatives and pre-cooperatives in Ecuador.) Like the Savings and Loan System, many of these credit unions and housing cooperatives are now serving a middle-class clientele although there are significant numbers of lower income Ecuadoreans who are members of these credit unions and cooperatives. With expanded funding and technical assistance, USAID believes that there may be significant opportunities in the 1980s for better utilizing credit unions and housing cooperatives to expand the volume of low cost housing being made available for those below the median income. Already the Ecuadorean Cooperative Bank has organized a new mortgage department for its member credit unions and cooperatives that could serve as an implementing unit for a small pilot program.

The project proposed herein will continue the USAID housing strategy initiated in FY 1980 with 518-HG-005 (Solanda) and in FY 1982 with 518-HG-006 (Secondary Cities). Both of these HGs are being implemented by the National Housing Board (JNV) and the National Housing Bank (BEV) and they are designed to support new JNV/BEV policies and programs for better providing low cost housing. These projects, along with similar World Bank loans, are supporting a major shift in JNV/BEV policies toward expanding housing for low income groups. This FY 1983 HG project will initiate a similar strategy in the private sector--with Ecuadorean S&Ls, credit unions and housing cooperatives. It will encourage these private sector agencies to expand their financing to better meet housing needs of lower income Ecuadoreans.

The proposed project will channel HG loan resources through the BEV (GOEs regulatory agency for the S&L system) to individual savings and loan associations (mutualistas) to finance low cost housing solutions not now being financed by the mutualistas. (A very small pilot project of up to \$5.0 million in HG loan resources may also be channeled through the Ecuadorean Cooperative Bank for similar purposes with credit unions and housing cooperatives.) Projects can be developed by the mutualistas themselves or presented to the mutualistas by local developers. The project would respond to several problems of the housing sector:

- 1) The division of labor by housing institutions in which only the JNV/BEV provides solutions for low income families, leaving an enormous unfilled demand by that target group. By establishing project criteria of a lower cost than the mutualistas,

credit unions, and housing cooperatives have previously financed, this project will encourage the provision of housing solutions with long term credit that are responsive to the needs of the lower income groups.

2) The untapped capacity of private local developers and builders. The project proposed to mobilize the resources of the local private sector by making available long-term financing for eligible projects.

3) The weak relationship between the BEV and the mutualista system in which neither the mutualistas benefit from strong policy and organizational guidance nor the BEV benefits from a national coordinated strategy of housing finance institutions. The project proposed a mechanism whereby the BEV borrows the HG loan itself and uses it to finance eligible mutualista projects. (The Cooperative Bank may also be a borrower, with a GOE guarantee, for a small pilot program.) The relationship thus established will facilitate improvements in the BEV-mutualista relationship.

4) The financial constraints under which mutualistas now operate, particularly the problem of reconciling past and current lending policies, that is, the problem of their existing portfolio of low interest loans producing an income that is incompatible with the current higher interest rates they pay on passbook savings. This project proposed to provide technical assistance to help the BEV and the mutualistas prepare a long term policy, financial, and legal strategy that will insure the stability of the mutualistas and their continued contribution to the housing sector in the context of the current realities of inflation.

It is expected that the project will result in a stronger and more stable private sector housing system, capable of mobilizing private resources that will complement those of the public sector BEV/JNV.

### III. Beneficiaries

The project will directly benefit low income families by providing them with long term credit for low cost housing solutions. Over the long term, with a modified policy focus, the strengthened private sector housing institutions will be able to continue to provide financing for low cost housing solutions.

IV. Implementation Agencies

The BEV will be the HG Borrower, securing the GOE guaranty. The 11 individual mutualistas would develop eligible projects themselves and with private local developers and builders for presentation to the BEV for financing. The Ecuadorean Cooperative Bank and credit unions and housing cooperatives may be implementors for a small pilot activity financed by this project.

Note that this project responds to LAC cable guidance (STATE 084215, 3/30/82) for strengthening LAC Savings and Loan Associations. Negotiations with JNV/BEV for the Secondary Cities HG-006 project have resulted in an understanding that a subsequent HG loan should be in support of the mutualista system.

518 - ECUADOR  
FY-1984 ABS  
PROJECT NARRATIVE (SHELF PROJECT)

Project Title: Agricultural Vocational Education

Functional Account: ARDN

<u>Funding:</u>	<u>FY 84</u>	<u>LOP</u>
Loan	1,000,000	3,000,000
Grant	<u>1,000,000</u>	<u>3,000,000</u>
Total	2,000,000	6,000,000

I. Project Purpose

The project will improve public and private sector institutional capacity to prepare high school level graduates for technical careers in agriculture. Ecuador's stagnant agricultural sector can only be transformed through active and expanding private sector participation. One of the constraints facing agricultural sector entrepreneurs and medium-sized farmers is the lack of a skilled work force. There is a growing need for middle level technicians trained in basic farm principles. This project will help fill that need by strengthening public and private sector agricultural vocational education institutions.

II. Project Description

Ecuador has over 70 secondary level agricultural vocational education schools in the public sector. The administration of these schools falls within the domain of the Ministry of Education. With only a few exceptions, these schools have gradually diluted the agricultural component of their curricula over the years. A recent survey indicates that the total faculty of these schools includes less than ten agronomists.

Today, these schools are generally viewed as a means of entering one of Ecuador's state universities. A degree from one of these schools automatically assures entrance at the university level. Thus, the schools have become a mechanism for upward and outward mobility from the rural sector. In large part they fail to serve the intended function of supplying skilled technicians needed for agricultural development.

Change in the focus of these schools and their curricula cannot be made quickly. Yet, the need for trained agricultural workers is urgent and growing. The project proposes two parallel courses of action to help meet this need.

The first course of action will be to make models of approximately three to five of the existing agricultural vocational education schools. The individual schools will be selected based on such factors as: interest and abilities of existing faculty; local demand for graduates; community support; regional diversification; and relation to national rural development programs. For the selected model schools, the project will finance technical assistance and training to upgrade staff and administration, technical teaching aids and materials, curriculum improvement, agricultural equipment, and possibly some construction. Active placement services will be developed in each school in order to demonstrate to the local community that opportunities exist for gainful employment in the rural sector. The experience of these model schools will be shared with the other schools in the system.

The second course of action will be the promotion and development of agricultural vocational education and training centers in the private sector. Already, some of Ecuador's non profit foundations are involved or potentially interested in rural technical education. Also, private producer associations have expressed interest in supporting specialized training facilities. For example, the local dairy producers need high school graduates that know animal husbandry fundamentals and are familiar with the basics of dairy operations. Similar needs have been expressed by other associations regarding farm supervisors qualified in such basic farming practices as fertilizer and insecticide applications, soils conservation, equipment operation and maintenance, harvesting and storage, etc.

These foundations and associations can be mobilized to develop their own privately operated training facilities. A.I.D. grant funds could provide the technical assistance and training needed for curriculum development and finance procurement of teaching aids, equipment, and farm machinery.

### III. Beneficiaries

The direct beneficiaries will be the students of the training institutions assisted under this project. For most part, these students will be from the middle and lower income segments of the rural population. The agro-industries and farm

operators who employ the trained students also will be benefited by having a more skilled workforce.

#### IV. Implementing Agencies

GOE responsibility for agricultural vocational education is split between the Ministry of Education and the Ministry of Agriculture. Private foundations and training centers fall outside the jurisdiction of both Ministries. Accordingly, USAID tentatively contemplates that the appropriate implementing agency may be CONACYT, Ecuador's Science and Technology Council. CONACYT is currently implementing a major A.I.D. Title XII project to promote the transfer of rural technologies. It can work with both public and private sector entities. Further, CONACYT is concerned with improving the overall coordination between rural sector institutions involved in research, education and extension. The proposed new project could be implemented as a future tranche to the Title XII project with CONACYT.

518 - ECUADOR  
FY-1984 ABS  
PROJECT NARRATIVE (SHELF PROJECT)

Project Title: Agricultural Crop Insurance

Functional Account: ARDN

<u>Funding:</u>	<u>FY-84</u>	<u>LOP</u>
Loan	3,000,000	3,000,000

I. Project Purpose

To assist in the institutional development and expansion of activities of the National Agricultural Insurance Company (CONASA) created under LAC Regional Project No. 598-0579 by providing support for crop insurance to small farmers in regions not reached under the original Project and encouraging linkages between CONASA-provided services and the agricultural development activities of USAID's Integrated Rural Development and Title XII Projects.

II. Description

This Project proposes to expand and continue support for activities which were initiated in FY 80 under LAC Regional Project No. 598-0579 and led to the creation of CONASA and the sponsoring of pilot crop credit insurance programs in selected areas of Ecuador. As indicated in the above cited Project paper (part III, B, 1, p. 29), the original Project was initiated with an eye to a follow-on activity in order to expand the program to national scope. With the proposed funding CONASA will be able to diversify its activities both geographically and in the services it offers. This in turn is expected to increase the amount of agricultural credit available to small farmers from private domestic sources, thus improving the likelihood of adoption of technologies being introduced under various USAID and other programs. Specifically, USAID expects that small farmers in the Mission's Central Sierra project areas will greatly benefit and that the rate of adoption of new technologies in Quimiag-Penipe, Salcedo and other IRD areas will be increased.

The crop insurance program is an all-risk program. It protects both farmers and lenders against losses arising from

any cause except losses induced by the farmer himself. This provides the broadest margin of security for the interested parties and stimulates the greatest changes in behavior. Loss payments are made to the banks. If payments exceed the outstanding loan, the balance will be paid directly to the farmer. Although in most cases the farmer will not be receiving direct cash payments, he will have his bad debt liquidated thus restoring his ability to borrow in subsequent years.

Whereas the initial Project made insurance available for only a few selected crops in specific regions of the country, this follow-on Project will allow for additional fruit and vegetable crops, generally favored by the small farmers of the Sierra, to be insured. The amount of insurance can be split in two parts. The first part is mandatory for all borrowers and will be equal to the production cost or loan on the crop. The second part can be voluntary and will represent the net of farmer's income.

The proposed AID loan will finance a continuation of IICA technical assistance to CONASA, training and other costs to expand CONASA staff, office equipment and vehicles, CONASA publications, and other costs that may be necessary to expand CONASA's institutional and technical capacity. The GOE counterpart will cover additional contributions to CONASA's insurance fund that can probably not be financed by AID. This Project will be designed based on findings of a detailed evaluation of the pilot Crop Credit Insurance Project now being implemented in Ecuador.

### III. Beneficiaries

The Project will generally benefit Ecuador's entire agricultural sector, and will specifically benefit the small agricultural producer. CONASA will also be a direct beneficiary of the project.

### IV. Implementing Agencies

IICA, which played a major role in organizing and implementing the original Project, will continue to have a major part in administration and provision of technical assistance to CONASA.. CONASA will be the actual implementing agency. The Project will be carried out with the cooperation of MAG and the various national lending institutions and the loan will have the Government of Ecuador's guarantee.

RANK		TABLE V . FY 1984 PROPOSED PROGRAM RANKING				Country/Office 518-Ecuador	
		PROGRAM ACTIVITY DESCRIPTION	ONGOING/ NEW	LOAN/ GRANT	APPROP. ACCT.	PROGRAM FUNDING (\$000)	CUM
		NEW AND CONTINUING PROJECTS					
1	518-0032	Rural Technology Transfer System	O	G	ARDN	1,300	1,300
2	518-0012	Integrated Rural Development	O	G	ARDN	400	1,700
3	518-0015	Rural Health, Nutrition and Potable Water	O	G	HE	200	1,900
4	518-0026	Population & Family Planning	O	G	PN	1,349	3,249
5	518-0023	Forestry & Natural Resources Conservation	O	G	ARDN	650	3,899
6	518-0027	Trade & Productivity Development	N	G	ARDN	500	4,399
7	518-0019	Entrepreneurship for Small Enterprise Development	N	L	ARDN	4,000	8,399
8	518-0036	Revenue Generation for Development	N	L	SD	3,000	11,899
9	518-0035	Graduate Management Training	N	L	SD	2,000	13,899
10	PL-480	Title II CARE and CRS	O	G	SD	1,000	14,899
11	518-HG-007	Private Sector Low Cost Housing	N			(1,264)	14,899
12	518-0021	Integrated Community Development OPG	N			(25,000)	14,899
13	518-0005	PD and S - ARDN	O	G	SD	100	14,999
14	518-0011	PD and S - SD	O	G	ARDN	150	15,149
15	518-0009	PD and S - HE	O	G	SD	100	15,249
16	518-0013	PD and S - PN	O	G	HE	50	15,299
17	518-0016	PD and S - EH	O	G	PN	20	15,319
18	518-0004	Special Development Activities	O	G	EH	100	15,419
19	518-9997	Proposed OPGs - ARDN	N	G	SD	100	15,519
20	518-9997	Proposed OPGs - SD	N	G	ARDN	231	15,750
21	518-9997	Proposed OPGs - EH	N	G	SD	150	15,900
						100	16,000

Proposed Program Ranking Narrative

A new AID Ecuador Program was initiated in FY 1980 to support key elements of the GOEs National Development Plan for 1980-84. This new AID Program is designed to assist Ecuadorean efforts to develop or strengthen its institutional capacity and to facilitate technology transfers that can better address the country's key development problems. In FY 1984, USG support for Ecuador's constitutional government and its development initiatives will be more important than ever before because of the country's rapidly deteriorating economic situation, declining exports, growing budget and balance of payments deficits, a major devaluation of the Ecuadorean currency in mid-May 1982, growing social unrest and the national elections scheduled for early 1984.

The AID Program approved in January 1980 is being directed to only a few sectors of highest priority and field level activities (to the extent practicable) are being concentrated in relatively small geographic areas to maximize the impact of limited AID funding and staff resources. This Program is providing assistance for: Integrated Rural Development (IRD), Rural Technology Transfer (Title XII), Rural Training, Low Cost Housing (HG), Rural Health and Potable Water, Family Planning, Public Sector Management Training, Alternative Energy Development, Forestry and National Resources Conservation, and PVO Development including Title II.

The major "building-blocks" or projects that make up the AID Ecuador Program approved in January 1980, have been--or they are being--developed/authorized in FY-1980, FY-1981 and FY-1982. FY-1982 marks the completion of project development for the core program outlined in the Mission's current CDSS although implementation for most of these projects will extend into FY-1986. It is expected that FY-1983 and FY-1984 will be "transition years" to a new AID Ecuador Program. A new CDSS is being formulated for presentation in January 1983. While the basic thrust of the FY-1980/FY-1982 program will be maintained, (e.g., strengthening Ecuadorean institutions, facilitating technology transfers, supporting progressive groups within Ecuadorean society), a new series of projects will be proposed, particularly in the private sector, to address Ecuador's rapidly deteriorating economic conditions.

The Mission's new program thrust is further described in the projects proposed in this ABS. They will assist Ecuador better promote exports and public sector revenues, improve agricultural production and productivity, upgrade managerial and entrepreneurial skills, and strengthen private sector institutions so that they can better contribute to Ecuadorean development. The projects described in this ABS address problem areas that will be further discussed in the Mission's updated CDSS due in January 1983. The updated CDSS will be based on several studies such as USAID's Private Sector Assessment, a major feasibility study for establishing an Ecuadorean Graduate School of Business Administration, and a macroeconomic analysis planned with LAC/DP assistance.

During the transition period of FY-1983-84, USAID emphasis will focus on two major actions as follows:

-- First, providing incremental funding for the basic core program approved in FY-1980, FY-1981, and FY-1982 (IRD, Title XII, Family Planning, Rural Health, Training for Development, Alternative Energy, Forestry and Natural Resources, PVOs) and intensifying USAID support to the GOE for project implementation. The Mission expects that by the end of FY-1983 all major projects in the 1980-82 core program will be almost fully funded except for the grant portion of the Forestry and Natural Resources, Title XII, IRD and Family Planning. The Mission will enter FY-1984 with a relatively small grant mortgage from previous years which will allow for the initiation of a significant new program thrust in FY-1984 and beyond.

-- The second major action during the transition period will involve the formulation of a new program strategy with major emphasis on private sector development projects. With Ecuador's rapidly declining growth rate and increasing balance of payments and budget deficits, there is concern that greater emphasis must be placed on stimulating the country's economic growth and expanding exports. Since private sector development must be a key element in such a strategy, and GOE social development and equity programs will have to be cut-back if the economy continues to deteriorate, USAID believes that there is a need for a modified A.I.D. Ecuador development program for 1983 and beyond.

As part of developing a new program, work will be initiated on feasibility and other studies that will lay the analytic foundation for preparing PIDs and PPs for projects such as a Graduate School of Business Administration, the organization and financing of private sector trading companies, the

strengthening of agricultural producer associations and the development of entrepreneurial skills for small enterprise promotion. A new USAID Private Enterprise Division is being organized and staffed to direct this new program strategy and the corresponding project development, thus allowing other Mission officers to concentrate more staff time on assisting the GOE implement the 1980-82 core program.

Planning and initial PP analyses for beginning a new program thrust should be in place by the end of FY-1984. In addition, by the end of FY-1984, a clearer understanding will exist on the development priorities of the new GOE administration that will be elected in April 1984. Nevertheless, the projects outlined in this ABS address fundamental problem areas (e.g., revenue generation, export promotion, agricultural productivity, training, low cost housing) that will have to be faced by any Ecuadorean government that assumes office in 1984.

The FY-1984 Program and its ranking of project priorities, is based on the following premises:

-- Given the serious social problems that exist in Ecuador, the rural and urban poverty sectors will continue to receive high priority GOE attention thus permitting adequate implementation of the 1980-82 GOE/USAID program;

-- Given the deteriorating Ecuadorean economy and growing budget and balance of payments deficits (as further described in the Revenue Generation Project Description) some shift in the USAID strategy in Ecuador is necessary to give greater attention to revenue generation, export promotion and private sector development projects that can stimulate the country's economic growth. In other words, Ecuador cannot achieve its equity objectives without a more vigorous and growing economy;

-- And, finally, no special political or other circumstances will arise that disrupt USAID planning or require major new AID initiatives in FY-1983 or FY-1984 not anticipated in the ABS. In other words, events will allow for the completion of funding of the 1980-82 core program--as described above--and for the approval of a new CDSS planning framework for the period beginning in FY-1984.

The above premises and the Proposed Program Ranking contained in Table V are fully consistent with the overall objectives that will be contained in the Mission's updated CDSS. For example, the new CDSS will discuss the need to address,

through the AID Program, the following major Ecuadorean development problems:

1. Declining export and public sector revenues.
2. Agricultural stagnation and lack of rural development.
3. The need to expand petroleum production and exports, and develop alternative energy sources.
4. A high population growth rate of around 3.4 percent.
5. Low productivity and widespread underemployment, especially in rural areas.
6. Managerial and technological weaknesses which limit the public and private sector's ability to be more responsive to the development needs of Ecuador.
7. Lack of programs that promote the emergence of entrepreneurs in the informal sector and develop small enterprises that generate expanded employment opportunities.
8. The need to implement a new development model that promotes exports and agro-industries, gives higher priority to increasing agricultural production and productivity, and stimulates the growth of the private sector.
9. A weak public administration that is presently ill equipped to address adequately the problems posed by Ecuador's development needs.
10. The need to expand the provision of low cost housing especially through private sector agencies such as Savings and Loan Associations, Credit Unions and Housing Cooperatives.

The ranking of projects in Table V clearly reflects that the FY-1984 program is centered around addressing the above listed problems, as follows:

1. The Revenue Generation and Trade and Production Projects respond to the need to better promote Ecuadorean exports, develop alternative public sector revenue sources and increase agricultural production and productivity.
2. The Graduate School of Business Administration will provide a new mechanism for upgrading Ecuador's managerial

resources in both the private and public sectors and increase the overall number of trained Ecuadorean managers.

3. The Entrepreneurship for Small Scale Enterprise Development Project will promote the emergence of new small businessmen who can enter the mainstream of the Ecuadorean private sector and generate expanded employment opportunities at lower levels of investment per job created.
4. The Revenue Generation project will assist Ecuador upgrade its petroleum sector institutions and thereby increase petroleum production and exports and complement an ongoing Alternative Energy Project.
5. Projects with the National Science and Technology Council (CONACYT) will facilitate the development and dissemination of new small farmer technologies that can increase agricultural production and better deal with the problems of rural stagnation while better mobilizing Ecuador's scientific resources.
6. An ongoing Population and Family Planning Project is addressing the problem of Ecuador's very high population growth rate by: (a) assisting public and private institutions in implementing new population policies; (b) improving family planning delivery systems; and (c) stimulating and expanding the demand for family planning services.
7. An ongoing Training for Development Project is assisting the GOE improve the efficiency of public administration and facilitate planning and implementation of development activities.
8. A Housing Investment Guarantee Program is expanding the provision of low cost housing through both public sector agencies and will expand this same concept to private entities such as Savings and Loan Associations, Credit Unions and Housing Cooperatives.
9. Ongoing and proposed OPGs will continue to reinforce the Mission's effort to incorporate U.S. and local private voluntary organizations in projects that look for new and replicable approaches for attacking the country's key development problems.
10. And grant resources will be provided to progressive private sector groups that can encourage the emergence of

more effective GOE development policies and planning frameworks.

In addition to the above considerations which tie the ranking to objectives that will be further discussed in an updated CDSS, the need to assign the highest priority to meeting ongoing commitments has been taken into account. No new projects are ranked higher than any major ongoing activities which demonstrates the Mission's commitment to fund ongoing activities before initiating new projects.

Mortgage Issue: During the past year some AID/W officers have expressed concern about a perceived USAID Ecuador mortgaging problem. After further analysis, however, informed observers now agree that there is not a serious mortgaging problem in the USAID Ecuador Program. This is particularly the case when the relatively small Ecuador mortgage is compared to the larger mortgages of other USAID programs.

As can be seen from the analyses contained in this ABS, USAID Ecuador is giving highest priority in FY-1983 and FY-1984 to funding the Mission's ongoing core program approved in FY-1980, FY-1981, and FY-1982. Indeed, USAID should enter FY-1984 with only a very small mortgage from the 1980-82 core program. If additional funds above current planning levels become available in FY-1982 and FY-1983, we could possibly enter FY-1984 with only two major projects (Forestry/Natural Resources Conservation and Family Planning) requiring some additional grant funds in FY-1984 and beyond. Even if all the incremental funding requirements from FY-1980 through FY-1984 are added together, the USAID Ecuador Program is well below the level of concern outlined in the ABS guidance. ("Missions with mortgages more than twice as large as their FY 1982 program levels should be especially alert to the potential problems which incrementally funded new projects can create".)

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE VIII

	FY 1982				FY 1983			
	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS
U.S. DIRECT HIRE	745.3		650.5	11	933.2		775.9	14
F.N. DIRECT HIRE	256.1		-	19 1/2	332.2		-	19
CONTRACT PERSONNEL	115.0		-	XXXXX	302.0		-	XXXXX
HOUSING EXPENSES	252.5		-	11.	290.0			14
OFFICE OPERATIONS	769.6		50.0	XXXXX	1116.7		50.0	XXXXX
TOTAL	2138.5		700.5	XXXXX	2974.1		825.9	XXXXX
RECONCILIATION				XXXXX				XXXXX
MISSION ALLOWANCE	1436.0			XXXXX	2148.2			XXXXX

Note: Cost of one Regional Energy Advis.  
is not included in this Budget.

Funded in local currency cost  
U.S. Dol. 794.7 at the rate of  
S/.40.00=\$1.00.

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE VIII

	FY 1984 MINIMUM				FY 1984 CURRENT			
	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS
U.S. DIRECT HIRE	1003.4		850.7	14	SAME AS MINIMUM			
F.N. DIRECT HIRE	378.7		-	19				
CONTRACT PERSONNEL	350.0		-	XXXXX				XXXXX
HOUSING EXPENSES	279.6		..	14				
OFFICE OPERATIONS	1204.2		55.0	XXXXX				XXXXX
TOTAL	3215.9		905.7	XXXXX				XXXXX
RECONCILIATION				XXXXX				XXXXX
MISSION ALLOWANCE	2310.2			XXXXX				XXXXX

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE VIII

FY 1984 PROPOSED				
	TOTAL	TRUST FUNDS	AID/W FUNDED	UNITS
U.S. DIRECT HIRE	1100.8		932.1	15
F.N. DIRECT HIRE	378.7		-	19
CONTRACT PERSONNEL	380.0		-	XXXXX
HOUSING EXPENSES	349.6			15
OFFICE OPERATIONS	1224.4		55.0	XXXXX
TOTAL	3433.5		987.1	XXXXX
RECONCILIATION		XXXXX	XXXXX	XXXXX
MISSION ALLOWANCE	2,446.4	XXXXX	XXXXX	XXXXX

Explanation of 1983 Operating Expense Increase Over 1982

The bulk of the 1983 increase in operating expense is caused by completing the staff build-up initiated when USAID/Ecuador was re-established in 1980 after a long phase out period. A new direct-hire position urgently needed for a Deputy in the Rural Development Division, two IDIs, and a Regional Energy Advisor and three new Personal Service contracts are proposed in the 1983 budget. Additionally, the assignment of an Agricultural Sector Specialist under the new joint career corps with Title XII universities is planned. These new positions generate concomitant increase in logistic support requirements such as household furniture, office space and equipment, communications, local travel, etc.

As previously approved projects enter the implementation phase, program funded Personal Service Contractors, PASA Advisors, and Institutional Contractors will further add to USAID's support requirements. USAID concurs with the appropriateness of recent AID/W directives urging greater flexibility on direct contracting and provision of USAID logistical support to Contractors (e.g., STATE 125175). This will create added demands, however, which must be reflected in the 1983 budget.

A discussion of specific budget items cost increase follows. Also, a description of the global staffing level for which support service must be furnished is attached as Appendix A. All costs identified below are increments over 1982 levels.

Personal Services Contracts - \$187,000

This increase covers three additional PSCs for the following staff: Private Enterprise Advisor; an Ecuadorean Assistant Finance Officer; and an Ecuadorean General Services Specialist. The Private Enterprise Advisor is essential to permit USAID to develop a new private sector program thrust. USAID's Finance Office consists only of one USDH and one newly arrived IDI. This office is key to project development and implementation. An Ecuadorean Assistant Finance Officer is needed to help with the growing workload. Similarly, a new contract General Services position is needed to assist with the increasing staff support requirements anticipated.

U.S. Direct Hire Staff - \$180,000

This amount represents salary and allowances for a Deputy Rural Development Officer and two IDIs (See Quito 3735 and Quito 3676 for details). Assignment costs are increased to cover estimated requirements of five transfers compared to the three transfers budgeted in FY 1982. (The amount shown above will have to be increased if USAID has to budget the salary costs of the Regional Energy Advisor.)

Household Furniture and Equipment - \$100,000

The purchase of four additional sets of furniture, appliances and equipment is essential in order to have furniture for the additional personnel. Costs increment includes estimated freight and inflation.

Rental of Office Space - \$50,000

USAID was recently authorized to increase its office space to meet existing and projected needs (see State 092842). USAID was able to take advantage of opportunity to secure space in same building it presently occupies. Costs increment includes rent, cleaning services, and utilities.

Motor Vehicles - \$46,000

With many USAID projects reaching implementation stage increased local field travel is essential for direct-hire and contract personnel. For example, the PASA Sanitary Engineer and the PSC Irrigation Specialist contracted in 1982 will spend most of their time in field inspection for which each will require a vehicle. Two new field (Blazer type) vehicles are budgeted to meet these needs. Also, replacement of a utility truck is reflected in the 1983 budget.

Travel - \$30,000

Local travel must be increased substantially in order to meet project implementation requirements. Increment reflects more local travel by existing staff, as well as local travel costs of new personnel. While the number of international trips (including AID/W TDY personnel) is not significantly increased, adjustment must be made for anticipated increases in airfares. Also, the new per diem rules recently announced by AID/W will tend to increase travel costs.

Word Processing Equipment - \$80,000

USAID/Ecuador received and installed initial Word Processing equipment in March 1982. In order to complete the system and provide adequate protection against shut down, an additional \$80,000 in equipment is needed. USAID's present CPU is fully committed to peripherals so that no further expansion is possible without an additional CPU. Furthermore, the "redundancy" anticipated through linkage with U.S. Embassy equipment is not possible because the Embassy is too far away. Still further, the Embassy's equipment does not have the capacity required in the event of failure of USAID equipment. The WANG representative has their service center located in Guayaquil. Therefore, when service is required, a technician must come from Guayaquil. Waits of as much as five days have been necessary for service. Thus, USAID is extremely vulnerable to an equipment failure.

The equipment requested is like the USAID's existing equipment. It would provide the additional capacity for the required expansion and would provide a means of continuing operation in the event one CPU failed. USAID is not requesting "redundancy" as such where the CPU would only be on stand-by for use in event of failure. Rather, USAID wants to use this equipment for production. Since a major equipment failure would likely affect only one system, the other could carry essential work until the local representative could repair the cause of failure.

The additional peripherals are essential to USAID's normal production. Excellent use has been made of present equipment and it has proved an enormous benefit in improved efficiency of our support staff. USAID has trained twenty operators who are proficient in the most advanced functions of the equipment. The additional equipment requested will be utilized a minimum of 90% every day.

In addition, USAID wishes to utilize not only the Word Processing features of the equipment, but also the data processing features for monitoring projects, statistics, setting targets, project evaluation, Economic and Financial Analysis (Cash Flow, Net Worth, Rates of Return/Benefits Costs, simple projections and regressions, Benefit/Cost Analysis, linear programming), as well as small program planning and budgeting (Annual Budget Submission, Congressional Presentation) and inventory. Some USAID officers have experience in programming in these areas and FSN employees are also being trained for this purpose.

This will require CRTS dedicated to this work, as well as the additional capacity in the CPU. It is not appropriate nor advisable to move to the larger model OIS or the VS series, since the requested equipment can be used as described above.

Salaries of FSN Direct-Hire - \$40,000

The best estimates available predict an inflation effect of 17% increase in cost of living in Ecuador during FY 1983. Salaries historically are less than COL increases, but it is absolutely necessary to plan for local salary increases which are sure to come. A wage comparison survey is planned by State for late FY 1982 and will likely lead to across the Board adjustments. Moreover, the increasing seniority of FSN staff must be reflected. Inasmuch as these costs are exclusively local currency (unlike the above categories), some savings will occur as a result of the recent devaluation of the Sucre vis-a-vis the dollar. However, the GOE is taking measures to stabilize the Sucre and, therefore, these savings are not likely to be significant by 1983.

Non-Personal Services Contract - \$40,000

Costs of Non-Personal Services Contract personnel will increase due to the same reasons as discussed above for FSN direct-hire staff. Also, the number of personnel covered under this contract will increase slightly in order to cover the growing support requirements generated by addition direct-hire and contract staff.

Supplies, Utilities and Miscellaneous Costs - \$29,000

This increment reflects the need to support increased staff levels and anticipated major local price increases in gasoline and electricity rates. Also, the increasing age of USAID's vehicle fleet will require additional vehicle maintenance expenditures.

Security Guards for office Building - \$12,000

In order to implement the recommendations of AG/SEC for building security, it will be necessary to increase cost of guard services.

Financial Services Contract - \$30,000

USAID proposes to initiate in 1983 an innovative mechanism to extend its project monitoring and audit capacity. Emulating

the IQC approach successfully developed by AID/W, USAID will have a local competition to secure the services of a management consulting/audit firm. The contract will call for individual task orders to be issued for specific short-term assignments. The USAID Controller's Office and project managers will be able to call on this mechanism to undertake "mini-audits" and financial review of projects without having to wait lengthy periods for audits by AAG or to call in more expensive TDY personnel for routine auditing and financial monitoring requirements. Likewise, given the very small size of our Controller's and Executive Officers, this mechanism will provide a mechanism to provide expanded financial management assistance to USAID Project Managers, prepare financial feasibility assessments of project alternatives and better assist in resolving procurement/disbursement problems. A local capacity familiar with A.I.D. requirements, standards and procedures will be developed. Ready access to such a resource will assist the USAID staff expand the breadth and depth of its monitoring capacity at a much lower cost than using U.S. TDY personnel.

Rent of Director's Residence - \$12,000

The present apartment of the Mission Director has deteriorated rapidly over the past three years. Much repair work is required and the owner is not interested in upgrading the apartment. During the last two years rental costs have increased substantially in Quito and are still rising. The Director's actual housing expenses are now among the lowest of the senior staff. However, the lease will expire during FY 1983. Given the lack of cooperation from the owner, it will be necessary to lease a more appropriate residence for the Mission Director during FY 1983.

The increases listed above total \$836,000. While this increase is significant, it must be remembered that USAID/Ecuador is only in its third year after reopening. The growth situation should peak after FY 1983 with more normal budget increments thereafter.

APPENDIX A

USAID/ECUADOR - STAFFING AND PROJECT SUPPORT PERSONNEL

For 1983 USAID/Ecuador will have the level of staff and other project related personnel for which logistic support will be required.

USDH	12
FSNDH	19.5
IDI	2
Regional USDH	1
NPSC Support	26
Operating Expense PSC	5
AID/W Funded PSC	2
PASA	2
Program Funded (Long Term)	
- Loan/Grant PSCs	6
- OPG Contractors	4
- Institutional Contractors	10
Total Personnel	89.5
Total Ecuadorean	47.5
Total U.S. and Third Country	42.0

In addition, support will be required for TDY Advisors (in FY 1982 the average was eight per month) and an increasing amount of short-term project funded Consultants. Also, office space and support staff are required for the following regional personnel when they are in Ecuador:

- Regional Legal Officer;
- Regional Contracting Officer;
- Regional Environmentalist;
- Regional Housing Officer(s); and
- Regional OFDA Contractor(s)

FY 1984 ANNUAL BUDGET SUBMISSION

TABLE XIII

PL-480, TITLE II

COUNTRY: Ecuador

I. Sponsor's Name: CARE

A. Maternal and Child Health .....Total Recipients 200,000

No. of Recipients By Commodity	Name of Commodity	(Thousands)	
		Kgs	Dollars
<u>200,000</u>	<u>De-fatted Soy Flour</u>	<u>864</u>	<u>393.1</u>
Total MCH		<u>864</u>	<u>393.1</u>

II. Sponsors Name: CRS

A. Maternal and Child Health .....Total Recipients 15,000

No. of Recipients by Commodity	Name of Commodity	(Thousands)	
		Kgs	Dollars
<u>15,000</u>	<u>SFRO</u>	<u>357</u>	<u>162.4</u>
Total MCH		<u>357</u>	<u>162.4</u>

B. School Feeding .....Total Recipients 13,000

No. of Recipients By Commodity	Name of Commodity	(Thousands)	
		Kgs	Dollars
<u>13,000</u>	<u>SFRO</u>	<u>130</u>	<u>59.2</u>
	<u>SF Bulgur</u>	<u>130</u>	<u>37.2</u>
	<u>ICSM</u>	<u>130</u>	<u>46.5</u>
	<u>NFDM</u>	<u>130</u>	<u>14.3</u>
	<u>WSB</u>	<u>130</u>	<u>54.7</u>
	<u>VO</u>	<u>65</u>	<u>53.6</u>
Total SF		<u>715</u>	<u>265.5</u>

C. Other Child Feeding ..... Total Recipients 11,000

<u>No. of Recipients by Commodities</u>	<u>Name of Commodity</u>	<u>(Thousands)</u>	
		<u>Kgs</u>	<u>Dollars</u>
<u>11.000</u>	<u>SFRO</u>	<u>132</u>	<u>60.1</u>
	<u>SF Bulgur</u>	<u>132</u>	<u>37.8</u>
	<u>ICSM</u>	<u>132</u>	<u>47.3</u>
	<u>NFDM</u>	<u>132</u>	<u>14.5</u>
	<u>WSB</u>	<u>132</u>	<u>55.6</u>
	<u>VO</u>	<u>66</u>	<u>54.5</u>
Total OCF		<u>726</u>	<u>269.8</u>

D. Food for Work ..... Total Recipients 7,500

<u>No. of Recipients by Commodities</u>	<u>Name of Commodity</u>	<u>(Thousands)</u>	
		<u>kgs</u>	<u>Dollars</u>
7.500	<u>SFRO</u>	<u>90</u>	<u>41.0</u>
	<u>SF Bulgur</u>	<u>90</u>	<u>25.7</u>
	<u>ICSM</u>	<u>90</u>	<u>32.2</u>
	<u>WSB</u>	<u>90</u>	<u>37.9</u>
	<u>VO</u>	<u>45</u>	<u>37.1</u>
Total FFW		<u>405</u>	<u>173.9</u>

518-ECUADOR

FY-84 ABS

PL-480 TITLE II NARRATIVE

Ecuador's Title II program is implemented by CARE and CRS. CARE supplies the Ministry of Health (MOH) with soy flour which the Ministry blends in its own processing plant with oats donated by the World Food Program (WFP) and powdered milk either donated by the EEC or purchased directly. The result is Leche-Avena, a supplementary food distributed to pregnant/lactating mothers and pre-school children in MOH facilities throughout Ecuador. CRS supplies the MOH with soy-fortified oats which the Ministry mixes with milk and returns as Leche-Avena for distribution in the facilities of CRS's local counterpart, Pro-moción Humana.

In addition to these complementary MCH programs, CRS also imports six other commodities for distribution in schools, orphanages, day-care centers and reformatories. A food-for-work program, authorized for FY82, was cancelled by the Mission due to poor program planning by CRS and world-wide cuts in Title II by FVA/FFP for FY83. A small CRS program in old-age homes will be terminated in FY83 as a result of these same cuts.

CARE's MCH program with the MOH is the Mission's highest Title II priority in that it has the greatest potential for attaining self-sufficiency on a national level. The MOH has been building up a physical and administrative infrastructure to support the program for the past 6 years, and USAID believes that it is approaching the point where it can begin to assume the total cost of commodities. The MOH plans to begin purchasing locally-grown rice to replace WFP oats in the summer of 1982, and donated oats will be completely phased out during 1983. USAID plans to hold soy imports at FY82 levels through FY84 and terminate them thereafter. The MOH plans a slight increase in the number of program beneficiaries over FY82 levels in 83 and 84, but will accomplish this expansion through its first--initially small--purchases of local soy. Although WFP is currently considering an agreement to supply milk for 3 years beginning in 1983, the MOH should be purchasing 85% of the program's commodities (including all of its soy) by FY85. In the meantime, USAID's Title II inputs will allow the MOH to further invest in trucks, warehouses, and equipment necessary for the program's optimal long-term implementation on a national level.

USAID has contributed to the MCH program's self-sufficiency by funding various types of equipment for the Ministry's food processing plant, technical training for plant personnel, and TA in the design of an extrusion cooking line which will process local rice and soy. In addition, CARE has recently secured approval for a \$97,000 Outreach Grant to strengthen the program in three model provinces where USAID is implementing its new rural health project (518-0015). This grant will provide material support which will be coordinated with management training funded under the health loan to lay the foundation for a thorough program evaluation in the three model provinces in 1984. This evaluation will constitute a 'blueprint' for changes which may be required to maximize the efficiency and effectiveness of the program on a national level.

CRS's programs are of a lower priority. Its MCH program is an extension of the MOH's, but does not offer the important medical and health education services which are an integral part of the Ministry's program. It will be reduced from 25,000 to 15,000 beneficiaries in FY84 which will be the last year for this program (as it will be for CARE's).

Although the Mission views CRS's other Title II programs (School Feeding and Other Child Feeding) as supportive of worthy causes, we believe that they should be re-designed to realize their full development potential. The SF and OCF components continue to support important institutional programs addressing the needs of low-income, school-age children; however, they need to be modified to enhance the possibilities of their eventual self-sufficiency. The Mission believes it is neither realistic nor proper to plan for the indefinite provision of U.S. commodities for these programs and is, therefore, encouraging a review of CRS's entire Title II program as a basis for new initiatives to be included in our 85 ABS. We plan to seek TA to assist CRS to complete this review.

Since the nature of CRS's FY85-88 Title II program will not be defined until next year, we are not including projections for those years in this submission. However CRS is currently developing two projects with possible development impact which could be carried over into FY85 and beyond. (1) A small, carefully planned food-for-work program will be implemented in FY83. Depending on an evaluation of this pilot project, it could be expanded in FY 84 and integrated into the new program in FY85. (2) CRS is planning an innovative adjunct to its existing School Feeding Project for FY84 in which Title II inputs would be phased out as production from community gardens is phased in, also on a very small scale initially. Food-for-work could be utilized in the creation of gardens and small storage/processing facilities for this project. We expect that other projects (possibly including OPGs) will be developed for FY85 as well, but cannot speculate on them at this time.