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MISSION ACTION PLAN

518 - Ecuador

FY-87 and FY-88

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MISSION ACTION PLAN
FY's 87 and 88

518 - Ecuador
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SECTION 1: SUMMARY OF STRATEGY

A. COUNTRY SETTING AND POLICY FRAMEWORK

As this Action Plan was being prepared, Ecuador entered into its second economic crisis of the 1980's. The roots of each crisis can be traced to the 1970's when Ecuador began to rely largely on oil exports as its motor of growth. The problem was not that oil exports and revenues sky-rocketed, but that in response Ecuador became increasingly lax about generating domestic savings from other sources, generating non-petroleum tax revenues, developing productive systems that could compete in world markets and avoiding costly government subsidies. The effect of these structural changes was not widely perceived because the economy was growing at very significant positive real rates in the 1973-79 period. When oil revenues were insufficient to fuel this growth, foreign banks were ready and willing to lend against the expected future flow of oil. External debt grew from $363 million in 1970 to $6.9 billion in 1983.

The first crisis began in 1982 when interest rates in the U.S. and elsewhere rose sharply. In addition, foreign banks, realizing their exaggerated exposure in a number of countries, moved to restrict the flow of fresh credits to these countries, including Ecuador. External debt payment obligations quickly rose above expected export revenues, and capital inflows were insufficient to offset the current account inbalance. Ecuador's non-petroleum exports, weakened by year of impact substitution policies, could not respond to help fill the foreign exchange gap. Ecuador's weak domestic financial sector, boxed in by low interest rates, was not able to mobilize sufficient domestic resources to affect the crisis in the external sector. Nor could the long neglected and weakened tax administration system raise sufficient revenues to cover the rising public sector debt payments, and the fiscal deficit soared to 6.8 percent of GDP in 1982.

The GOE began to introduce economic stabilization measures in mid-1982 with the devaluation of the sucre, the first in 10 years. This was followed by public sector spending restraints, import restrictions, incentives to exporters througn a more realistic exchange rate policy, reductions in subsidies in energy and food (further reducing the strain on the fisc), monetary restraint and a scaling up of interest rates towards positive real levels. The public sector's share in final consumption was reduced in 1983 for the first time in six years.

In 1984, the public sector budget was balanced. The economy registered positive growth of 4.1 percent bringing total output back to 1982 GDP levels. This performance was attributable to the recovery from the natural disasters, to improvements in the

international economy, increased oil production, and to the stimulus provided by the 1982-1984 stabilization measures.

The administration of President León Febres Cordero, which came into office in August 1984, has accelerated progress toward external balance and introduced policies needed for structural reform. It successfully renegotiated the foreign debt, established and met the conditions of an IMF Stand-by Agreement, increased exports and made a series of major policy adjustments to create an environment which encourages a rational, more export-orinted private sector investment pattern. By the end of January 1986, the GOE had devalued the sucre by 62% over 18 months, eliminated import restrictions, encouraged foreign investment, reduced inflation and raised interest rates, eliminated most price controls, eliminated the fiscal deficit, improved the trade balance and reduced tariffs. A.I.D. supported these policy reform initiatives with technical assistance and with very modest levels of balance of payments support through ESF and PL 480 Title I.

If 1985 was a year of progress, 1986 started on an even higher note. President Febres Cordero and his economic team visited Washington and received accolades from the U.S. Administration, the Congress, the private sector, the IMF and the IBRD for its rapid and successful efforts to put its economic house in order. Ecuador suddenly became the leading candidate for the Baker Plan.

However, within weeks of this visit, the bottom has fallen out of the oil market, and Ecuador is faced with its second major economic crisis of the 1980's. This crisis has sharply reduced, if not eliminated, the prospects for Ecuador being in the short run, the model for successful, free market economic policies in Latin America. Attached analyses indicate that an average $15/barrel price of oil would cause severe balance of payments and fiscal deficits, a resurgence of inflation and a dramatic fall in per capita income during 1986.

It is not yet clear how Ecuador will respond to this financial crisis. More than ever before it is essential that Ecuador restructure the economy for long-term growth. However, the crisis which has just struck will make it socially and politically more difficult to design and to implement the needed reforms. At a minimum, further structural reforms will be delayed while GOE leaders develop a strategy to deal with the financial crisis.

Aside from these major economic policy and structural problems, Ecuador faces deeply rooted social development problems which must be addressed. Ecuador's current per capita GDP, estimated at U.S. $1,070, masks broad disparities in income levels. Fifty percent of the total population of 9.4 million (1985) lives in rural areas. In 1980, at least 40 percent of the urban population and 65 percent of

those in rural areas live in conditions of severe poverty with limited access to potable water and to medical services. The rural infant mortality rate of 86/1000 is one of the highest among countries with similar national incomes, and 40 percent of children under the age of five are malnourished. Disease incidence, especially malaria, is on the rise. Unemployment, presently at 11%, and urban underemployment, at 42%, have risen steadily over the past ten years.

B. GOALS AND STRATEGY

The Mission's program has three major goals: achievement of economic growth with equity, satisfaction of basic human needs and consolidation of Ecuador's institutional capacity to manage development. These three goals and the Mission's strategy to achieve them are discussed in the following paragraphs.

Goal 1: Achievement of Economic Growth and Improved Equity

Given the declining levels of per capita income earlier in this decade, the debt burden which must be met, the low levels of income of most Ecuadoreans and the annual population growth rate of almost three percent, Ecuador must achieve real economic growth of at least 4-5 percent per year over the remainder of this decade. Moreoever, Ecuador must establish a pattern of growth that is self-sustaining.

In the short-run, the principal obstacle to economic growth is the desequilibrium in the external sector. Unless funds are available for essential imported inputs (over 60 percent of all imports are inputs to local industry), the level of GDP will decline. With the sharp fall in oil prices, the Mission's planned levels of financial support appear increasingly inadequate. The Mission believes that the case for dramatically increased support for Ecuador, preferably though a combination of public and private resources under the umbrella of the Baker Plan, is overwhelming. If A.I.D. were to contribute to such an effort, its response would need to be with increased levels of ESF and possibly PL 480 Title I resources.

In the medium term, the achievement of self-sustaining growth requires certain structural changes. Investment must be channeled into agricultural and agroindustrial activities (especially export activities where Ecuador has a comparative advantage), production for domestic markets must be oriented by market conditions rather than by administratively determined incentives and, to the extent possible, the available labor force must be absorbed fully into these productive activities. The policies of the government must encourage this pattern of development (or not interfere with market forces which will do so) and domestic savings must be generated and channeled into these areas.

A.I.D.'s strategy is thus to help the GOE set the appropriate policy environment and to develop and implement programs which stimulate investment and greater productivity in those productive sectors in which Ecuador has a comparative advantage. The Mission will work closely with senior officials in the Ministry of Finance, the Central Bank and the Monetary Board to set the needed policy structure.

In the agricultural sector the Mission will focus on areas where its limited staff and financial resource can have the most impact. The primary sectoral objective in the 1986-88 period will be policy reform. Specifically, the Mission will seek to greatly expand the role of market forces in the sector and to reduce government interventions which have distorted production patterns and have in general been detrimental to the interests of most farmers. Because of the private sector orientation of the Febres Cordero Government, the Ecuadorean environment is unusually propitious for this type of policy shift. DA and PL 480 resources will be used to support these efforts.

If market forces are to be given freer reign, important agricultural commodity production systems which have enjoyed preferential credit rates, protection from imports and other benefits will increasingly be forced to become more efficient. To assist the Ecuadorean farmer to function effectively in an increasingly competitive environment, the Mission proposes to work through private sector delivery systems, especially to transfer technology and to address policy and marketing problems. The Mission will work with a variety of commodity-specific producer groups and cooperative associations. Criteria for selecting commodities include (a) potential for increasing productivity through the diffusion of known technology, (b) market potential (either domestic or export), (c) the existance of a private sector organization interested in and capable of expanding its role and (d) small and medium-sized farmers among the potential beneficiaries.

The Mission has already initiated this strategy using an on-going DA project (Rural Technology Transfer System) and PL 480 local currency, and in FY 86 and FY 87 will use DA funds to launch two larger commodity-specific programs to increase productivity in two of Ecuador's most important export crops, coffee and cocoa. This strategy places most of the responsibility for increasing productivity directly on the private sector. In contrast with a strategy of improving major support systems (e.g. credit, research, extension) serving all producers, this strategy of financing selected commodity-specific projects is relatively easy to plan and manage, and the economic (productivity) benefits can be realized much more quickly.

With the exceptions of land-titling and agricultural infrastructure the Mission does not anticipate major involvement in system or sectoral wide problems. These two exceptions are noteworthy because they seek to relieve constraints to private agricultural development which require public sector solutions and in this way, support the Mission's private sector development strategy. DA financing is approved for the land-titling effort; local currency is financing infrastructure works. The Mission will not seek to projectize solutions in agricultural credit, research or extension systems. However, it encourage and help the GOE to consider major structural changes in these existing systems. This effort, which is an outgrowth of the 1984 Presidential Agricultural Task Force, involves limited DA and PL 480 local currency financing.

The Mission's agricultural strategy includes a limited involvement in natural resources management. The Mission's major concern is to ensure that the exploition of natural resource proceeds in a way that does not undermine the country's future productivity. Mission efforts to promote the rational use of forestry resources will continue through FY 88. The Mission will also support centrally-funded initiatives in coastal resources management and protection of fragile lands.

Mission efforts to increase non-traditional exports will directly strenghten Ecuador's external accounts and lessen its excessive dependence on petroleum exports. Within non-traditional exports, Mission efforts will be focussed on agroindustry where Ecuador has a comparative advantage. The Mission will help to identify products and markets with high potential, make Ecuadorean exporters aware of external market conditions and put them in contact with buyers and promote joint venture investments with foreign (usually U.S.) firms which can provide production technology, quality control and access to markets.

Small-scale enterprises offer the best employment generation potential without investing vast amounts in capital and training. The Mission's recently completed analysis of the small enterprise sector and of the institutions serving it will allow the Mission to tailor a program which corresponds to the credit, TA and training needs of different subsectors and geographic areas.

The Mission will also attack one systemic problem -- weak financial markets -- which affects all productive sectors. With access to foreign loans now highly restricted and with the foreign debt burden that excessive reliance on external borrowing has already left on the Ecuadorean economy, future growth is vitally dependent on the economy's ability to mobilize and effectivey allocate savings.

The final element of the Mission's strategy to achieve growth with equity is to strengthen human resource development. Mission efforts will be limited to the two areas that private sector producers have identified as being the most serious constraints: management training and technical skills training.

Goal 2: Satisfaction of Basic Human Needs

Addressing the basic human needs of Ecuador must be viewed within the context of an economy in which direct government intervention is declining. Mission involvement will be limited to selected elements of the health and shelter problems. Within the health sector, the Mission will focus on the most common problems -- diarrhea, malnutrition, common communicable diseases for which vaccines exist, malaria and too frequent pregnancies -- where cost-effective technologies exist to attack the problems.

The Mission will also continue its active urban shelter program. AID's strategy of providing basic shelter, potable water, sewerage and electricity to low income urban families, can have a major impact on the health and welfare of large segments of the urban poor. The shelter program can also be an important source of employment, and shelter is politically important in Ecuador. The program in the 1986-88 period will increasingly use private sector mechanisms and will gradually expand the prevalence of urban upgrading, sites and services, progressive solutions and low cost construction techologies.

Goal 3: Consolidation of Ecuador's Institutional Capacity to Manage Development

The third element in A.I.D.'s strategy responds to the need to assist the public sector to put its internal economic affairs in order. Perhaps the most important Mission activity is to assist the GOE to create a positive policy climate for increased private sector production. A.I.D. staff and program resources will work with the GOE economic leadership on key macroeconomic policies to remove distortions in factor prices and production patterns.

Complementing these policy reform efforts, the Mission will help the GOE institute structural and organizational reforms so that the it can better perform those functions most appropriately carried out by the public sector and divest itself of those in which the private sector can achieve better performance. Mission efforts to strengthen government services will be limited to agriculture, health, tax administration and narcotics awareness. The Mission's efforts in tax administration will help the GOE to put its fiscal

house in order, lowing the public sector's dependence on the petroleum sector and permitting an eventual reduction of income tax rates.

The Mission believes that its continuing effort to develop an effective, fairly narrow strategy is essential given its USDH staff ceiling. However, this will require that the Mission respond negatively to many legitimate, high priority requests and that it terminate its involvement in some areas in which it is now working. Areas in which the Mission will terminate its assistance include energy, integrated rural development, municipal development and public sector training.

C. Progress to Date

1. Economic Growth with Improved Equity

Economic growth rebounded in 1984-85 after the 1982-83 recession. The balance of payments and fiscal deficits were closed in 1985, albeit temporarily. More important, there has been significant progress in policy and structural reforms. (These achievements are discussed in Section I.B.1. above and in detail in Annex A.)

Equity remains a major issue, Ecuador having one of the most unequal patterns of income distribution in the hemisphere. Growing unemployment, the declining (1980-1986) purchasing power of the minimum wage and the falling proportion of payments to labor (as opposed to payments to capital) in total GDP indicate that income distribution may be intensifying as a problem.

2. Basic Human Needs

In health, child survival and population there has been significant improvement of conditions in the last 10 years. Life expectancy has increased from 51 to 63 years; fertility has been reduced by 20%; and infant mortality has been cut by 50%. Ecuador's death and infant mortality rates are now comparable to Chile and may be lower in than Bolivia and Peru. Improvements are principally due to the GOE's increased commitment to public health reflected in a real increase in expenditures of 13 percent per annum during the last five years.

In housing, progress in increasing the actual number of units affordable to low-income families remains modest. However, the GOE has taken steps to clarify and better define what type of dwelling units it wants to build, the target audience, and the financial mechanisms to enable it to achieve its goal of 30,000 new housing units built per year.

3. Institutional Capacity to Manage Development

In the past 18 months, the GOE has demonstrated an excellent capability to manage macroeconomic policy and an improved capability in analyzing and adjusting agricultural policy. A.I.D. has provided technical assistance which has undoubtedly contributed to this progress. (There is little evidence of any across-the-board increase in the efficiency of government services.) A.I.D. has also had considerable success in getting rapid action on implementing disaster rehabilitation of vital infrastructure, improving tax collections and obtaining broad participation of the public and private sectors for the Child Survival program.

PART II: IMPLEMENTATION PLAN

A. PROGRAM PROGRESS AND IMPLEMENTATION PLAN FOR FY 1986 - FY 1988

Based on the strategy that is defined under Section I above, following are specific development assistance objectives under each of the three stated Mission Goals:

Goal Category: To promote economic growth with improved equity

Objective No. 1: Increase Agricultural Production

Increase the annual rate of growth in aggregate agricultural output to 5 per cent by 1990.

Key Assumptions

If price and marketing policy and land tenure constraints can be removed, producers will respond by investing in improved technology and increased inputs, thus increasing output.

Performance Indicators

a. Target
   5 percent annual increase in aggregate agricultural output by 1990.

b. Benchmarks

   Percentage growth in aggregate agricultural output for 1976-80 was 2%, and for 1980-84 1%. Output dropped in 1982-83 as a result of the El Niño floods.

   The projected growth rates are: 3.5% for 1986; and 4.3% for 1988.

Policy Dialogue

-- Shift the role of the government in product pricing and marketing from one of direct intervention to one that facilitates free market operations. The Mission expects such a shift to have occurred by the time the present administration leaves office in 1988. Studies to provide the analytical basis for the policy reforms are being financed under the Agricultural Sector Reorientation Project.

-- Move toward the privatization of parastatals involved in production, marketing and processing of agricultural products. We expect the GOE to divest the assets of at least two parastatals by 1988. PL-480 Title I funds and technical advice under the Agricultural Sector Reorientation Project will be used to carry out the economic and financial studies and negotiation processes necessary for divestiture.

-- Develop appropriate roles and techniques in the public and private sectors for the development and transfer (research and extension) of agricultural technology. A.I.D. is assisting in this process with special studies funded under the Agricultural Sector Reorientation Project and the promotion of technology transfer through private sector organizations funded under the RTTS Project and PL-480 Title I.

-- Move toward a freer agricultural credit sytem with positive interest rates and towads savings mobilization activities in private financial institutions. A.I.D. will provide technical assistance under the Agricultural Sector Reorientation Project and PL-480 Title I to conduct the analytical work necessary to formulate a rational strategy in this area.

Project and Non Project Activities

a. Continuing Projects:	Number	Total Cost (U.S. $000)
Integrated Rural Development	518-0012	11,800
Rural Technology Transfer System	518-0032	7,900
Agricultural Sector Reorientation	518-0051	8,500
LAC Training Initiatives	518-0051	1,000
Private Sector Coffee Renovation	518-0054	8,000
Land Titling	518-0059	10,300
b. New Projects:		
Cacao Renovation	518-0053	8,000
c. Shelf Project:		
Agricultural, Research and Extension		12,000

Narrative

FY-85 was a transition year for USAID/Ecuador activities in the area of agricultural production. In the Integrated Rural

Development Project, significant advances were made in the development of irrigation facilities and provision of credit, but problems remained in its marketing and road construction activities. During this project's final year, the Mission will encourage the GOE to focus exclusively on termination of the irrigation activities -- completing physical infrastructure and providing technical assistance to assure proper on-farm water use. The RTTS Project has been redesigned to make producer associations the focal point in the technology tranfer process. The Mission has approved and is initiating subprojects with producers groups in sheep, dairy, beef, and short cycle crops.

During 1985, price and marketing policies were improved with technical assistance provided by USAID/E under the Agricultural Transition Support Grant to the Ministry of Agriculture. A.I.D.-financed consultants provided analyses of the production, marketing and prices of major grain crops subject to governmental interventions to arrive at a more consistent set of agricultural price and marketing policies. As a result the Ministry has elected to move gradually over two-three years to a system based on international prices. The GOE has begun to divest ENAC, the grain stabilization and storage parastatal, of its physical storage facilities. A commodities exchange is being created.

During 1986, the Agricultural Sector Reorientation Project will provide analyses and policy options to the Minister of Agriculture on credit, technology, etc; provide it with information collection and analysis capabilities; and create a private sector policy dialogue capacity and forum.

The projects in Private Sector Coffee Renovation and Cacao Renovation will assist private sector organizations to rehabilitate two important foreign exchange earning crops, mainly through technology packages. Ecuador's position as a significant exporter of coffee and cacao has been undermined by failure to keep pace with crop technology improvements and a lack of investment in crop renovation.

Local currency proceeds from the FY 1985 PL-480 Title I program will be used to support policy reforms in grain marketing, as counterpart for the Agricultural Sector Reorientation and RTTS Projects, and to strengthen private sector producer associations.

Objective No. 2: Improve Management and Preservation of Natural Resources

Increase area reforested and under improved agroforestry practices and increase the number of farmers receiving land titles.

Key Assumptions

-- If better management of natural resources can be achieved and if selected wild areas can be preserved in their natural state, then the country's economic growth will be enhanced not only in agriculture, but in wood-using industries, tourism and mariculture.

-- If farmers can gain secure title to their lands, then they will be more likely to invest in technology necessary to effectively and productively manage soil, water and forest resources on their properties.

Performance Indicators

a. Targets

-- 10,000 hectares of the Sierra reforested annually by 1989.

-- 4,000 hectares of the lowland tropical forest areas brought under improved agroforestry practices annually by 1989.

-- 100,000 farmers receiving land titles annually by 1990.

b. Benchmarks

-- Sierra Reforestation: 1982 - 2,500 ha.; 1985 - 2,500 ha.; 1987 - 8,000 ha.

-- Improved Agroforestry Practices in the lowland tropical forests: 1982 - 0 ha.; 1985 - 1,000 ha.

-- Farmers receiving land: 30,000 in 1987; 50,000 in 1988.

Policy Dialogue

-- Achieve administrative autonomy for the National Forestry Directorate by 1988 to eliminate bureaucratic impediments to improved forest management and reforestation and increase

possibilities for closer cooperation with and support for the private forestry sector.

Project and Non Project Activities Continuing Projects	Number	Total Cost (US$000)
- Forestry Sector Development	518-0023	8,100
- Integrated Rural Development	518-0012	11,800
- Environmental Education (OPG)	518-0043	635
- Coastal Resources Management	Centrally Funded	1,000
- International Forest Resources Development	Centrally Funded	400
- CARE Soil Conservation and Agroforestry (OPG)	Centrally Funded	200
- Land Titling	518-0059	10,300
- LAC Training Initiatives		400

Narrative

The USAID effort in the management and preservation of natural resources concentrated on three areas during 1985.

a. Field demonstrations under the CARE soil conservation project introduced 5,000 farmers to soil conservation methods. The Forestry Sector Development Project financed 2,500 hectares of reforestation in the Sierra, and 1,000 hectares of improved agroforestry practices in the Amazon region.

b. Preservation of natural resources was promoted by the protective forest delimitation activity of the Forestry Sector Development Project and by the environmental education program with Fundación Natura. The "Flora of Ecuador" botany project collected about 5,000 plant specimens, many previously unknown, and valuable ethnobotanical information.

c. The Land Titling Project got underway during late 1985. It is expected that secure land titles will give landowners more reason to invest in and better manage their land resources.

Objective No.3:

Promote exports: Increase agricultural and agroindustrial exports by 5% per year.

Key Assumptions

If there are expanded foreign exchange earnings from the agricultural and agroindustrial sectors, then rural farm incomes will improve, new urban employment will be created and broad economic growth will be fueled.

Performance Indicators

Increase real earnings from agricultural exports by 5% per year from a base of $950 million in 1987.

Raise average coffee yields on under-5 hectare farms from 6 cwts/ha. in 1985 to 30 cwts/ha. by 1990.

Increase sales of non-traditional agricultural exports by $15.0 million in 1987 and $25.0 million in 1988, over the previous years.

Policy Dialogue

Achieve significant progress by 1988 on foreign exchange rate policy, ensuring that agricultural sector export dollars are converted at a rate higher than the January 1986 Central Bank intervention rate which is at 70 to 75% of the free market rate. Policy studies which gather and marshall information on the effects of a distorted exchange regime will be carried out and their results presented to the GOE by private Ecuadorean institutions.

Project and Non Project Activities

	Number	Total Cost (U.S.$000)
a. Continuing Projects:		
Non-traditional Agricultural Exports Project	518-0019	8,800
International Executive Service Corps (OPG)	518-0047	75
b. New Projects:		
Private Sector Coffee Renovaton	518-0054	8,000

Narrative

Policy dialogue activities focus on relieving the tax on exporters imposed by the present exchange regime. Project and non-project activities provide financial and technical assistance to address key constraints faced by producers and exporters in areas of market information and entry, technology, management and credit.

Support for increasing non-traditional agricultural exports was initiated during 1985. Program results have already been substantial; $10 million in increased sales can be credited to A.I.D. interventions. Incentives to exporters, after improving substantially early in 1985, worsened late in the year as indicated by the increasing divergence of the Central Bank's intervention exchange rate from the free market rate.

Potential problems and issues to be discussed in addition to the exchange rate will be the adequacy of Central Bank credit allocations to export oriented agribusinesses and the institutional ability of the private organizations in the non-traditional agricultural and coffee sectors to develop and maintain higher levels of service.

Objective No. 4: Increase Employment.

Increase employment in the small scale enterprise sector.

Key Assumptions

If sufficient productive new jobs can be created in small enterprises to meet the needs of the growing labor supply, then economic growth will increase and its benefits will be spread more equatably.

Performance Indicators

a. Target
To create 30,000 new jobs in the small scale enterprise sector by 1990.

b. Benchmarks

	FY-85	FY-86	FY-87	FY-88
Jobs created directly	3,000	3,000	5,000	8,000
Loans made to small enterprises	4,200	5,500	7,500	10,000

Policy Dialogue

Two specific policy objectives have been identified, both in the financial area because of the critical nature of the credit constraint on the smallest firms. First, by 1989, credit allocations to small industry firms of under 20 employees will be equivalent to 75% of their contribution to manufacturing output (in 1984, these establishments produced 20 percent of manufacturing output but received only 7 percent of the credit allocation to the sector). Secondly, by 1988, a system for credit guarantees for small-scale sector loans will have been established. In 1985, the need for a guarantee system had been accepted fairly widely, but legal obstacles and issues regarding the role of the Central Bank and the private banking sector must be resolved in order to secure the active participation of the private banking sector.

To achieve this policy agenda, it is necessary to increase the influence of the small enterprise sector in key GOE policy and program institutions, including the Monetary Authority and the National Skills Training Institute (SECAP). Accordingly, A.I.D. will strengthen representative institutions of the small industry, artisan and commercial sector so that they are able to carry out effective policy dialogue with the public sector. The benchmark is to increase the membership and services of 10 institutions per year over the period of FYs 87-89.

Project and Non Project Activities

Continuing Projects:	Number	Total Cost (U.S. $000)
Small Enterprise Dev. Project	518-0056	5,000
Integrated Community Dev. (OPG)	518-0021	260
Microenterprise Dev. (OPG)	518-0040	460

Narrative

Employment growth is constrained in Ecuador to the extent that the policy and institutional framework favors capital intensities out of line with Ecuador's factor proportions. Mission activities are oriented to removing the main constraint at the policy level (namely, the lack of effective representation of the labor intensive small-scale sector in policy forums) and to relieving institutional constraints to the sector's access to needed capital and technical resources. On the capital side, greater involvement of the commercial banking sector and the development of private sector credit programs for the small scale sector are the principal approaches. On the technical side, the supply of local technical firms and consultants providing services to the small industry sector will be strengthened.

During 1985, 3,000 jobs were created through pilot programs for extending credit to very small firms. Also, significant strides, more than anticipated, were made in achieving, through initial institutional development assistance, increased and more effective policy level access by the small industry sector.

Objective No. 5: Strengthen the Private Sector

Strengthen the human resource, financial and representational bases of the Ecuadorean private sector.

Key Assumptions

If advantage is taken of the present generally favorable policy climate in Ecuador to strengthen basic structures of an effective private enterprise system, then that system will be able to contribute to broad based economic development and will be able to continue to operate should the policy climate turn less favorable.

Performance Indicators

Establish a private graduate level management training program producing 75 trained managers per year by 1992.

Establish a private technical skills training program which produces 6,000 trained technicians per year by 1990.

Expand a private financial sector training program from a 1985 output level of 1,200 trainees to annual level of 2,000 by 1988.

Establish private sector credit programs for micro-enterprises in six secondary cities by the end of 1988. Strengthen the membership participation in representative institutions of the private sector by an average of 40%, to be measured by either increased numbers of dues payers or, in obligatory membership organizations, by participation in periodic elections of officials, in 25 private sector representative institutions.

Strengthen ("deepen") the financial base of the private sector, to be measured by interest bearing deposits rising to 35% of Ecuador's financial assets by 1988 (from a 1982 base of 20%).

Policy Dialogue

The Mission has encouraged movement toward positive real interest rates. Because of rate increases in 1984 and a decline in inflation in 1985, most rates are now positive in real terms. The Mission has used its housing program to argue for the introduction of variable rates to encourage longer term lending. The GOE Monetary Board is now studying this issue. During 1987-88 the Mission will encourage the GOE to adopt a

package of policy adjustments in the areas of mortgage finance, banking and companies supervision, and interest rates and credit allocations geared to raising domestic resource mobilization. The package will be defined during the studies and joint Mission-GOE discussions which will take place under the Macroeconomic Policy Analysis Project during the second half of 1986. The Mission will also use technical resources available under the PRE Financial Markets Project. Under PL-480 Title I and the Agricultural Sector Reorientation Project, the Mission will assist the GOE to develop a strategy, by end 1987, for making more credit available to the agricultural sector.

Project and Non Project Activities

a. Continuing Projects:	Number	Total Cost U.S. $000
Graduate Management Program	518-0035	7,000
Technical Skills Training	518-0055	5,000
Institute of Banking and Financial Practices (OPG)	518-0048	237
Small Enterprise Development	518-0056	5,000
Macroeconomic Policy Analysis	518-0050	2,500
LAC Training Initiatves		300
b. New Projects:		
Capital Markets Development	518-0063	7,000

Narrative

The project and non-project activities address, principally, the institutional and policy contraints to a stronger private sector. Policy dialogue activities are concentrated in the financial systems area given the critical importance of increased domestic resource mobilization to continued economic growth. During 1985 initial efforts in technical skills and financial sector training and in representational institutions strengthening got off to a good start through OPG's and small contracts. Policy level work in the financial area moved slowly in 1985 but it is expected that it will receive more attention from GOE policy makers in 1986-1987.

In FY 86 the Mission will embark on a major expansion of its efforts to encourage small-scale enterprises. In FYs 1987-88 this project will establish private sector credit facilities for micro-enterprises in six secondary cities and will strengthen associations of small businessess in 10 cities.

Goal Category: To satisfy the basic human needs of low income groups in urban and rural areas.

Objective No. 1: Reduce Infant Mortality

Reduce infant mortality from diarrheal diseases.

Key Assumptions

If an effective diarrheal disease control program can be mounted by the GOE with institutional, political and financial support, then distribution and use of ORS will take place and diarrheal deaths reduced.

Performance Indicators

a. Targets
Reduce infant mortality from diarrheal diseases by 50 percent by 1990relative to base year 1985.

b. Benchmarks
-- All Ministry of Health (MOH) service units providing ORS packets by 1987.
-- Private sector physicians and pharmacies increasing distribution of ORS commercial sales by 25 percent each year, 1986, 1987, 1988.
- National survey of knowledge, attitudes and practice concerning ORT showing 25 percent increase per year 1987-1988 in number of persons knowing how to use ORS.
- Infant mortality due to diarrheal diseases reduced by 25 percent 1987 and an additional 25 percent by 1988, relative to baseline IMR levels obtained in 1986 survey.

Policy Dialogue

Convince MOH to implement strategy for achieving ORT objectives through a permanent delivery system rather than campaigns; incorporate private sector into this effort. This will be achieved gradually over the period 1986-88.

Project and Non Project Activities

a. Continuing Projects	Number	Total Cost (U.S. $000)
Integrated Rural Health Delivery System - Child Survival Component	518-0015	4,000
ESF & PL-480 Local Currency		4,000
Three PVO Child Survival Grants (AID/W Managed)		1,500

b. New Projects:

US$6,000,000 add on to Child Survival (Project 518-0015) planned for FY 88 to extend/expand Child Survival strategies.

Narrative

The on-going Child Survival project and proposed add-on are directly targeted to reducing infant mortality caused by diarrheal and contagious diseases which are preventable with low cost interventions. There has been rapid and highly successful implementation of the Child Survival (PREMI) Program since the Project Agreement was signed June 20, 1985. Long-term advisors were brought on board, a mass media promotion campaign contracted and major 3-day national immunization campaigns were carried out in October 1985 and January 1986. In October, over 500,000 children were vaccinated, twice the goal; and over 500,000 packets of ORS were distributed. Nevertheless, the more difficult jobs remain -- creating a delivery system so that immunization and oral rehydration therapy are routinely available throughout the country and educating parents to utilize these services.

Objective No. 2: Improve Health Care and Services

Key Assumptions

-- Poor environmental conditions are responsible for much of the morbidity and mortality in rural Ecuador. If environmental conditions are improved, then a major improvement in health conditions can be obtained.

-- If immunized, then a child is protected from immunopreventable diseases, resulting in decreases in illnesses and death caused by them.

Performance Indicators

a. Targets

-- Reduce the morbidity and mortality from immunopreventable diseases (polio, measles, DPT) by 10% per year through 1990.

-- Increase the percentage of people in rural areas with access to potable water and excrete disposal from the present 15% to 30% by 1996.

-- Reduce malaria incidence to an annual parasite incidence of 1.6 case/1,000 by 1989. Present rate is 14.6.

b. Benchmarks

-- 70% of all under-one population vaccinated by 1987.
-- 80% of all under-one population vaccinated by 1988.
-- Regional cold chain network and maintenance capability established in the Ministry of Health (MOH) by 1987.
-- Reduce the percentage of P. falciparum malaria from the present 21.6% to 10% by 1989.

Policy Dialogue

-- Achievement of a decentralized implementation authority for the province office of the National Sanitary Works Institute (IEOS) and the National Malaria Eradication Service (SNEM), by 1987.

-- Priority budget allocation for vaccines and vaccination supplies in MOH budget each year. The strategy for achieving this policy objective is to provide evaluation data showing cost-effectiveness and to utilize the strong support of the First Lady to influence the Minister of Finance to supply the needed budget line item.

Project and Non Project Activities

Continuing Projects:	Number	Total Cost (U.S. $000)
Integrated Rural Health Delivery System (Including Child Survival	518-0015	8,000
PL-480 Title I - Counterpart		3,000
Malaria Control	518-0049	9,500
LAC Training Initiatives		300

Narrative

In 1980 USAID identified environmental health conditions in the rural areas as a major deterrent to development. Health care and services in the rural areas of Ecuador are clearly deficient as demonstrated by various indices. A major constraint has been excessive centralization of programs and an inflexible bureaucracy which prevents even simple programs from being implemented successfully. A major effort will be made by the GOE, with A.I.D. support, to decentralize agencies involved in environmental health control.

As part of an Integrated Rural Development Project, a major component ($10,590,000 including counterpart) was the provision of water supply and sanitation systems for the IRD areas.

The on-going and proposed add-on projects for Child Survival are directly attacking the problem of morbidity and mortality caused by immunopreventible diseases. Through massive national mobilizations and unprecedented inter-institutional cooperation, large-scale immunization of 0-5 year olds has been conducted for the five major disease of EPI. In October, 1985 over 500,00 children were vaccinated, while in January, 1986 over 250,000 were reached.

Objective No. 3: Reduce growth of population from 2.9% per year currently to 2.6% by 1990.

Key Assumption

If high rates of population growth can be reduced, then the social demands for education, health services, basic shelter and food can be better managed and standards of living improved.

Performance Indicators

a. Target
Reduce population growth rate at least 0.5% annually, starting in 1985, to 2.6% by 1990.

b. Benchmarks

	1985	1986	1987	1988
-- Increase contraceptive use among at risk women (married, and in consensual union, age 15-49) to:	41.5%	43%	44.5%	46%
-- Increase and/or maintain the number of family planning service units.				
Public sector	221	233	355	355
Private sector	22	28	30	30
-- Initiate a social markeing of conceptives program by 1987, serving through outlets			1,000	1,700
-- Active users maintained in A.I.D. supported family planning programs (000)	141	188	235	281

Policy Dialogue

The Mission will continue working to obtain a more active support for family planning from public sector agencies, especially the Ministry of Health, Ministry of Social Welfare and the Social Security Agency.

Project and Non Project Activities

a. Continuing Projects:	Number	TOTAL COST (U.S. $000)
Population and Family Planning (public and private sector components)	518-0026	5,600

A new activity is now underway under this Project with the National Bishops Conference for the provision of natural family planning services.

b. New Projects

An add-on to the Population and Family Planning Project is proposed for FY-87.

Narrative

The Mission's policy dialogue is directly in line with the population program objective in that it will contribute to improving and expanding the private sector's capacity to provide family planning services. The provision of family planning services is the only legal and humanitarian means to reduce population growth; therefore, project activities are directed exclusively to that objective.

To date, most of the program's planned performance indicators have been accomplished and/or surpassed, e.g., availability of FP services has been expanded 13% more than the original plan; and 8% more new users have been reached then the planned target.

Objective No. 4: Expand Access to Improved Housing

Key Assumptions:

-- If the GOE focuses its efforts on facilitating the provision of land, water, sewerage and electricity, then low income housing projects can be developed and implemented.
-- If the GOE takes the lead in creating the conditions and incentives (legal, financial, etc.) for broader private sector participation in housing, then more Ecuadoreans at different socio-economic levels will have better access to affordable solutions.

Performance Indicators

a. Targets

The combined housing needs (including new and improved houses) during the five-year period of 1985-1989 for Ecuador's urban areas surpass 60,000 units per year. The Mission's target for housing and urban development is to have the formal sector providing 50% of the urban housing needed per annum by 1990.

b. Benchmarks

The number of shelter solutions expected to be developed with A.I.D. funding (including new units and improvements) are:

		NEW UNITS	HOME IMPROVEMENTS
Target Dates:	FY 86	3,800	1,800
	FY 87	7,700	5,800
	FY 88	11,500	11,700
	FY 89	14,500	16,200

-- Establish in FY-86 within the Central Bank of Ecuador a financial fund for re-discounting shelter credits from private and public sector shelter institutions to low income families.

-- Computerize administrative functions of the JNV/BEV for improved quality and greater efficiency by FY 87.

-- Implement an urban services upgrading program in low income neighborhoods by FY 87.

Policy Dialogue

a. Achievement to Date

-- Universal adoption by JNV/BEV of the graduated payment, first introduced in the HG-005 Solanda Project, to make shelter solutions affordable to lower-income families.

-- Initiation by the JNV/BEV of home improvement credit in Ecuador's secondary cities and its acceptance as an integral component of the HG-005 Solanda Project in Quito.

-- Adjustments by the new administration of the JNV/BEV in the following aspects of its four year housing plan: an interest rate structure much closer to that prevailing in the market (18% maximum rate rather than 10%) to reduce subsidies and avoid decapitalization; lower-cost shelter solutions than those planned, thereby increasing the number of solutions possible with the same resources and the potential for benefits for lower income families; and the incorporation of the concept of home improvement credit as part of the overall JNV/BEV shelter effort.

b. Planned Achievements

-- Introduce adjustable mortgage mechanisms to the long-term credit market by FY-86.

-- Incorporate private sector developers and finance institutions into the low income shelter supply process through the financial fund to be established in the Central Bank, by FY-87.

-- JNV/BEV adoption of a shelter approach consisting of serviced sites with home improvement credits by FY-87.

Project and Non Project Activities

Continuing Projects:	Number	Total Cost (U.S. $000)
Solanda Low Income Program	518-HG-005	20,000
National Housing Program	518-HG-006	25,000
Private Sector Housing Program	518-HG-007	30,000

Narrative

HG-005 (Solanda). This Project is scheduled for completion by the end of CY-86. Approximately 1,600 families eligible for

A.I.D. HG funding have been adjudicated; an additional 3,500 are expected to be adjudicated by the end of CY 86. In spite of the delays and problems, the project is now on track and the Mission expects that it will have served to introduce a number of essential new ideas and approaches for meeting the housing needs of low income families.

HG-006. In its 1985-86 investment plan, the JNV/BEV has identified 15,663 new shelter solutions and 9,378 home or urban improvement solutions which could result in loans to HG-eligible families. The first HG disbursement under this program ($5 million) was made in January 1985. To date only 265 eligible loans to beneficiaries (totaling US$555,000) have been presented to A.I.D. for reimbursement. The slow rate of generation of HG-eligible loans to beneficiaries is due to the lengthy period required for the traditional public housing project approach adopted by the JNV.

A recent review of the inventory of projects under development in the JNV/BEV regional offices revealed many projects in various stages of completion which can be presented for financing by A.I.D. It is expected that the rate of presentation of projects will be accelerated.

HG-007. The implementation agreement was signed on January 15, 1986. The conditions precedent to U.S. investor selection are expected to be completed during the third quarter of FY-86. An additional $5 million has been authorized for this program in FY-86. With the signing of the agreement, the Mission will begin to provide the technical assistance to work with the Central Bank and other entities to establish the conditions for efficient private sector participation in the program. Financing will be provided through the financial fund for housing which is being established in the Central Bank.

Goal Category: To improve Ecuador's institutional capacity to manage its own development process.

Objective No. 1: Promote Development Institutions

To increase the capacity of selected GOE institutions to become more effective and efficient in important areas of fiscal management, agriculture, administration, and programming.

Key Assumptions

-- If there is adequate training and technical assistance, then it is possible to change attitudes and improve skills of GOE high and mid-level managers.

-- If recommended institutional improvements are accepted then public sector performance will improve.

Performance Indicators

a. Targets

-- Net increase in non-petroleum (principally income and sales) tax revenues as a result of improved administration. Target: $250 million per annum cummulative over the period of 1985-1990.

-- A Policy Planning Unit and Market Information System fully-institutionalized in the Ministry of Agriculture by 1990.

-- Public sector managers trained in planning management and evaluation: 3,380 per annum, by 1988.

-- Seminars conducted in illicit drug use prevention: 32 per annum, by 1988.

-- The National Institute for the Child and Family (INNFA), fully organized, staffed and serving a population of 1 million children by 1990.

b. Benchmarks

	FY 85/86	87	88	89
-- Net increase in no-petroleum revenues (US$000)	2,000	75,000	55,000	55,000

	FY 85/86	87	88	89
-- Policy Studies Completed by MAG	2	4	4	6
-- Managers trained in the public sector	1,100	2,500	3,380	3,380
-- Illicit drug use prevention seminars (spots)	20	26	32	32

Policy Dialogue

-- Reorganize and decentralize the operations of the General Directorate of Taxes by 1986. Fiscal Administration Development Project has developed and will implement a plan to this effect.

-- Progress is expected to be achieved during FYs 86, 87 and 88 in key agricultural policy areas such as pricing policies and divestiture from parastatals. Policy studies are expected to be completed and used for policy formulation by the Ministry of Agriculture Policy Planning Unit.

-- Establish a more rational and equitable system of providing central government grants to local governments by 1986. Technical assistance under Fiscal Administration Development Project will develop an improved system.

-- Lower marginal income tax rates and simplification and rationalization of the national tax system by 1986. Technical assistance under Fiscal Administration Development Project is conducting research and providing the necessary data which can be used by the Ministry of Finance to prepare white papers supporting recommended action to the Ecuadorean Congress.

-- Reform the administration of customs FY-87. Technical assistance under the Fiscal Administration Project is conducting research and will develop recommended administrative reforms.

-- Obtain adequate GOE budgetary support for the programs of the National Institute of the Child and the Family.

Project and Non Project Activities

Continuing Projects	Number	Total Cost (U.S. $000)
Fiscal Administration Development	518-0042	6,800
Agricultural Sector Reorientation	518-0051	8,500
Training for Development	518-0017	1,300
Narcotics Use Prevention	518-0016	250
Child, Family and Community Development (OP)G	518-0061	1,400
LAC Training Initiatives		400

Narrative

The various projects under the above objective as well as the policy dialogue are designed to make targetted GOE institutions more effective and efficient through human resource development, rational planning, improved organizational and administrative systems, and adequate GOE budgetary support.

The Fiscal Administration Development Project and the Child, Family and Community Development OPG initiated their first actions in July 1985 with the arrival of U.S. technical assistance. The Training for Development Project, which in the past has been behind schedule in implementation, has recently

demonstrated marked improvement in the accomplishment of outputs as well as in expenditures. An external evaluation is planned for March 1986. The Narcotics Use Prevention Project has had a significant impact in raising the consciousness level of Ecuadoreans to the drug problem in Ecuador through mass media compaigns as well as seminars conducted by private and public sector organizations.

B. PROJECT DESCRIPTIONS AND IMPLEMENTATION SCHEDULE

1. Overview

a. Project Overview

As defined in Sections I and II above, USAID's strategy is to: (1) develop and strengthen the private productive sectors of the economy; (2) meet basic human needs of low income groups in rural and urban areas; and (3) reorient the action of selected public sector institutions to be better performers in the social and economic development process of the country.

To implement this strategy, USAID will:

(1) Emphasize implementation of its ongoing project portfolio. Principal projects include the following:

- Private Sector Renovation
- Small Enterprise Development
- Graduate Management Program
- Technical Skills Training
- Integrated Rural Development/Agriculture
- Rural Technology Transfer System
- Campesino Training System
- Forestry Sector Development
- Nontraditional Agricultural Exports
- Agricultural Sector Reorientation
- Land Titling
- Population and Family Planning
- Integrated Rural Health Delivery Systems (including Child Survival)
- Malaria Control
- Training for Development
- Housing and Urban Development
- Fiscal Administration Development
- Macroeconomic Policy Analysis
- PVO/OPG projects in several sectors; and

(2) Complete development and begin implementation of new FY-87 and FY-88 projects, as listed below.

b. Project Priorities

FY-87 Projects

1. Capital Markets Development
2. Cacao Renovation and Rehabilitation
3. Narcotics Education (extension of ongoing activity)
4. Population and Family Planning (add-on)

(2) FY-88 Projects

1. Development Planning and Implementation Support
2. Child Survival (Add-On)

c. Document Submission and Authorization Schedule

The attached Table 1 shows the Mission's planned schedule for preparing and submitting documents required for the new projects proposed above.

The Mission has been granted authority to approve the following FY-86 projects in the field: Small Enterprise Development, Coffee Rust Control, and Technical Skills Training. After careful review, the Mission has decided not to submit a FY 1986 Project Paper for the Technical Skills Training Project (518-0055). Rather, the project development committee has decided to implement the effort through an OPG.

The Graduate Management School Project (518-0035) is expected to be ready for authorization in FY 1986. A PID for this project was approved in AID/W in 1982. The Mission requests that AID/W delegate authority to authorize the project to the Mission.

A FY-86 amendment to the FY 84 Non-Traditional Agricultural Exports Project (518-0019) will be completed for initial obligation in FY-86. This amendment will add an investment promotion activity. The Mission requests that authority to approve this PP amendment be delegated to the field.

In FY-87, the Mission proposes to design two new projects for initial obligation and to prepare an amendment to the ongoing Population and Family Planning Project (518-0026). Authority to approve the Cacao Renovation Project (518-0053) was delegated as a result of last year's Action Plan.

The LAC Bureau did not delegate authority to the Mission to approve the Capital Markets Development project. Since that time, the Mission's preliminary analysis of the problem and proposed solutions has become more defined, and the project narrative has been rewritten. The Mission requests that the Bureau once again consider delegating authority for PID approval to the field.

The proposed amendment to the Population and Family Planning Project is an extension of current activities into new areas of the country and a consolidation of ongoing activities through fewer implementing agencies. Since no controversial or policy issues that were not addressed when the original project was approved are likely to result from the proposed extension of activities, the Mission requests that AID/W delegate authority to the Mission to approve the proposed amendment.

For FY-88 only one new project, the Development Planning and Implementation Support Project, is proposed for design and initial obligation. In addition, one on-going project, the Integrated Rural Health Delivery Systems project (518-0015), will be amended to include additional, follow-on Child Survival activities.

1988 is an election year in Ecuador, and a change in administration will take place in August of that year. The Mission's strategy is to design one project which will enable it to respond quickly to the new democratically elected administration's priorities. As such, the Mission proposes to design the Development Planning and Implementation Support Project late in the fiscal year for initial obligation with the new administration. Given the timing constraints, the Mission requests that AID/W delegate authority to the Mission to authorize this project in the field.

The proposed amendment to the Integrated Rural Health Delivery Systems Project will finance an expansion of Child Survival activities. Given that these activities consist of an extension to already approved technologies and the addition of two proven Child Survival technologies, the Mission requests that authority be delegated to the Mission to authorize this PP amendment.

TABLE I

DOCUMENT SUBMISSION AND AUTHORIZATION SCHEDULE

DOCUMENT	FY 1986 O N D J F M A M J J A S	FY 1987 O N D J F M A M J J A S	FY 1988 O N D J F M A M J J A S	NOTES
Graduate Management School	A* O			A: 5/86
PP: No. 518-0035				O: 6/86
Non-Trad. Ag. Exports	A* O			A: 5/86
PP Amendment: No. 518-0019				O: 6/86
Small Enterprise Development	R* S			R: 12/85
PID: No.518-0056				S: 1/86
Coffee Rust Control	R* S			R: 1/86
PID: No. 518-0054				S: 2/86
Technical Skills Training	S			R: 9/85
PID: No. 518-0055				S: 10/85
Small Enterprise Development	A* O			A: 6/86
PP: No. 518-0056				O: 7/86
Coffee Rust Control	A* O			A: 6/86
PP: No. 518-0054				O: 7/86
Economic Stabilization/Recovery	S A O			S: 9/86
PAAD Amendment: 518-0058				A: 10/86
				O: 11/86
Cacao Renovation	R* S			R: 12/86
PID: No. 518-0053				S: 1/87
Capital Markets Dev.	R* S			R: 12/86
PID: No. 518-0063				S: 1/87
Population and Family Planning	A* O			A: 12/86
PP Amendment: No. 518-0026				O: 2/87
Cacao Renovation	A* O			A: 5/87
PP: No. 518-0053				O: 6/87
Capital Markets Development	A* O			A: 5/87
PP: No. 518-0063				O: 6/87
Integrated Rural Health	A* O			A: 11/87
PP Amendment: No. 518-0015				O: 2/88
Economic Stabilization/Recovery	S A O			S: 9/87
PAAD Amendment: No. 518-0056				A: 10/87
				O: 11/87
Dev. Planning/Support	R* S			R: 2/88
PID: No. 518-0065				S: 3/88
Dev. Planning/Support	A* O			A: 8/88
PP: No. 518-0065				O: 9/88

R=reviewed A=authorized O=obligated S=submission *=action in field

d. Pipeline Analysis

Overview:

The A.I.D. program in Ecuador has experienced a rapid, substantial build-up since FY-84. As evidence of its strong support for Ecuadorean democracy and the current administration of President Febres Cordero, AID/W has approved major increases in resources to the country. During FYs 84-85, total DA funding averaged $25.4 million a year, an 86 percent increase over the average annual budgets of the four previous years. In addition, A.I.D. initiated ESF and PL-480 Title I programs under which resources totaling $39 million have been made available to date. The Mission also supports a large HG program involving guaranties of $75 million.

As a result of this build-up, the Mission has had to devote an inordinate amount of staff time to program development. In FY-85 alone, the Mission designed, obtained approval of, negotiated, and initiated four major bilateral projects, plus the Child Survival amendment, ESF and PL-480 programs. Throughout this time, professional staff levels have remained virtually unchanged. This combination of increased DA resources and decreased staff time to devote to implementation of the existing program would be expected to cause the pipeline to grow. In fact, the increase in the pipeline since the fourth quarter of FY-84, when the current phase of program expansion began, has been modest (less than $5 million or 7.3 percent).

Current Status:

As of December 31, 1985, USAID/Ecuador's active portfolio consisted of DA obligations totalling $118.6 million. Expenditures against these obligations totalled $49 million, resulting in a pipeline of $69.6 million. Loan funds constituted 52 percent of the pipeline.

Trends:

There has continued to be steady progress in the implementation of the Ecuador program. Expenditures have followed a rising trend line since FY-81 (see Table 2 and Figure 1). Expenditures in FY-85 were $23 million, slightly more than total expenditures for all previous years combined. Actual expenditures reached 80 percent of planned levels, as established in the FY-87 ABS - the Mission's best performance in recent years. However, the annual rate of increase in expenditures has dropped off,

from 176 percent in FY-83 and 125 percent in FY-84 to 88 percent in FY-85. This reflects both the growing absolute size of the program as well as the strain caused by increasing program development requirements.

Expenditures have increased at a faster rate than obligations since FY-81. As a result, the pipeline liquidation rate (annual expenditures divided by end-of-year pipeline) had risen from five percent at the end of FY-81 to 31 percent at the end of FY-85 (see Table 2).

Management Actions

The Mission recognizes the burden placed on its limited staff by the rapidly increasing portfolio. In response, Mission management has taken or is planning actions to improve implementation of older projects and bring them to completion. During FY-85 funding was deobligated from the Alternative Energy Sources and Rural Technology Transfer System projects, and the latter was significantly redesigned to make the administrative mechanisms more agile and to place greater emphasis on private sector participation. The Mission is also in the process of reducing the scope of the IRD/Agriculture Project to focus on completion of the irrigation component by the PACD of December 31, 1986. Funding not required for this component will be deobligated. Slow-moving components of the Population/FP Project were deobligated and funds reprogrammed from CONADE to an NFP program with the Catholic Church.

Finally, the Mission anticipates streamlining the Forestry Sector Development Project, eliminating activities having marginal impact to focus staff and financial resources on the implementation of more successful activities.

Projections

In the absence of increased personnel levels in key areas, the Mission does not expect the pipeline situation to improve significantly during FY-86 and into early FY-87. The Mission will continue to have substantial project development responsibilities during that time. Moreover, as the older projects are completed, the pipeline will become increasingly weighted with newer projects, some of which are expected to experience slow start-ups with relatively low expenditures. It is anticipated that

during latter FY-87 and FY-88 the Mission will be able to dedicate more staff resources to implementation and the rate of expenditures and liquidation will resume their upward trends.

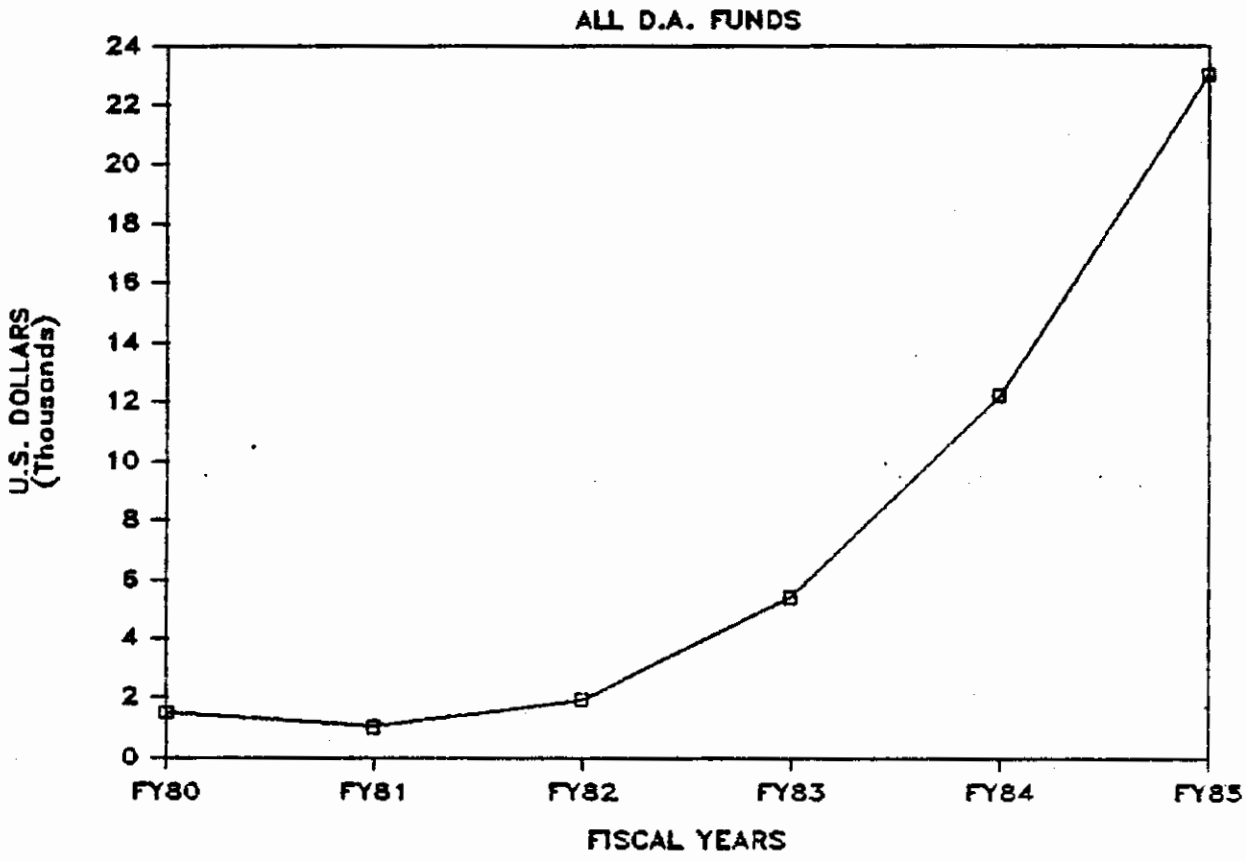
TABLE 2

ECUADOR PIPELINE
D.A. FUNDS (U.S.$ 000)

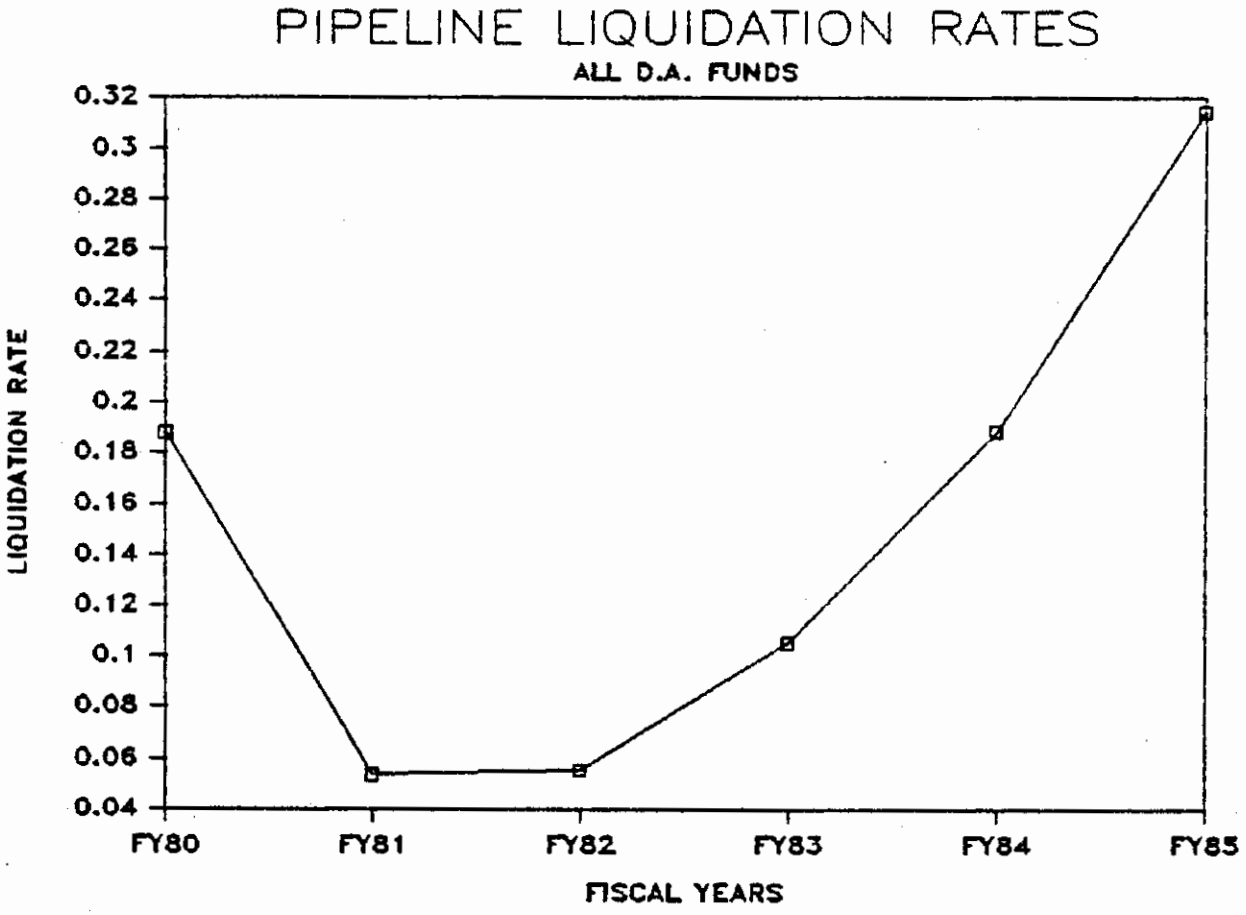
FISCAL YEAR	QTR.	END OF PERIOD OBLIG.	END OF PERIOD EXPEND.	PIPELINE	QUARTER EXPEND.	LIQUID. RATE*	FY EXPEND.	ANNUAL LIQUID. RATE
FY80	All	9,661	1,529	8,132			1,529	0.19
FY81	I	14,208	1,708	12,500	179	0.06		
	II	14,696	1,832	12,864	124	0.04		
	III	14,820	2,250	12,570	418	0.13		
	IV	22,177	2,583	19,594	333	0.07	1,054	0.05
FY82	I	25,078	2,997	22,081	414	0.07		
	II	26,472	3,456	23,016	459	0.08		
	III	26,909	3,801	23,108	345	0.06		
	IV	39,809	4,544	35,265	743	0.08	1,961	0.06
FY83	I	45,016	5,629	39,387	1,085	0.11		
	II	45,335	6,745	38,590	1,116	0.12		
	III	46,157	7,806	38,351	1,061	0.11		
	IV	61,360	9,962	51,398	2,156	0.17	5,418	0.11
FY84	I	62,018	11,618	50,400	1,656	0.13		
	II	63,653	13,330	50,323	1,712	0.14		
	III	66,940	18,891	48,049	5,561	0.46		
	IV	87,008	22,176	64,832	3,285	0.20	12,214	0.19
FY85	I	88,774	26,316	62,458	4,140	0.27		
	II	96,587	34,323	62,264	8,007	0.51		
	III	100,518	36,505	64,013	2,182	0.14		
	IV	118,429	45,191	73,238	8,686	0.47	23,015	0.31
FY86	I	118,593	48,978	69,615	3,787	0.22		

*CALCULATED AS QUARTERLY EXPENDITURES ANNUALIZED (i.e. MULTIPLIED BY FOUR) AND DIVIDED BY END OF QUARTER OBLIGATIONS

SOURCE: QUARTERLY PROJECT STATUS REPORTS - USAID/E CONTROLLER'S OFFICE


EXPENDITURES BY FISCAL YEAR
ALL D.A. FUNDS
U.S. DOLLARS (Thousands)
24
22
20
18
16
14
12
10
8
6
4
2
0
FY80
FY81
FY82
FY83
FY84
FY85
FISCAL YEARS

URE 1


PIPELINE LIQUIDATION RATES
ALL D.A. FUNDS
LIQUIDATION RATE
0.32
0.3
0.28
0.26
0.24
0.22
0.2
0.18
0.16
0.14
0.12
0.1
0.08
0.06
0.04
FY80
FY81
FY82
FY83
FY84
FY85
FISCAL YEARS

e. Mortgage Analysis

The following Table shows USAID Project Portfolio Mortgage Projections through September 30, 1988. These projections reflect the Mission's strategy of commencing new projects in FY 85-86 to be responsive to the initiatives of the Febres-Cordero Government and to take advantage of new opportunities in the private sector. Emphasis will shift in FY 87-88 to implementation. Consistent with the strategy of gradually reducing the number of new start-ups and increasing the level of effort on implementation, three new project starts are being implemented in FY-86 (Private Sector Coffee Renovaton, Small Business Development, and the Graduate Management Program). Although two new projects, one project extension and one add-on are being proposed for FY-87 (Capital Markets Development, Cacao Renovation and Rehabilitation, Narcotics Education Extension and the Population add-on), the design workload for Narcotics Education and Population will be modest. In FY-88, only one new project (Development Planning and Implementation Support) and one add-on (Child Survival) are being proposed to allow for mortgage liquidation as well as emphasis on implementation.

The Mission considers that, perhaps with the exception of FY-87, its mortgage situation is within reasonable limits as established in "problem" mortgage guidance from AID/Washington, i.e., "mortgages more than twice as large as the program levels for the current year" (See Table 4 and Figure 2). The mortgage at the end of FY-86 of $48.8 million increases to $52.0 million in FY-87, and is drastically reduced to $39.0 million in FY-88. Accordingly, USAID/E's mortgage is, with some distortion in FY-87, reasonably consistent with the guideline. The mortgage situation at the end of FY-88, i.e., mortgage of $39.0 million vs. the FY-89 expected program level of $25.0 million, is well below the parameter established in the guidance. This reflects the emphasis the Mission plans to give to reducing the mortgage in FYs 87-88.

Finally, the Mission proposes to manage and deal with its mortgage by gradually increasing the amounts of program funding for mortgage liquidation from FY-86 through FY-88. As Table 3 illustrates, the percentage of OYB used for new projects will fall from 31% in FY-86 to 10% in FY-88.

Table 3

PLANNED OBLIGATIONS: VALUE AND PERCENTAGE

FOR MORTGAGE LIQUIDATION VS NEW PROJECTS

(U.S.$000)

	FY-86		FY-87		FY-88	
	Amount	%	Amount	%	Amount	%
Mortgage Liquidation	15480	68.8	17704	78.7	22500	90.0
New Incrementally Funded Projects*	7020	31.2	4796	21.3	2500	10.0
TOTAL	22500	100.0	22500	100.0	25000	100.0

* Including Add-Ons

TABLE 4

PROGRAM FUNDING MORTGAGE
CALCULATED TO SEPTEMBER 30, 1988

PROGRAM: ECUADOR (U S. $ 000)

PROJECT TITLE	L / G	PROJECT NUMBER	FY OF INITL OBLIG	LIFE OF PROJECT FUNDING	-THROUGH FY85- CUMM OBLIG.	-THROUGH FY85- MORT GAGE	-THROUGH FY86- CUMM OBLIG.	-THROUGH FY86- MORT GAGE	-THROUGH FY87- CUMM OBLIG.	-THROUGH FY87- MORT GAGE	-THROUGH FY88- CUMM OBLIG.	-THROUGH FY88- MORT GAGE
AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION												
PROGRAM DEVELOPMENT AND SUPPORT - ARDN	G	518-0005	79	6,242	3,039	3,203	3,889	2,353	4,642	1,600	5,242	1,000
NON TRADITIONAL AG. EXPORTS***	G	518-0019	84	4,400	1,100	1,300	2,000	400	2,900	1,500	3,900	500
RURAL TECHNOLOGY TRANSFER SYSTEM	G	518-0032	80	5,300	3,700	1,600	4,300	1,000	5,300	0	5,300	0
PRIVATE SECTOR DEV. OPG	G	518-0047	84	350	150	200	225	125	275	75	350	0
AGRICULTURAL SECTOR REORIENTATION PROGRAM	G	518-0051	85	7,100	700	6,400	2,500	4,600	4,000	3,100	5,700	1,400
CACAO RENOVATION PROGRAM	G	518-0053	87	6,000	0	0	0	0	500	5,500	1,500	4,500
CACAO RENOVATION PROGRAM	L	518-0053	87	2,000	0	0	0	0	500	1,500	1,500	500
PRIVATE SECTOR COFFEE RENOVATION	G	518-0054	86	6,000	0	0	1,000	5,000	1,500	4,500	3,000	3,000
PRIVATE SECTOR COFFEE RENOVATION	L	518-0054	86	2,000	0	0	1,000	1,000	1,500	500	2,000	0
SMALL FARMER SUPPORT OPG	G	518-0057	85	811	514	297	664	147	811	0	811	0
LAND TITLING	G	518-0059	85	3,300	900	2,400	2,000	1,300	3,300	0	3,300	0
LAND TITLING	L	518-0059	85	7,000	2,100	4,900	3,500	3,500	5,000	2,000	7,000	0
AGRICULTURAL EDUCATION OPG	G	518-0062	85	680	275	405	450	230	550	130	680	0
PRIVATE AND VOLUNTARY ORGANIZATIONS - OPGs	G	518-9999	87	1,300	0	0	0	0	100	1,200	500	800
OTHER ACTIVE PROJECTS, FULLY FUNDED AS OF 9-30-85		GRANTS	78	4,888	4,888	0	4,888	0	4,888	0	4,888	0
		LOANS	78	24,300	24,300	0	24,300	0	24,300	0	24,300	0
TOTALS FOR ACCOUNT				81,671	41,666	20,705	50,716	19,655	60,066	21,605	69,971	11,700
GRANTS				46,371	15,266	15,805	21,916	15,155	28,766	17,605	35,171	11,200
LOANS				35,300	26,400	4,900	28,800	4,500	31,300	4,000	34,800	500

PROJECT TITLE	L / G	PROJECT NUMBER	FY OF INITL OBLIG	LIFE OF PROJECT FUNDING	-THROUGH FY85- CUMM OBLIG.	MORT GAGE	-THROUGH FY86- CUMM OBLIG.	MORT GAGE	-THROUGH FY87- CUMM OBLIG.	MORT GAGE	-THROUGH FY88- CUMM OBLIG.	MORT GAGE
POPULATION PLANNING												
PROGRAM DEVELOPMENT AND SUPPORT - PN	G	518-0013	79	418	168	250	218	200	268	150	318	100
POPULATION AND FAMILY PLANNING***	G	518-0026	81	12,000	4,491	1,109	5,241	359	6,437	5,563	7,437	4,563
TOTALS FOR ACCOUNT				12,418	4,659	1,359	5,459	559	6,705	5,713	7,755	4,663
GRANTS				12,418	4,659	1,359	5,459	559	6,705	5,713	7,755	4,663
LOANS				0	0	0	0	0	0	0	0	0
HEALTH												
PROGRAM DEVELOPMENT AND SUPPORT - HE	G	518-0009	79	1,729	679	1,050	929	800	1,129	600	1,329	400
INTEGRATED RURAL HEALTH DELIVERY SYSTEM***	G	518-0015	81	11,130	5,130	0	5,130	0	5,130	0	6,130	5,000
MALARIA CONTROL PROGRAM	G	518-0049	85	3,000	2,500	500	3,000	0	3,000	0	3,000	0
MALARIA CONTROL PROGRAM	L	518-0049	85	6,500	2,500	4,000	5,000	1,500	6,500	0	6,500	0
PRIVATE AND VOLUNTARY ORGANIZATIONS - OPGs	G	518-9999	86	2,400	0	0	400	2,000	1,200	1,200	1,600	800
OTHER ACTIVE PROJECTS, FULLY FUNDED AS OF 9-30-85		GRANTS	85	400	400	0	400	0	400	0	400	0
		LOANS	81	7,235	7,235	0	7,235	0	7,235	0	7,235	0
TOTALS FOR ACCOUNT				32,394	18,444	5,550	22,094	4,300	24,594	1,800	26,194	6,200
GRANTS				18,659	8,709	1,550	9,859	2,800	10,859	1,800	12,459	6,200
LOANS				13,735	9,735	4,000	12,235	1,500	13,735	0	13,735	0

PROJECT TITLE	L / G	PROJECT NUMBER	FY OF INITL OBLIG	LIFE OF PROJECT FUNDING	-THROUGH CUMM OBLIG.	FY85- MORT GAGE	-THROUGH CUMM OBLIG.	FY86- MORT GAGE	-THROUGH CUMM OBLIG.	FY87- MORT GAGE	-THROUGH CUMM OBLIG.	FY88- MORT GAGE
EDUCATION AND HUMAN RESOURCES												
PROGRAM DEVELOPMENT AND SUPPORT - EHR	G	518-0016	79	3,313	1,284	2,029	1,764	1,549	2,068	1,245	2,613	700
TRAINING FOR DEVELOPMENT	G	518-0017	80	1,300	930	370	1,300	0	1,300	0	1,300	0
GRADUATE MANAGEMENT TRG. PROGRAM	G	518-0035	86	7,000	0	0	2,500	4,500	4,000	3,000	5,500	1,500
TECHNICAL TRAINING - SAN PATRICIO OPG	G	518-0044	84	611	571	40	611	0	611	0	611	0
TECHNICAL SKILLS TRAINING DEVELOPMENT	G	518-0055	86	5,000	0	0	1,000	4,000	1,900	3,100	3,400	1,600
CHILD, FAMILY & COMMUNITY DEVELOPMENT OPG	G	518-0061	85	640	280	360	500	140	640	0	640	0
NARCOTICS EDUCATION***	G	518-0064	87	1,000	0	0	0	0	200	800	400	600
PRIVATE AND VOLUNTARY ORGANIZATIONS - OPGs	G	518-9999	86	3,600	0	0	140	3,460	800	2,800	1,700	1,900
OTHER ACTIVE PROJECTS, FULLY FUNDED AS OF 9-30-85		GRANTS	78	4,601	4,601	0	4,601	0	4,601	0	4,601	0
		LOANS	--	0	0	0	0	0	0	0	0	0
TOTALS FOR ACCOUNT				27,065	7,666	2,799	12,416	13,649	16,120	10,945	20,765	6,300
GRANTS				27,065	7,666	2,799	12,416	13,649	16,120	10,945	20,765	6,300
LOANS				0	0	0	0	0	0	0	0	0

PROJECT TITLE	L / G	PROJECT NUMBER	FY OF INITL OBLIG	LIFE OF PROJECT FUNDING	-THROUGH CUMM OBLIG.	FY85- MORT GAGE	-THROUGH CUMM OBLIG.	FY86- MORT GAGE	-THROUGH CUMM OBLIG.	FY87- MORT GAGE	-THROUGH CUMM OBLIG.	FY88- MORT GAGE
SELECTED DEVELOPMENT ACTIVITIES												
SPECIAL DEVELOPMENT ACTIVITIES	G	518-0004	79	1,556	556	1,000	756	800	956	600	1,156	400
PROGRAM DEVELOPMENT AND SUPPORT - SD	G	518-0011	79	5,412	2,362	3,050	3,112	2,300	3,712	1,700	4,412	1,000
INTEGRATED COMMUNITY DEV. OPG	G	518-0021	82	586	546	40	586	0	586	0	586	0
FISCAL ADMINISTRATION DEV.	G	518-0042	85	2,600	1,500	1,100	2,000	600	2,600	0	2,600	0
FISCAL ADMINISTRATION DEV.	L	518-0042	85	2,000	1,000	1,000	2,000	0	2,000	0	2,000	0
MACROECONOMIC POLICY ANALYSIS	G	518-0050	84	2,500	900	1,600	1,300	1,200	1,700	800	2,500	0
SMALL BUSINESS DEVELOPMENT	G	518-0056	86	5,000	0	0	1,000	4,000	2,000	3,000	3,500	1,500
CHILD, FAMILY & COMMUNITY DEVELOPMENT OPG	G	518-0061	85	700	120	580	300	400	500	200	700	0
CAPITAL MARKETS DEV.	G	518-0063	87	3,000	0	0	0	0	1,000	2,000	2,000	1,000
CAPITAL MARKETS DEV.	L	518-0063	87	4,000	0	0	0	0	1,500	2,500	3,000	1,000
DEVELOPMENT PLANNING AND IMPLEMENTATION SUPPORT	G	518-0065	88	6,000	0	0	0	0	0	0	1,500	4,500
PRIVATE AND VOLUNTARY ORGANIZATIONS - OPGs	G	518-9999	86	1,580	0	0	180	1,400	380	1,200	780	800
OTHER ACTIVE PROJECTS, FULLY FUNDED AS OF 9-30-85		GRANTS	82	2,177	2,177	0	2,177	0	2,177	0	2,177	0
		LOANS	81	1,650	1,650	0	1,650	0	1,650	0	1,650	0
TOTALS FOR ACCOUNT				38,761	10,811	8,370	15,061	10,700	20,761	12,000	28,561	10,200
GRANTS				31,111	8,161	7,370	11,411	10,700	15,611	9,500	21,911	9,200
LOANS				7,650	2,650	1,000	3,650	0	5,150	2,500	6,650	1,000

PROJECT TITLE	L / G	PROJECT NUMBER	FY OF INITL OBLIG	LIFE OF PROJECT FUNDING	-THROUGH FY85- CUMM OBLIG.	MORT GAGE	-THROUGH FY86- CUMM OBLIG.	MORT GAGE	-THROUGH FY87- CUMM OBLIG.	MORT GAGE	-THROUGH FY88- CUMM OBLIG.	MORT GAGE
DISASTER RELIEF AND REHABILITATION												
OTHER ACTIVE PROJECTS, FULLY FUNDED AS OF 9-30-85	GRANTS		83	7,000	7,000	0	7,000	0	7,000	0	7,000	0
	LOANS		83	16,000	16,000	0	16,000	0	16,000	0	16,000	0
TOTALS FOR ACCOUNT				23,000	23,000	0	23,000	0	23,000	0	23,000	0
GRANTS				7,000	7,000	0	7,000	0	7,000	0	7,000	0
LOANS				16,000	16,000	0	16,000	0	16,000	0	16,000	0
TOTALS FOR COUNTRY				215,309	106,246	38,783	128,746	48,863	151,246	52,063	176,246	39,063
GRANTS				142,624	51,461	28,883	68,061	42,863	85,061	45,563	105,061	37,563
LOANS				72,685	54,785	9,900	60,685	6,000	66,185	6,500	71,185	1,500

*** THESE ARE ADD-ON PROJECTS FOR WHICH MORTGAGE IS CALCULATED STARTING IN THE FISCAL YEAR IN WHICH THE ADD-ON OCCURS

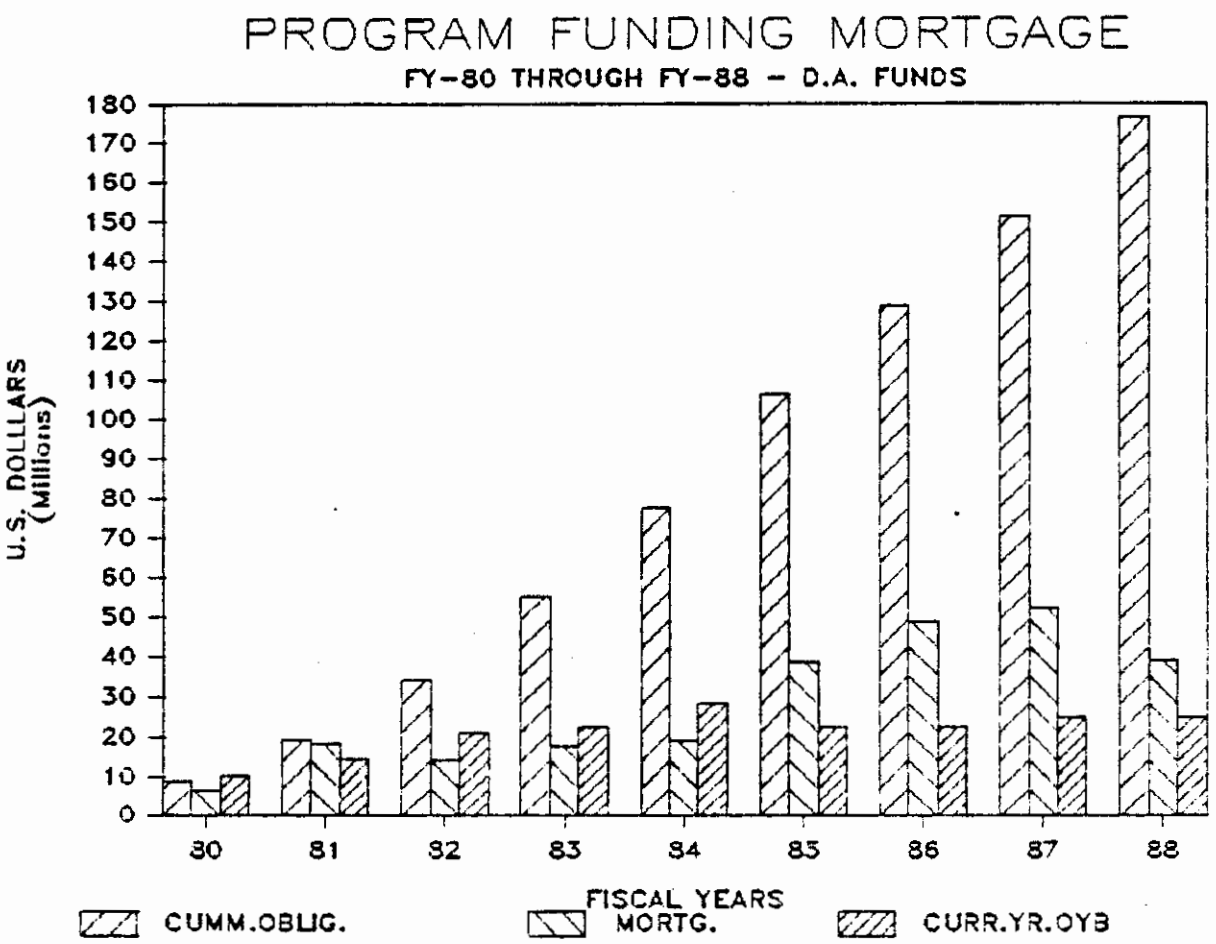
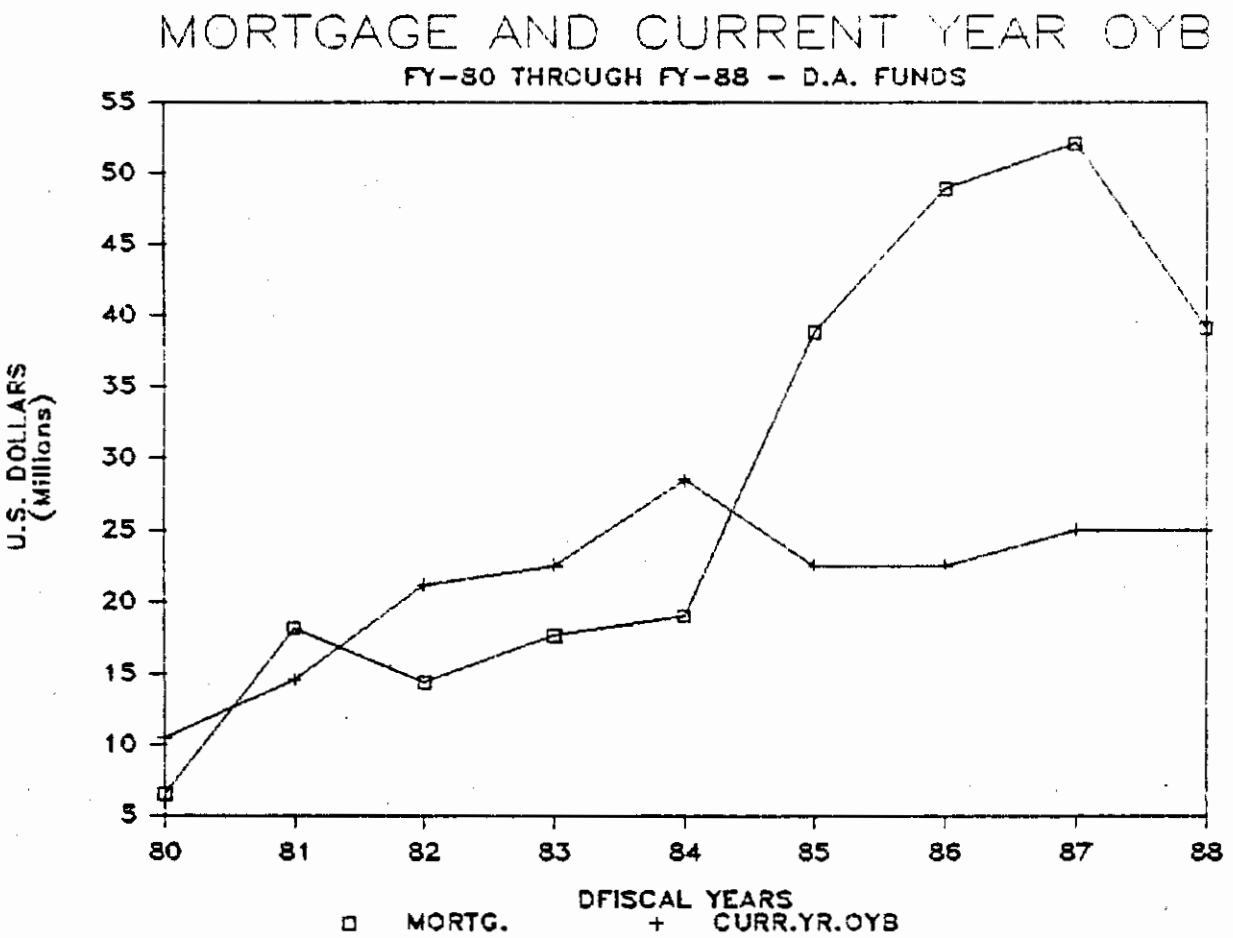

PROGRAM FUNDING MORTGAGE
FY-80 THROUGH FY-88 - D.A. FUNDS
U.S. DOLLARS (Millions)
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
80
81
82
83
84
85
86
87
88
FISCAL YEARS
CUMM.OBLIG.
MORTG.
CURR.YR.OYB

FIGURE 2


MORTGAGE AND CURRENT YEAR OYB
FY-80 THROUGH FY-88 - D.A. FUNDS
U.S. DOLLARS (Millions)
55
50
45
40
35
30
25
20
15
10
5
80
81
82
83
84
85
86
87
88
DFISCAL YEARS
MORTG.
CURR.YR.OYB

2. Project Narratives

Following are project descriptions for projects proposed for initial and add-on funding in FYs 87 and 88.

NARCOTICS USE PREVENTION (518-0064)

Relationship of the Project to Mission Goals and Objectives. This project, which is a continuation of an ongoing effort, responds to the Administration's and Congress' increased interest in the drug problem and relates to the Mission objective of satisfying basic human needs, including a healthier life, through improvements in narcotics prevention education. It also supports the Mission strategy of strengthening and orienting the public sector toward those activities most appropriately carried out by the public sector. The purpose of this five-year project is to strengthen the capacity of the National Illicit Drug Traffic Control Directorate (DINACTIE) to carry out a broad-based interinstitutional narcotics use prevention program.

The Development Problem. Narcotics use reduces the productive capacity of Ecuador by weakening its citizens. The production time lost while on the job, in school, or in treatement centers is detrimental to the economic growth of the nation. In Ecuador, narcotics use is increasing across population groups, but most rapidly among the school-age and the young adult, middle class population groups.

A large portion of the Ecuadorean population is not aware of the drug problem. Parents often do not recognize symptoms of drug use in their children, and young adults often do not realize the detrimental effects drug use has on their own bodies and their personal relationships (family, friends, and employment).

Major Project Activities. To address these problems, the project will implement a major, nationwide drug awareness program. The overall program coordinator will be DINACTIE which will implement specific activities through different public and private agencies most appropriate to the specific group to be targeted. One of the project's major outputs will be the establishment of firm interagency collaborative mechanisms to manage drug awareness and use prevention activities.

The project will finance the development and delivery of specific messages through a national television and radio

media campaign; the design and distribution of anti-narcotics educational materials; and the costs of conducting training workshops and seminars.

The major project design effort will be to conduct an epidemiological survey which will assist A.I.D. and DINACTIE to further refine the target group definition and to better pin-point project activities.

Relationship to A.I.D. Policies. The control of illicit drug traffic into the United States is a top priority of the United States Government. As part of its integrated approach to controlling drug trafficking, the USG places emphasis on the provision of assistance to developing nations to address their internal narcotics problems. Educational activities related to preventing drug use usually fall within the purview of A.I.D., which implements such activities in coordination with other agencies of the USG.

Preliminary budget. A.I.D. grant funds will be programmed to finance media costs, materials design and development, seminars, and some operating costs related to implementation of these activities.

Functional Account: SDA	US$000		
	FY-87	FY-88	LOP
Loan:	0	0	0
Grant:	200	200	1,000
TOTAL	200	200	1,000

CACAO RENOVATION AND REHABILITATION (518-0053)

Relationship of the Project to Mission Goals and Objectives. This project directly supports the Mission goal of economic growth with improved equity by addressing the objectives of increasing agricultural production, promoting exports, and strengthening the private sector to accomplish this. It is consistent with the Mission's agricultural strategy of (1) focusing on a limited number of specific crops or livestock production which have particularly good market prospects and (2) using private sector delivery mechanisms whenever possible.

The Development Problem. Cacao is a traditional Ecuadorean export crop. The value of cacao exports reached its highest level in 1979 when export earnings totalled over $270 million. Since that time, exports have fallen dramatically, to an all time low of $35 million in 1983, when the El Niño disaster destroyed much of the production.

Ecuador is not maintaining its position in the world cacao market. Productivity is very low. The mean total crop for the years prior to the El Niño disaster was about 80,000 tons, an average of about one pound per tree. This is the same productivity that would be expected from cacao plantings that have been totally abandoned. In addition to the natural disaster, these declines in cacao exports are attributable to both technical and structural problems.

Cacao plantings in Ecuador are aged. Renovation of cacao farms has not taken place in any comprehensive way. Where farmers have been able to finance the cost of introducing new varieties, they have gradually mixed them with the older varieties. The resulting hybrid has produced beans which require new processing methodologies. Most producers, however, have continued to use traditional processing methods, which result in lower quantity and quality of beans. To introduce new technologies, farmers need access to financial and technical resources. Since the majority of producers have small holdings, their access to formal sources of credit and technical services is generally marginal.

Structural problems exist in the cacao sector. Producers have been subject to a series of governmental policy determinations which have had the combined effect of reducing production incentives. For several years, these policies effectively placed a tax on the exportation of unprocessed cacao, which forced producers to sell to processors. Processors were thus able to buy at prices lower than producers could receive by selling unprocessed beans for

direct export. Over the past few years this has gradually been changing. More recently, the policy environment has taken a significant turn for the better as government has sought to place more emphasis on production for export.

Major Project Activities. The purpose of this project will be to increase the productivity of Ecuadorean cacao plantations and improve the quality of beans being exported by introducing a cacao renovation technology package on target farms. This purpose will be achieved by implementing the following activities:

Technology extension. The project will establish a small, but strong technology extension service for cacao producers. The service will consist of a small cadre of highly trained extension agents, most likely attached to the cacao producer's association. Proven cacao renovation technologies will be introduced onto participating farms in the form of a technology package. The technology extension service will be developed and implemented in conjunction with investment credit for renovation to individual farmers.

Credit. The project will assist producers to gain access to existing sources of credit, rather than make credit resources available directly. The availability of long-term investment credit, of course, will depend on the liquidity of the banking sector, the availability of Central Bank discount lines for this purpose, and the general state of the economy over the next two years. The Mission will consider augmenting available credit with PL 480 Title I local currency resources as necessary.

Relationship to A.I.D. Policies. The project will develop human resources and institutional capacity within the private sector producer associations to address and solve the problems of the cacao sector.

Preliminary Budget. A.I.D. funds will finance technical assistance, investment and initial operating expenses required to establish the technology extension service in the cacao producer's association. For the credit activity, A.I.D. funds will finance the technical assistance required to mobilize existing credit resources.

Functional Account: ARDN	US$000		
	FY-87	FY-88	LOP
Loan:	500	1,000	2,000
Grant:	500	1,000	6,000
TOTAL	1,000	2,000	8,000

CAPITAL MARKETS DEVELOPMENT (518-0063)

Relationship of the Project to Mission Goals and Objectives. This project directly supports the Mission goal of economic growth with improved equity by addressing the combined objectives of stabilizing financial structures through a strengthening of private sector financial institutions.

The Development Problem. The discovery of oil in the 1960's led to a heavy reliance in Ecuador on oil exports to finance economic growth. Export earnings from oil were so large during the 1970's that they generally came to be regarded as the engine of growth for the entire economy. The creditworthiness of Ecuador as a nation soared, and both the public and private sectors borrowed heavily in international markets to finance investments. The result was neglect within Ecuador of mobilizing domestic resources to finance development activities. On the public sector side, revenues from tax collections fell to their lowest point as a percentage of GDP. On the private sector side, the facility with which banks could borrow internationally led to little attention being paid to domestic savings mobilization. At the same time, the falling real value of the local currency drew capital out of Ecuador toward higher-return investments in other countries. With the fall in export income from oil and the burgeoning debt crisis, Ecuador has once again had to look inward to generate financial resources necessary to finance investments.

The Febres-Cordero administration has done much in the past year to set the policy framework required for increasing domestic resource mobilization. The exchange rate has been realigned several times. Inflation has fallen to manageable levels. Interest rates on both deposits and lending have been increased, and have been allowed to float for certain types of transactions. Certain other policies remain to be addressed. For example, the system of credit allocation in Ecuador remains distorted by a wide variety of administratively determined interest rates and credit allocations.

However, policy changes alone are not sufficient to correct the problems that domestic private sector financial institutions face if they are truly to become financiers of Ecuadorean economic growth. A series of structural/institutional problems that have resulted from 10 years of neglect must be corrected in the short term if the private financial system is to assume this role. These problems are largely related to the institutional weaknesses present in the system, as follows:

- There is a weak institutional infrastructure to deal with the complex issues and needs of the productive sectors of the economy.
- The debt-to-equity ratio of most financial institutions is out of balance, which leads to positions of high vulnerability and decapitalization.
- Both company and banking supervision systems are weak.
- No institution has developed a capacity for raising equity investment capital.

Major Project Activities. The purpose of this proposed project will be to strengthen the capacity of private capital markets to mobilize domestic savings for investment in productive sectors of the economy. To accomplish this, the project will undertake a series of activities:

- Expand and improve financial institution supervision systems through training and technical assistance programs.

- Assist in the restructuring of the financial system by providing technical assistance aimed at a consolidation of the sector.

- Improve the system of company supervision by providing technical assistance and training to appropriate entities.

- If deemed necessary, assist appropriate financial institutions to create an investment financing corporation.

Relationship to A.I.D. Policies. Capital markets which can respond to market forces as they aggregate and allocate financial resources are a central component of a private enterprise system. This project will contribute directly to the strengthening of private sector financial institutions in Ecuador so that they may better perform this important development function.

Preliminary Budget. A.I.D. funds will finance technical assistance and training required to accomplish the activities above mentioned. Project funds may also be required to finance a portion of the capitalization requirements and the initial operating expenses required to establish an investment financing corporation.

Functional Account: SDA	US$000		
	FY-87	FY-88	LOP
Loan:	1,000	1,000	3,000
Grant:	1,500	1,500	4,000
TOTAL	2,500	2,500	7,000

POPULATION AND FAMILY PLANNING (518-0026, Amendment)

Relationship of the Project to Mission Goals and Objectives. This proposed project amendment will directly support the Mission goal of satisfying basic human needs by addressing the objective of reducing the fertility rate (and thereby the rate of population growth), as well as reducing reproductive mortality.

The Development Problem. The current population growth rate of Ecuador, estimated at 2.9% per year, continues to be one of the highest in Latin America. Although the fertility rate has been steadily diminishing, it is still higher by at least one child per woman than that of any other country in South America.

The rate of population growth represents a serious development problem for Ecuador. Investments in education, health care services, and basic shelter are unable to keep up with population growth, and demands are left unsatisfied. Employment opportunities do not keep up with population growth which leads to increasing numbers of un- and under-employed Ecuadoreans with incomes less than adequate to meet the basic needs of their families.

At the same time, pregnancies occurring too close together are detrimental to the health of mothers and their children. Mothers are, in turn, ill-equipped to face the next pregnancy.

The results of these problems are obvious. Economic growth will not keep up with population growth and Ecuador will be less able to meet the basic needs of its population. Continued high fertility rates will continue to have adverse health affects on the population, reducing human productivity.

Major Project Activities. The purpose of this ongoing project is to expand demand for and availability of family planning services to low income populations.

Under the ongoing five year project, services have been greatly expanded to urban low-income populations through both the public and private entities. Under this project continuation, activities will focus on expanding ongoing activities into more rural areas and initiating new activities in marginal urban areas. Among the activities contemplated for financing are the following:

- Motivational and educational programs will be designed and implemented to reach Ecuador's highly dispersed rural population.

- Community based delivery systems will be strengthened.
- Social marketing programs will be initiated to the extent possible within Ecuador's commercial and legal environment.
- Natural family planning programs will be extended into new areas.

Relationship to A.I.D. Policies. The proposed project amendment is fully consistent with A.I.D. policy objectives. By increasing the availability of family planning services, the freedom of individuals to choose voluntarily the number and spacing of their children is enhanced. By increasing the availability of family planning and information services, the project encourages a population growth rate that is consistent with the growth of economic resources and productivity.

The project is also fully consistent with legislated and other A.I.D. population policies. The project will not provide support for abortion services or any abortion related activities. The project provides no support for involuntary sterilization activities. The project incorporates a natural family planning activity. Only FDA approved contraceptives will be made available under the program.

Preliminary Budget. A.I.D. grant funds will finance technical assistance, and training required to accomplish the activities mentioned above. Project funds will also be required to finance the initial operating expenses required to expand program operations.

Functional Account: POP

	Original LOP	Add-On	New LOP	US$000 FY-87	US$000 FY-88
Loan:	0	0	0	0	0
Grant	5,600	6,400	12,000	1,196	1,000
TOTAL	5,600	6,400	12,000	1,196	1,000

INTEGRATED RURAL HEALTH SERVICES CHILD SURVIVAL PROGRAM AMENDMENT (518-0015)

Relationship of the Project to Mission Goals and Objectives. This project directly supports the Mission goal of satisfying basic human needs by addressing the objectives of reducing infant mortality and improving health care and services.

The Development Problem. Despite significant efforts by the GOE over the last 20 years to address the causes of infant and child death, mortality among children under age five continues to be very high. Official estimates place overall infant mortality in 1982 at 72 deaths per 1,000 live births, a reduction of 35% since 1960. However, sample surveys of infant mortality in rural areas have shown the rate to be much higher, often exceeding 100 per 1,000 live births. Diarrhea represents the leading cause of infant death (21% of all infant deaths), followed by respiratory diseases.

To attack this problem, the GOE is implementing a program known as PREMI, Plan de Reducción de Morbi-Mortalidad Infantil. PREMI is utilizing mass mobilization campaigns aimed at immunizing the target age group, increasing the use of oral rehydration therapy, promoting breast feeding, and monitoring child growth and development. The campaign is a technically sound approach utilizing proven, cost-effective technologies for reducing the major causes of infant mortality.

While the campaign approach has been successful to date, it risks the eventuality of not becoming institutionalized into ongoing programs. Without such institutionalization, the major accomplishments of the approach may be lost as some 280,000 new children born every year may not be vaccinated or have access to oral rehydration therapy.

To accomplish institutionalizaton, the multi-institutional collaboration thus far achieved in the program will have to be solidified and formalized. Private sector participation in disseminating and implementing the successful child survival technologies will be required; limited expansion of the strategies currently utilized into new areas is adviseable; and continued investments in mass media, publicity and educational materials will have to be guaranteed.

Major Project Activities. The purpose of this project amendment will be to replicate and institutionalize proven child survival technologies and delivery systems nationwide.

To sustain awareness of the key PREMI health interventions and increase demand among the general public for these services, large scale mass media and informal education programs will be extended. In addition, A.I.D. funds will finance a continuation of an advertising agency contract and high quality media production and placement costs. In close coordination with the media campaign, the project will finance the development and mass distribution of educational materials for complementary education activities.

To address the ongoing need for key commodities to sustain the Child Survival initiative during the period when GOE budget support and private sector and beneficiary self-financing of ORT are developing, the project will finance the procurement of oral rehydration salts for public sector distribution while at the same time financing assistance which will help Ecuador to increase private sector manufacture, sale and distribution of salts. Cold chain equipment and spare parts essential to strengthening the effective delivery of vaccines to the community will also be provided.

The initiation of expanded activities in nutrition and child spacing will require support under this amendment. Nationwide promotion of breast-feeding, growth monitoring education, and improved child feeding practices will require additional training, materials, technical assistance, and promotion.

Relationship to A.I.D. Policies. This project directly implements the highest priority health policy of A.I.D. and the U.S. Congress; i.e., the worldwide Child Survival Initiative. It focuses on a limited but manageable mix of proven technologies; the most important of which are ORT, immunization, child spacing and improved nutrition practices, including breast-feeding, appropriate weaning and growth monitoring. Ecuador was designated by A.I.D. as one of a handful of countries world-wide where child survival activities have been initiated. As such, this project will make a significant contribution to the overall A.I.D. objective of achieving 80% immunization coverage by 1990 and access to oral rehydration therapy for all children by 1990.

Preliminary Budget. A.I.D. grant funds will finance technical assistance, training, and commodities required to accomplish the expansion and institutionalization of activities mentioned above.

Functional Account:	Original LOP	HE PREMI Add-on	Child Survival Add-on	NEW LOP	US$000 FY-88
Loan:	7,235	0	0	7,235	0
Grant:	1,130	4,000	6,000	11,130	1,000
TOTAL	8,365	4,000	6,000	18,365	1,000

DEVELOPMENT PLANNING AND IMPLEMENTATION SUPPORT (518-0065)

Relationship of the Project to Mission Goals and Objectives. This project will directly support the Mission goal of increasing economic growth with improved equity by addressing the GOE policy environment surrounding various of the Mission's principal objectives, including increasing agricultural production, strengthening the private sector, and increasing employment.

The Development Problem. 1988 is an election year in Ecuador. The election will usher in a new democratically-elected administration in August of that same year. By 1988, it is expected that much will have been accomplished by the Febres-Cordero administration to set the policy environment for a market-determined, private sector led growth strategy. To consolidate and institutionalize the reforms and policy environment achieved up to that time, assistance to the new administration will be required.

At the same time, a new administration will have to develop its own development agenda which will expand upon the foundations set by the current GOE administration. As A.I.D.'s experience in Ecuador clearly indicates, the USG will undoubtedly wish to be responsive to requests for assistance from the new administration to establish its development agenda and rapidly to carry out the planning activities which often occupy the first two years of a new administration. The Mission's excellent experience in 1984 with the $500,000 Agricultural Transition Support Project and the pilot Revenue Generation for Development Project attests to the usefulness of this type of activity. Assuming a transition to a new administration which is as closely aligned to the United States in its poltical economic philosophy as the current GOE administration, pressures will be even greater to move forward with assistance rapidly.

The proposed project will provide the vehicle by which the USG and A.I.D. can provide such assistance without imposing major project development and authorization activities on the Mission prior to the end of FY-88.

Major Project Activities. The purpose of this project will be to enhance the capabilities of the Ecuadorean Administration to identify priority development problems and to design and implement strategies to address those problems over the course of the life of the administration. To accomplish this, the proposed project will provide assistance in three major areas.

1. Economic policy. This project will provide technical assistance in the important area of economic policy. As the new administration takes office, it will require this assistance in order to evaluate past policies, make modifications, and move forward with reforms not completed under the previous administration.

2. Agricultural Production. This project will provide technical assistance, training, and limited commodity support for the development of an agricultural development program for the GOE. Assistance will be provided to assist the administration to identify its major agricultural production problems and to develop its agricultural sector strategy and plans to address these problems. Some of the specific activities may be identified for future A.I.D. assistance. The focus of this activity will be on production increases through the private sector.

3. Employment Generation. Under this activity, assistance will be provided to the GOE and to private sector entities to develop an employment generation strategy. It is expected that this activity could encompass various types of assistance to different entities, both public and private. At the same time, the Mission believes that this type of assistance will be of primary importance because, given the current economic straits of the GOE, increased budgetary constraints and restriction of the economy are likely to result in increased unemployment in Ecuador in the short run. This may be the priority problem the new administration will face.

Relationship to A.I.D. Policies. This project directly supports A.I.D. private sector strengthening, institutional development, and economic policy reform priorities. Overall, the project may be expected to result in the design of a development strategy in Ecuador that is consistent with the Agency's Blueprint for Development.

Preliminary Budget. A.I.D. grant funds will finance technical assistance, training, and commodities required to accomplish the development of the strategies discussed above. As project design gets underway, consideration will be given to loan financing of commodities.

Functional Account: SDA

	US$000		
	FY-87	FY-88	LOP
Loan:		0	0
Grant:		1,500	6,000
TOTAL		1,500	6,000

C. SPECIAL ANALYSIS

1. Economic Support Fund Program (ESF)

a. Overview: The Febres-Cordero Administration came to office committed first, to stabilizing the Ecuadorean economy, and then carrying out a thorough restructuring along free market, price directed lines, minimizing public sector interferences in the economy and encouraging foreign private investment. As presented in Annex A, the GOE has been remarkably successful to date in implementing this strategy, despite lack of support from the Ecuadorean Congress and opposition from special, entrenched interests.

Throughout 1984-1985, much of the administration's effort has been aimed at stabilization. The major issue addressed in this regard has been the external debt. Major, multi-year reschedulings were negotiated and signed with the U.S. banks and the Paris Club. As a result, the GOE succeed in reducing the 1985 debt burden from 74% of export earnings to 33%.

In the area of structural reform, the Febres-Cordero Administration has initiated a program of policy adjustments which have been, and are still being successfully implemented. A comprehensive list of policy reforms implemented to date are listed in Annex A. While the GOE is well on the way to effecting comprehensive structural reforms, the threat that external factors could hamper the GOE's ability to successfully implement comprehensive restructuring has been looming on the horizon.

The economic program negotiated with the IMF, commercial bank creditors, and the Paris Club forecasts balance of payments equilibrium, a fiscal surplus, and 2.5% real growth for 1985. Indications are that these targets were largely met or surpassed by the end of 1985. The fiscal surplus was approximately three percent of GDP, a balance of payments deficit was avoided, and growth was at least 3.3%. For 1986, the previous GOE plan called for a manageable balance of payments gap, a small fiscal deficit, entirely financed externally, and real growth of 2.75%. By the end of 1985, when it was clear that the world petroleum price assumptions upon which estimates were based could not be sustained for 1986, the GOE revised its projections slightly downward, and began an agressive campaign in search of international donor assistance to deal with the problem. Even so, revised

estimates, based on significant assistance levels from the donor community, were based on a petroleum price assumption of $22.50 per barrel.

In January 1986, as further described and analyzed in Annex A, petroluem prices slid much farther than even the pessimists in the GOE economic cabinet imagined. It is clear that this drop in oil prices will be disastrous for the Febres-Cordero administration and its economic restructuring plans. Externally, it is likely that the GOE will not be able to make the 1986 interest payments on its debt, in spite of the rescheduling agreements of 1985, and further negotiations will have to take place, although no negotiations are currently contemplated. The pressures which will be put on Ecuador's very limited foreign exchange reserves will certainly deplete the small margin (about $30 million) that the GOE has built up. Total reserves still only reach approximately $190 million, equivalent to about 1.5 months imports.

Domestically, the falling price of oil will have serious negative repercussions throughout the economy. Fiscal revenues will fall dramatically. The GOE has taken three measures to date in an attempt to counteract this potential reduction. First, it increased sales taxes across the board from 6% to 10%. Secondly, it has set in motion an all-out push to double revenues from income taxes during this calendar year. Finally, the revisions in the exchange rate will result in more sucres being generated from exports and export taxes. However, the GOE recognizes that these measures will not be sufficient in the short-term to make up for the loss in fiscal revenues. It is quite likely that over the short-term the GOE will have to look for mechanisms to reduce fiscal expenses. Any attempt to reduce central government expenditures would fall on the two largest remaining items, transfer payments to other parts of the public sector (37 percent) and personnel costs (16 percent), which if presented or adopted to any extent, will result in increased political activity against the Febres-Cordero Administration.

b. Policy Agenda. The Mission's first ESF funded PAAD was approved in AID/W in September 1985, and the first program agreement was signed with the GOE on September 29, 1985. This Economic Stabilization and Recovery Program (No. 518-0058) was approved for $25 million. By January 17, 1986, $24 million of FY 85 and FY86 funds had been authorized, obligated and disbursed to the GOE.

Given the modest level of resources available to AID for balance of payments support in Ecuador and in recognition of the progress that had been made by the Febres-Cordero Administration in effecting a comprehensive program of policy reform and economic restructuring, in the course of the DAEC review it was decided to essentially do away with policy related disbursement conditionality for this program. Instead, the GOE was to demonstrate progress in three important policy areas over the life of the agreement. These areas are:

(1) Tariff Reform: Largely due to the precarious foreign exchange situation, the GOE has repeatedly delayed actions which would lower tariff barriers by reducing import taxes. In January the GOE, no longer desiring to put off trade reform instituted new measures which reduce overall protectionism. These measures, however, were significantly less comprehensive than those originally proposed, and much less than the GOE itself had wanted to institute.

It should be emphasized that the objective of tariff reform is not so much a reduction in the average levels of tariffs as such but rather the elimination of the allocative distortions which have resulted from the characteristics of the tariff regime. The objectives of USAID's policy dialogue for FY-87 are a simplification of the tariff schedule in order to provide uniform and reduced levels of effective protection and a coordination of tariff and exchange rate policies in order to provide equal and adequate incentives for production for both domestic and export markets.

(2) Reform in Interest Rate Policies: The second major area of policy concern is the substantive elimination of administrative controls on both loan and deposit interest rates, or the creation of additional new financial instruments free of interest rate ceilings. During 1985, the GOE took an important first step in this direction with the introduction of certificates of deposit with floating interest rates. Given actions taken to date, the Mission believes that the GOE will move significantly toward free floating interest rates during 1986.

(3) Domestic Petroleum Pricing Policy Reform The final area of concern, the elimination of subsidies on domestic petroleum consumption is by far the most politically difficult and controversial. The Mission expects as a minimum that domestic petroleum prices in 1986 will be maintained in real terms and that steps will be taken to move toward a pricing regime that will bring domestic prices in line with the opportunity cost of exporting.

c. FY-87/88 ESF Program: For FY-87, the Mission proposes a $40 million ESF Program. A return to approved ESF levels in FY-88 will depend on future analyses.

(1) Justification In January 1986, the President of Ecuador, accompanied by his economic cabinet, made an official visit to Washington. The GOE was proudly referred to as a Latin model, where major economic restructuring of the kind advocated by the USG was taking place in a democratic environment, and Ecuador was declared a candidate to become the first Baker Plan nation.

However, since the beginning of 1986, the external and fiscal positions of the GOE have deteriorated sharply as a result of declining world prices of petroleum. On the assumption that prices stabilize at about their current levels, the balance of payments gap is now forecast at $267 million for 1986. In addition, declining petroleum revenues have now opened up an unfinanced fiscal gap equal to 2.0 percent of GDP, despite a significant devaluation of the sucre and a major increase in the sales tax. The alternative to substantially increased external assistance is a serious decline in domestic production and employment which is likely to call into question the free-market economic policies of the present GOE.

In short, the GOE urgently needs and deserves the financial support of the USG in the short run in order to cope with severe adverse external conditions totally outside of its control. Furthermore, pursuant to the meetings held in January and later meetings held in February of this year, the GOE has requested that pursuant to the USG's stated commitment to Ecuador's economic and political strategy, greater assistance be forthcoming. The Mission believes that an FY 87/88 ESF program of not less than $55 million, combined with a strong USG stance in favor of increased assistance from the multilateral donors, can

make a substantial contribution to the stabilization of Ecuador's external and fiscal situations.

(2) Policy Dialogue and Conditionality The Mission's policy dialogue agenda has concentrated on three areas: tariff reform, interest rate liberalization, and elimination of domestic subsidies. Ecuador's ESF program has not depended on disbursement conditionality for the adoption of important policy reforms. Rather, economic policy reforms have been an ongoing feature of the Febres-Cordero Administration. The Mission's strategy, approved by AID/W during last year's discussions, has been an "ex-post" approach to policy reform; i.e., good economic performance by the GOE has justified financial support. This was approved in accordance with the A.I.D. Policy Paper, "Approaches to the Policy Dialogue." For its FY-87 program, the Mission plans to continue to implement this same strategy, unless the level of resources being provided for balance of payments support to Ecuador should reach a level which warrants an "ex-ante approach" to policy dialogue.

For FY-87, then, the Mission would propose to increase the number of areas in which the GOE should demonstrate good progress on the policy front by one. Given the rapidly deteriorating economic situation, exchange rate differentials are once again becoming larger than expected. Since the Mission is very concerned about the affect of this differential on the ability of Ecuador to mobilize domestic resources and on the profitability of Ecuadorean exports, specifically, and private sector development, in general, the Mission will seek a continuation of reforms to the exchange regimen.

(3) Overall Negotiating, Authorization and Disbursement Agenda: The Mission intends to submit an FY 1987 Amendment to its Economic Stabilization and Recovery Program PAAD, which approved an FY 1985-86 ESF Program, in September 1986. Initial authorization and obligation of funding approved in that amendment would be completed in October 1986. An amendment to the Program Agreement would be negotiated and signed in November 1986. The dollar resources, either an intital tranche or total approved funding, would be provided to the GOE on a cash transfer basis, and disbursement would take place prior to December 31, 1986 so that an impact on the difficult CY 1986 BOP situation could be achieved.

2. PL-480

a. PL-480 - Title I Program

(1) A PL-480 Title I program of US$10.0 million is proposed for both FY-87 and FY-88. The program will finance the importation of about 50,000 metric tons of wheat.

(2) Although Ecuador is self-sufficient in the production of most food products and exports substantial amounts of tropical products such as bananas, coffee and cacao, it imports relatively large quantities of wheat and some other cereals. Wheat imports have been increasing steadily as demand has grown. Only 5-7 percent of the wheat consumed is produced locally. A large foreign debt with its accompanying interest and principal payments impairs the country's capability to import commercially all its needs. The situation has worsened considerably due to recent declines in the price of oil.

(3) The PL-480 Title I program in Ecuador has and will continue to yield important development benefits through the programming of local currency generations and through self-help measures. Local currency generations will finance timely data collection and analysis functions critical to both the public and private sector and will strengthen the role of private sector producers associations in solving agricultural production, processing, and marketing problems.

(4) The current GOE has undertaken a series of policy reforms (self-help measures) leading toward a reduced role for the public sector in agriculture. These include reductions in price controls, privatization activities, and marketing system reforms. As the reforms currently being implemented take effect and producers respond, it is anticipated that technological factors and credit availability will become serious constraints on achieving further progress. The PL 480 program will support Ecuador's efforts to resolve these constraints.

The commodity to be imported, wheat, will enter directly into the commercial food system. The wheat will be purchased by millers and converted into flour for producing bread, noodles and other wheat products for sale to consumers through commercial channels. Storage and handling facilities are adequate to handle

the quantities that are to be imported under PL-480 along with the larger amounts imported commercially. Although this requires careful programming and management at the Port of Guayaquil, the system has been handling large quantities and is adequate for the anticipated amounts.

The program should not cause disincentives to local production. While local wheat production has declined very substantially this appears to have occurred beause of the comparative advantage of other products in relation to cereals. Subsidies on imported (non PL-480) wheat in the past may have contributed to the decline by making wheat products relatively inexpensive but those subsidies have been removed.

b. PL-480 Title II Program

The objectives of the PL 480 Title II program tie in with the Mission's strategy of providing low-income, vulnerable groups with basic services. It is intended to (1) support the GOE's committment to distributing leche/arroz prepared from locally produced soy flour, rice and powdered milk; and (2) improve the food consumption of vulnerable groups by using local resources and increasing local food production, thereby phasing out the distribution of PL-480 Title II donated foods.

The Title II program is administered by Catholic Relief Services (CRS) and its counterpart, the Secretariat of Promoción Social of the National Bishop's Conference (SENAPS), through a network of provincial Diocesan offices. The SENAPS personnel are trained and experienced in PL-480 Title II procedures. In 1984 CRS/SENAPS established a Five Year Plan (1985-1989) for gradually phasing out Title II food commodities.

The Five Year Plan, supported by the Mission, stresses the use of Title II foods for Mother/Child Groups, and Food for Work. The CRS/Promoción Social phase-out process can be considered a case study of a successful conversion from a program of donated foods to that of a development oriented PL-480 Title II Program.

c. Section 416

A Section 416 program for Ecuador consisting of $7.0 million in donated surplus products (dairy products,

grains, and oilseeds) has been offered to Ecuador. The principle product that seems feasible for Ecuador under this program is non-fat dry milk which the country has been importing from non U.S. sources. Discussions with Ministry of Agriculture officials indicate that the GOE is willing to participate in the program if (1) it is not to be a give-away program, (2) it can be designed so as not interfere with the orderly development of the domestic dairy industry, and (3) it can be monetized in such a way as to generate funds for agricultural development.

The 1985 farm bill expands the scope of monetization of 416 products. Thus, a two pronged approach to utilizing these funds is being proposed: (1) importation of standard grade non-fat dry milk to be converted into calf starter (milk replacer) which will be substituted for fresh milk thereby increasing the domestic supply of fresh milk, and (2) imports of non-fat dry milk to be sold through the private sector and/or government channels in low income ares as either powdered or reconstituted milk. In both cases the local currency generated will be used for market development, improvements in agricultural marketing and increasing agricultural output.

A multiyear program under the Food for Peace Act at a level of US$5 million in FY-87 and FY-88 is proposed.

3. Local Currency

The FY 87/88 Economic Stabilization and Recovery Program (518-0058) will generate the local currency equivalent of $55 million over the two year period. The dollar resources will be provided on a cash transfer basis for balance of payments support. The majority of the local currency generations will be used to finance public and private sector activities consistent with the GOE strategy to restructure the Ecuadorean economy along competitive lines.

On the public sector side, the Mission envisions a shortage of GOE resources for high priority infrastructure projects. The existing shortage will be further exacerbated by oil price reductions and the resulting public sector expenditure constraints. Basic infrastructure construction and repair will continue to be a priority of the GOE. This activity will focus on providing/improving infrastructure (secondary roads, flood control works) that is in direct support of private sector productive activities.

On the private sector side, the Mission anticipates utilizing local currency as a means to stimulate investment in certain sectors which the Mission has identified as priority areas in its Action Plan. This may include investments in small and microenterprise development. As part of its small scale enterprise program, the Mission will use local currency for short-term production credit administered through the private sector. Finally, the Mission is initiating a modest ESF local currency, operating expense trust Fund in FY 1986. It is anticipated that $750,000 of local currency will continue to be programmed in FY-87 and FY-88 for this purpose.

The FY 87/88 PL-480 Title I Agreements will generate the local currency equivalent of $9.1 million dollars each. These funds will be directed to four major areas: (1) strengthening the role of private sector producer organizations in determining research priorities and in disseminating technology; (2) counterpart funding for new A.I.D. projects in areas related to agricultural and rural development; (3) complementary GOE funding in rural health and sanitation activities; and 4) the continued operating expenses of the PL-480 Implementation Secretariat to program, manage, and audit the use of local currency generations.

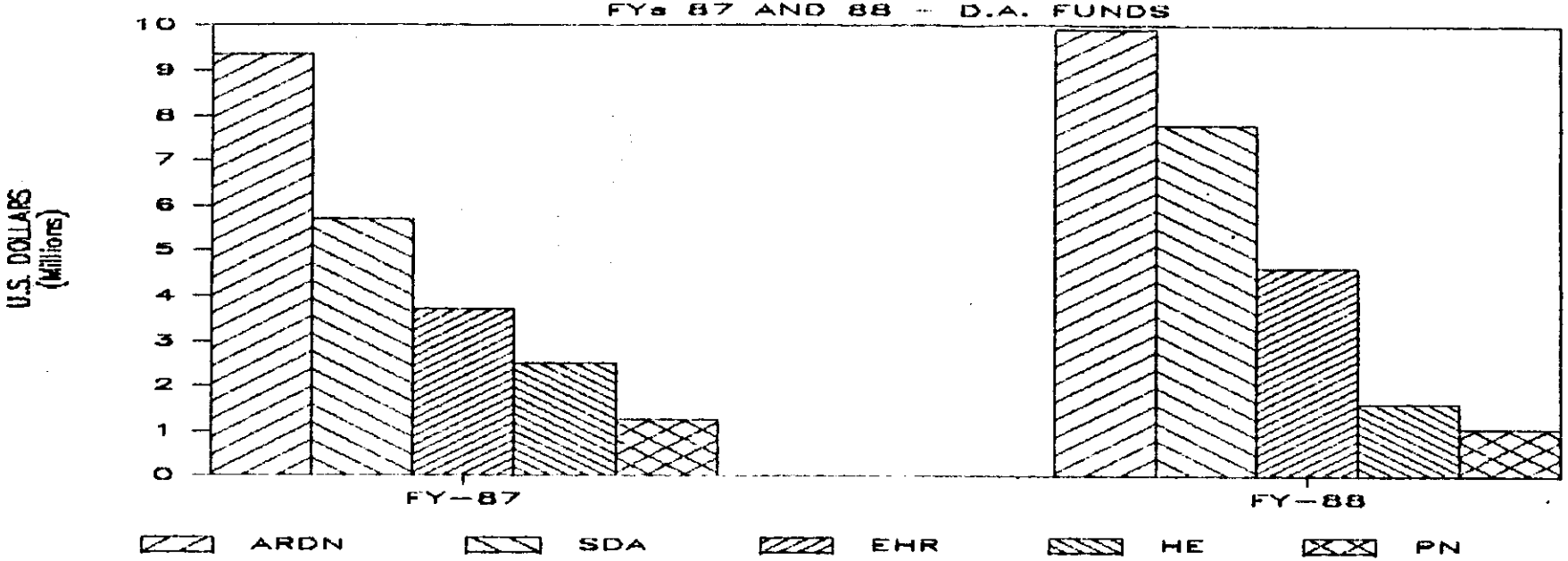
D. Summary Budget Tables

Table 5
Summary Program Funding

		(U.S.$000) FY 87	FY - 88
1. Development Assistance			
a. Agriculture, Rural Development and Nutrition	Total	9,350	9,905
	Grants	7,850	7,905
	Loans	1,500	2,000
b. Population	Total	1,246	1,050
	Grants	1,246	1,050
	Loans	0	0
c. Health	Total	2,500	1,600
	Grants	1,000	1,600
	Loans	1,500	0
d. Education	Total	3,704	4,645
	Grants	3,704	4,645
	Loans	0	0
e. Selected Development Problems	Total	5,700	7,800
	Grants	4,200	6,300
	Loans	1,500	1,500
D.A. Accounts	Total	22,500	25,000
	Grants	18,000	21,500
	Loans	4,500	3,500
2. Economic Support Fund (ESF)	Grants	40,000	15,000
3. Total D.A. and ESF	Total	62,500	40,000
	Grants	58,000	36,500
	Loans	4,500	3,500
4. PL-480 Title I	Loans	(10,000)	(10,000)
5. PL-480 Title II	Grants	(500)	(500)
6. Section 416	Grants	(5,000)	(5,000)

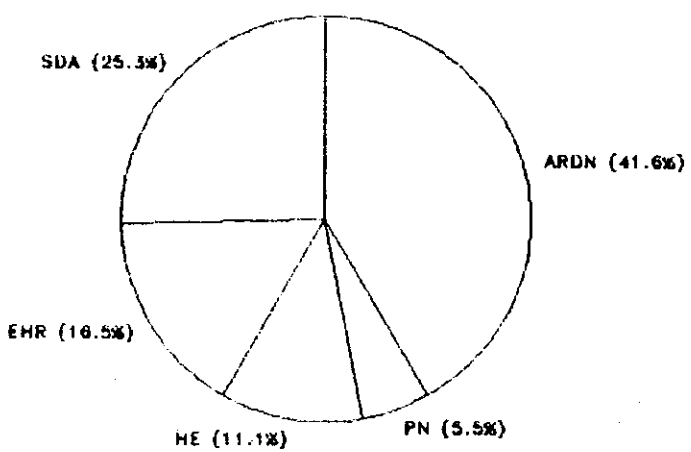
PROGRAM COMPOSITION BY ACCOUNT

FYs 87 AND 88 - D.A. FUNDS



PROGRAM COMPOSITION BY ACCOUNT

FISCAL YEAR - 87 - D.A. FUNDS



PROGRAM COMPOSITION BY ACCOUNT

FISCAL YEAR - 88 - D.A. FUNDS

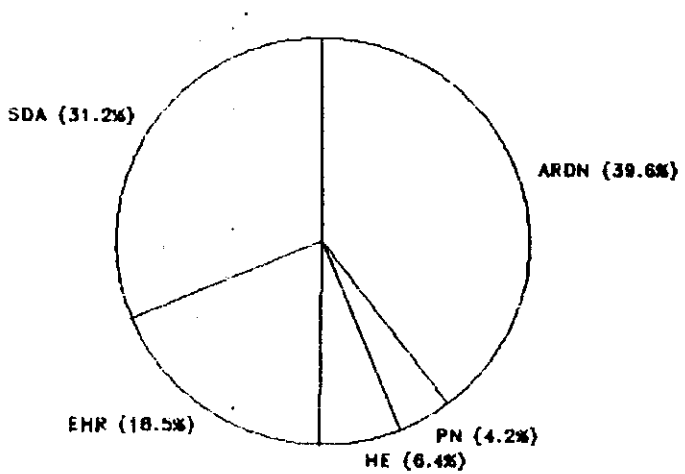


TABLE 6

PROPOSED FUNDING BY PROJECT AND ACCOUNT
FYs 87 AND 88
(U.S.$ 000)

PROGRAM: ECUADOR

PROJECT TITLE	O / N	L / G	PROJECT NUMBER	L.O.P. FUNDING	PRIOR YR. FUNDING	FY-87 FUNDING	FY-88 FUNDING
AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION							
PROGRAM DEVELOPMENT AND SUPPORT - ARDN	O	G	518-0005	6,242	3,889	753	600
NON TRADITIONAL AGRICULTURAL EXPORTS	O	G	518-0019	4,400	2,000	900	1,000
RURAL TECHNOLOGY TRANSFER SYSTEM	O	G	518-0032	5,300	4,300	1,000	0
PRIVATE SECTOR DEV. OPG	O	G	518-0047	350	225	50	75
AGRICULTURAL SECTOR REORIENTATION PROGRAM	O	G	518-0051	7,100	2,500	1,500	1,700
CACAO RENOVATION PROGRAM	N	G	518-0053	6,000	0	500	1,000
CACAO RENOVATION PROGRAM	N	L	518-0053	2,000	0	500	1,000
PRIVATE SECTOR COFFEE RENOVATION	O	G	518-0054	6,000	1,000	500	1,500
PRIVATE SECTOR COFFEE RENOVATION	O	L	518-0054	2,000	1,000	500	500
SMALL FARMER SUPPORT OPG	O	G	518-0057	811	664	147	0
LAND TITLING	O	G	518-0059	3,300	2,000	1,300	0
LAND TITLING	O	L	518-0059	7,000	3,500	1,500	2,000
AGRICULTURAL EDUCATION OPG	O	G	518-0062	680	450	100	130
PRIVATE AND VOLUNTARY ORGANIZATIONS - OPGs	O	G	518-9999	1,300	0	100	400
TOTALS FOR ACCOUNT						9,350	9,905
GRANTS						6,850	6,405
LOANS						2,500	3,500
POPULATION PLANNING							
PROGRAM DEVELOPMENT AND SUPPORT - PN	O	G	518-0013	418	218	50	50
POPULATION AND FAMILY PLANNING	O	G	518-0026	12,000	5,304	1,196	1,000
TOTALS FOR ACCOUNT						1,246	1,050
GRANTS						1,246	1,050
LOANS						0	0

PROJECT TITLE	O / N	L / G	PROJECT NUMBER	L.O.P. FUNDING	PRIOR YR. FUNDING	FY-87 FUNDING	FY-88 FUNDING
HEALTH							
PROGRAM DEVELOPMENT AND SUPPORT - HE	O	G	518-0009	1,729	929	200	200
INTEGRATED RURAL HEALTH DELIVERY SYSTEM	O	G	518-0015	11,130	5,130	0	1,000
MALARIA CONTROL PROGRAM	O	L	518-0049	6,500	5,000	1,500	0
PRIVATE AND VOLUNTARY ORGANIZATIONS - OPGs	O	G	518-9999	2,400	400	800	400
TOTALS FOR ACCOUNT						2,500	1,600
GRANTS						1,000	1,600
LOANS						1,500	0
							1,000
							0
EDUCATION AND HUMAN RESOURCES							
PROGRAM DEVELOPMENT AND SUPPORT - EHR	O	G	518-0016	3,313	1,764	304	545
GRADUATE MANAGEMENT TRAINING	O	G	518-0035	7,000	2,500	1,500	1,500
TECHNICAL SKILLS TRAINING DEVELOPMENT	O	G	518-0055	5,000	1,000	900	1,500
CHILD, FAMILY AND COMMUNITY DEVELOPMENT OPG	O	G	518-0061	640	500	140	0
NARCOTICA EDUCATION	N	G	518-0064	1,000	0	200	200
PRIVATE AND VOLUNTARY ORGANIZATIONS - OPGs	O	G	518-9999	3,600	140	660	900
TOTALS FOR ACCOUNT						3,704	4,645
GRANTS						3,704	4,645
LOANS						0	0

PROJECT TITLE	O/N	L/G	PROJECT NUMBER	L.O.P. FUNDING	PRIOR YR. FUNDING	FY-87 FUNDING	FY-88 FUNDING
SELECTED DEVELOPMENT ACTIVITIES							
SPECIAL DEVELOPMENT ACTIVITIES	O	G	518-0004	1,556	756	200	200
PROGRAM DEVELOPMENT AND SUPPORT - SD	O	G	518-0011	5,515	3,215	600	700
FISCAL ADMINISTRATION DEV.	O	G	518-0042	2,600	2,000	600	0
MACROECONOMIC POLICY ANALYSIS	O	G	518-0050	2,500	1,300	400	800
SMALL BUSINESS DEVELOPMENT	O	G	518-0056	5,000	1,000	1,000	1,500
CHILD, FAMILY AND COMMUNITY DEVELOPMENT OPG	O	G	518-0061	700	300	200	200
CAPITAL MARKETS DEVELOPMENT	N	G	518-0063	3,000	0	1,000	1,000
CAPITAL MARKETS DEVELOPMENT	N	L	518-0063	4,000	0	1,500	1,500
DEVELOPMENT PLANNING AND IMPLEMENTATION SUPPORT	N	G	518-0065	6,000	0	0	1,500
PRIVATE AND VOLUNTARY ORGANIZATIONS - OPGs	O	G	518-9999	1,580	180	200	400
TOTALS FOR ACCOUNT						5,700	7,800
GRANTS						4,200	6,300
LOANS						1,500	1,500
TOTALS FOR COUNTRY						22,500	25,000
GRANTS						17,000	20,000
LOANS						5,500	5,000

PART III. MANAGEMENT

A. OPERATING RESOURCES AND STAFFING REQUIREMENTS

Over the last two fiscal years the Mission has initiated both the ESF and PL-480 Title I programs; the Mission's DA portfolio nearly doubled (from $61 million to $118 million), and the Housing Grantee Program grew by $30 million. These changes have generated at least a 200 percent increase in the Mission's workload. At the same time the Mission's USDH staff has fallen from 15 (including one IDI) to 13. The Mission has lost USDH positions in energy, engineering and agriculture, and added one position in project development. In addition, the Mission recently made the difficult decision to eliminate its only USDH position in health, nutrition and population in order to obtain an economist, a position which has been strongly advocated by the Administrator.

Mission management believes that the output/staff member ratio has been extraordinary during this period. Nevertheless, as the portfolio grows, it is increasingly difficult to maintain the quality and quantity of work that is required. Experience over the past year has shown that almost any unanticipated event (e.g. a high level A.I.D. visitor or codel, an audit or the illness of a key staff member) now causes the Mission to fall behind in other work.

As a partial response to this problem, the Director recently formed a Mission Reorganization Committee to review the assignment of responsibilities, present alternatives and make recommendations that would increase the efficiency of the overall Mission. The elimination of redundancy and resolution of organizational conflicts were primary objectives.

The Committee has prepared a draft Mission Order on the reorganization which has been circulated to office directors for comment. The Mission also shared the Committe's proposals with a recent AID/W Management Assessment Team that reviewed Mission operations. The Mission is awaiting the Assessment Team's report before deciding which of the recommendations to implement.

The Mission's top priority for strengthening its internal operations is the Controller's Office. Mission Management has already put in motion a variety of remedial steps -- probably all of those within its own resource capabilities -- to improve the operations of the Controller's Office. In 1985 the Mission brought in one of the best ex-A.I.D. Controllers under contract to prepare an action plan to reorganize and train the staff of the Controller's Office. Additional local staff have been and are being recruited. Another former A.I.D. Controller is currently being contracted for six months to train the local staff and to review and improve control, financial analysis and reporting systems. The Mission recently

obtained TDY assistance in the management of the ESF programs and PL 480 local currency. The Mission also expects over the next 18 months to install MACS as part of its Controller's Office improvement and automation plan.

Although these measures will help increase the efficiency of the Mission's existing staff resources, additional USDH staffing is long overdue. The positions most urgently needed are listed in priority order: (1) Deputy Controller, (2) Health Officer, and (3) Human Resource Development Officer.

The AA/LAC Management Assessment Team that recently reviewed USAID/Ecuador operations compared this Mission's level of Controller's Office operations with that of other LAC Missions. In this assessment it was clearly demonstrated that our Controller's Office is seriously understaffed in relation to USDH staffs of other Mission's of equal and even smaller portfolios in LAC. On the basis of that analysis, it strongly supported the establishment of a second USDH position in the Controller's Office. Establishing and filling this position is a critical element in the Mission's efforts to strengthen the Controller's Office.

The Mission's health, nutrition and population division has a portfolio totalling approximately $28 million. The portfolio includes a "showcase" Child Survival project which is rapidly gaining attention in Washington and a $9.5 million Malaria Control project which began in FY 85. The Mission manages a new local currency Rural Water Supply and Sanitation project, two Mission-funded and three centrally-funded OPGs and a complex Family Planning program which expends about $850,000/year. There are currently five long-term U.S. contractors in-country working on the major projects, and several others managing PVO programs.

Despite this large workload, the Mission has found it necessary to eliminate the one USDH position in the division in order to create an urgently needed economist position. Unless the Mission is given the ceiling to establish a health officer position, the division's workload will be managed by a PASA or PSC employee under the overall supervision of the General Development Officer.

The under-staffing of the General Development Office is already an area of serious Mission concern. The GDO now handles tax administration, drug education, alternative energy resources and public services training (terminating in FY 86), coastal resources management and several OPGs in technical skills training. The GDO is also the project manager of the Graduate Management School project, a new OPG in technical skills training and a small administration of justice activity -- all planned for initiation in FY 86. In addition, the GDO will supervise the health, nutrition and population portfolio beginning in the summer of 1986.

The Mission urgently needs AID/W help to resolve this situation. In addition to the Deputy Controller and Health Officer positions, the Mission needs either a Deputy GDO or a Human Resources Officer to manage the human resource development portfolio.

The Mission also strongly recommends that the Regional Contracting Officer be reassigned to Ecuador where the contracting workload is greatest in the Andean region.

The Mission wishes to emphasize that these requests are extremely modest given the Mission's portfolio. Even with these staff increases the Mission will need to continue to rely very heavily on contractors.

2. WORK FORCE TABLE

	FY-1986						
	USDH	FNDH	ResHire	PSC's	JCC	IDI	Manpower
DIR	2	1	1				
ODP		2		1			2
Econ. APV	1						1
RDO	3	1			1		5
PSD							3
GDO	1	3					4
U/H	1						2
O/DR	3						5
O/CONT	1	4					8
EXO	1	5	—	2	—	—	12*
TOTAL	13	16	1	3	1	0	42

* This number excludes drivers, messengers, warehouse, maintenance personnel and security guards.

FY-1987

	USDH	FNDH	ResHire	PSC's	JCC	IDI	Manpower
DIR	2	1	1				
ODP		1		1			2
Econ. APV	1						1
RDO	3	1			1	1	8
PSD							2
GDO	3	4					6
U/H	1						2
O/DR	3					1	6
O/CONT	2	4	1	1			12
EXO	1	5		2			12*
RCO	1	—	—	—	—	—	2
TOTAL	17	16	2	4	1	2	53

* This number excludes drivers, messengers, warehouse, maintenance personnel and security guards.

FY-1988

	USDH	FNDH	ResHire	PSC's	JCC	IDI	Manpower
DIR	2	1	1				
ODP		1		1			2
Econ. APV	1						1
RDO	3	1				1	8
PSO							2
GDO	3	4					6
U/H	1						2
O/DR	3					1	6
O/CONT	2	4	1	1			12
EXO	1	5		2			12*
RCO	1	—	—	—	—	—	2
TOTAL	17	16	2	4	0	2	53

* This number excludes drivers, messengers, warehouse, maintenance personnel and security guards.

3.a. OPERATING EXPENSE BUDGETS

EXPENSE CATEGORIES	FUNCTION CODE	OBJECT CLASS	FY-86	FY-87	FY-88	WORK. PAPER
U.S. Direct Hire	U100		1,230,544	1,255,094	1,274,320	
U.S. CITIZENS BASIC PAY	U101	. 110	759,761	773,533	811,265	A
PT/TEMP U.S. BASIC PAY	U102	. 112	15,266	16,029	16,831	B
DIFFERENTIAL PAY	U103	. 116	113,964	116,030	121,690	C
OTHER AID/W FUNDED CODE 11	U104	. 119	-0-	-0-	-	
OTHER MISSION FUNDED CODE 11	U105	119	-0-	-0-	-	
EDUCATION ALLOWANCES	U106	126	86,000	86,000	90,300	D
RETIREMENT-U.S. Direct Hire	U107	. 120	54,252	55,269	57,967	E
LIVING ALLOWANCES	U108	128	-0-	-0-	-	
OTHER AID/W FUNDED CODE712	U109	. 129	15,195	15,471	16,225	G
OTHER MISSION FUNDED CODE 12	U110	129	19,606	25,112	7,392	F
POST ASSIGNMENT-TRAVEL	U111	212	11,900	9,100	4,800	H
POST ASSIGNMENT-FREIGHT	U112	22	70,000	62,000	34,000	I
HOME LEAVE-TRAVEL	U113	212	15,000	33,150	27,550	J
HOME LEAVE-FREIGHT	U114	22	8,800	13,200	14,300	K
EDUCATION TRAVEL	U115	215	4,800	3,600	2,000	L
R and R TRAVEL	U116	215	24,000	17,600	24,000	M
OTHER CODE 215 TRAVEL	U117	215	32,000	29,000	46,000	N
FOREIGN NATIONAL DIRECT HIRE	U200		225,156	264,188	316,626	-
BASIC PAY	U201	114	170,540	204,648	245,578	O
OVERTIME, HOLIDAY PAY	U202	115	5,000	6,000	7,000	P
ALL OTHER CODE 11-FN	U203	119	44,616	53,540	64,048	Q
ALL OTHER CODE 12-FN	U204	129	-0-	-0-		-
BENEFITS FORMER FN PERSONNEL	U205	13	5,000	-0-		R
CONTRACT PERSONNEL	U300		576,429	603,310	611,395	-
PASA TECHNICIANS	U301	258	-0-	-0-		-
U.S. PSC-SALARY/BENEFITS	U302	113	114,300	71,700	75,295	S
ALL OTHER U.S. PSC COSTS	U303	255	-0-	-0-		-
F.N. PSC-SALARY/BENEFITS	U304	113	65,000	66,000	69,300	S
ALL OTHER F.N. PSC COSTS	U305	255	-0-	-0-		-
MANPOWER CONTRACTS	U306	259	324,167	389,000	466,800	T
JCC COSTS PAID BY AID/W	U307	. 113	72,962	76,610	-0-	U
HOUSING	U400		253,100	271,720	284,394	
RESIDENTIAL RENT	U401	235	-0-	-0-		-
RESIDENTIAL UTILITIES	U402	235	6,000	7,000	8,000	V
MAINTENANCE AND RENOVATION	U403	259	4,000	8,000	5,000	V
QUARTERS ALLOWANCES	U404	127	156,000	163,800	171,990	W
RESIDENTIAL FURNITURE/EQUIP.	U405	311	50,800	53,300	55,965	X
TRANS./FREIGHT-CODE 311	U406	22	22,000	23,100	24,255	X
SECURITY GUARD SERVICES	U407	254	11,100	13,320	15,984	V
OFFICIAL RESIDENCE ALLOWANCES	U408	254	1,500	1,500	1,500	AID/W
REPRESENTATION ALLOWANCES	U409	252	1,700	1,700	1,700	AID/W

- (.) Washington Budget

OPERATING EXPENSE BUDGETS

EXPENSE CATEGORIES	FUNCTION CODE	OBJECT CLASS	FY-86	FY-87	FY-88	WORK PAPER
OFFICE OPERATIONS	U500		1,338,009	1,542,106	1,569,282	
OFFICE RENT	U501	234	454,859	517,266	580,586	Y
UTILITIES	U502	234	16,800	18,800	21,056	Z
BUILDING MAINT./RENOVATION	U503	259	28,000	7,000	8,000	AA
OFFICE FURNITURE/EQUIPMENT	U504	310	14,300	14,800	15,540	AB
VEHICLES	U505	312	45,000	73,000	17,000	AC
OTHER EQUIPMENT	U506	319	64,000	95,000	64,000	AD
TRANSPORTATION/FREIGHT	U507	22	24,350	38,750	12,600	AE
FURN/EQUIP/VEHICLE R./MAINT.	U508	259	65,700	70,000	76,500	AF
COMMUNICATIONS	U509	230	100,000	102,000	105,000	AG
SECURITY GUARD SERVICES	U510	254	68,000	75,000	90,000	AH
PRINTING	U511	24	55,000	58,000	64,000	AI
RIG/II OPERATIONAL TRAVEL	U512	210	-0-	-0-	-0-	-
SITE VISITS-MISSION PERSSONNEL	U513	210	81,000	105,000	110,000	AJ
SITE VISITS-AID/W PERSONNEL	U514	210	8,000	24,000	30,000	AJ
INFORMATION MEETING	U515	210	3,000	3,000	3,000	AJ
TRAINING ATTENDANCE	U516	210	10,000	10,000	10,000	AJ
CONFERENCE ATTENDANCE	U517	210	6,000	6,000	6,000	AJ
OTHER OPERATIONAL TRAVEL	U518	210	2,000	2,000	2,000	AJ
SUPPLIES AND MATERIALS	U519	26	145,000	160,000	176,000	AJ
FAAS	U520	257	52,000	54,000	56,000	AK
CONSULTING SVCS.-CONTRACTS	U521	259	-0-	-0	-0-	-
MGT./PROF. SVCS.-CONTRACTS	U522	259	15,000	20,000	22,000	AL
SPEC. STUDIES/ANALYSES CONT.	U523	259	-0-	-0-	-0-	
-						
ALL OTHER CODE 25	U524	259	80,000	88,000	100,000	AM
TOTAL O.E. BUDGET			3,623,238	3,936,418	4,056,017	
WASHINGTON			1,031,400	1,052,942	1,023,978	
FAAS			52,000	54,000	56,000	
MISSION			2,539,838	2,829,476	2,976,039	

3b. In reviewing the line items of the above listed operating expense budgets the following planned activities justify the minimal increases noted:

1) In FY 86 an expert U.S. PSC Consultant will be contracted for training in the Controller's Office.

2) In FY 86 the Mission will submit a written justification and request for additional office space, based on needs as established through the reorganization and security considerations.

3) In FY 86 The Mission will submit an automation assessment and request approval for installation of MACS. To install MACS, the system will require the procurement of an additional Disk Drive and a UPS.

4) In FY 86 the Mission will procure equipment not provided by IG/SEC and install a "long overdue" Safe haven with associated equipment.

5) In FY 87 the Mission will procure additional band Printers and workstations that will be necessary as MACS becomes fully operational.

6) International Discretionary Travel Needs continue to exceed our limitations. Therefore the actual amounts anticipated to meet increased design and implementation requirements of the Mission have been listed for FY 87 and FY 88.

All other line items have been budgeted to maintain office operations at the same level and meet prudent property replacement cycles.

4. PROCUREMENT PLANS

-X-

FY- - 86, 87, 88

NXP PROCUREMENT PLAN

		FUNCTION CODE	OBJECT CLASS
**	RESIDENTIAL FURNITURE/EQUIP.	U405	311
		FUNCTION CODE	OBJECT CLASS
**	TRANS./FREIGHT - CODE 311	U406	22

QTY	ITEM	UNIT COSTS	U405 EXTEND COSTS	U406 PACKING SHIPP.	TOTAL
2	3 Bedroom Set Residential Furniture	19,950	39,900	18,936	58,836
2	Stove	735	1,470	421	1,891
2	Refrigerator	1,050	2,100	526	2,626
2	Freezer	787	1,574	473	2,047
2	Washer	577	1,154	368	1,522
2	Dryer	399	798	210	1,008
6	Heater	158	948	257	1,205
5	Vacuum Cleaner	236	1,180	315	1,495
2	Water Heater	210	420	126	546
8	Voltage Regulator	157	1,256	368	1,624
	Subtotal Replacement FY-86		50,800	22,000	72,800
	Subtotal Replacement FY-87		53,300	23,100	76,400
	Subtotal Replacement FY-88		55,965	24,255	80,220

5% inflation added to each year after FY/86, based on 8 year replacement cycle.

AB

FY - 86, 87, 88

NXP PROCUREMENT PLAN

FUNCTIONAL CODE: U504

Extended Object Class: 310

I: NEW AND REPLACEMENT PROPERTY REQUIREMENTS

ITEM No.	QTY	ITEM	UNIT COST	EXTEND COST	PACK/SHIP	TOTAL
1	2	Desk, Sec.	367	734	200	934
2	2	Chair, Typist	79	158	45	203
3	4	Desk, Office	315	1,260	350	1,610
4	4	Chair, Off. Rotary	84	336	95	431
5	8	Chair, Straight	68	544	150	694
6	4	Credenza	157	628	180	808
7	4	Stand, Off. Mach.	115	460	130	590
8	2	Bookcase	94	188	50	238
9	2	Stor. Cab.	210	400	120	520
10	2	Carpeting		4,000	1,300	5,300
11	3	Calculators	394	1,182	330	1,512
12	3	Typewriters	1,470	4,410	400	4,810
	*	Subtotal FY-86		14,300	3,350	17,650
	*	Subtotal FY-87		14,800	3,450	18,250
	*	Subtotal FY-88		15,540	3,600	19,140

5% inflation added to each year after FY/86, based on 10 year replacement cycle.

NOTE: Items number 1-9 are New Procurement for FY - 1986 and Replacement Commencing in FY-87.
Line Items Number 10-11 are replacement for FY - 1987

-AC-

	FUNCTION CODE	OBJECT CLASS
** VEHICLES	U505	312

I. Replacement Vehicles

FY-86

QTY	ITEM	UNIT COST	EXTEND COST	PACK/SHIP	TOTAL
3	Sedan	15,000	45,000	8,000	53,000

TO RETIRE:
SN 132971 (AT-109)
SN 132968 (AT-116)
SN 132970 (AT-115)

FY-87

**	VEHICLES	FUNCION CODE	OBJECT CLASS
		U505	312

Replacement Vehicles

1	Pick Up Truck	18,000	18,000	6,000	24,000
1	Sedan (Directors)	18,000	18,000	6,000	24,000
1	Suburban	19,000	19,000	6,300	25,300
1	Blazer	18,000	18,000	6,000	24,000
	TOTAL:	73,000		24,300	97,300

TO RETIRE
T-1222231
142385
129162
20906

FY-88

Replacement Vehicles

1 Sedan	17,000	17,000	3,000	20,000

To Retire

157848

-AD-

FY-86

FUNCTIONAL CODE: U506

Extended Object Class: 319

I. REPLACEMENT PROPERTY REQUIREMENTS

N/A

II. NEW PROPERTY

QTY	ITEM	UNIT COST	EXTEND COST	PACK/SHIP	TOTAL
1	Disk Drive	12,000	12,000	3,000	15,000
1	U P S	27,000	27,000	6,500	33,500
1	Back-up tape Drive for PC	5,000	5,000	500	5,500
1	Security Safe Heaven Doors Esape Shute, Emergency Generator	20,000	20,000	3,000	23,000

III. TOTAL 319 ASSOCIATED REQUIREMENTS THIS FY:

		EXTEND COST	PACK/SHIP	TOTAL
A.	Extend Cost	64,000		
B.	Est. PKG/SHPG		13,000	
C.	CIF (Destination)			77,000

-AD-

FY-87

		FUNCTION CODE	OBJECT CLASS
**	OTHER EQUIPMENT	U506	319

I. New Property

QTY	ITEM	UNIT COST	EXTEND COST	PACK/SHIP	TOTAL
4	4 PC's w/Tape Back-up	15,000	60,000	6,000	66,000
2	Band Printers	10,000	20,000	3,000	23,000
1	Computer Packet Communications System	15,000	15,000	2,000	17,000
	TOTAL		95,000	11,000	106,000

FY-88

4	PC's, w/tape and Back-up	16,000	64,000	6,000	70,000

-AE-

		FUNCTION CODE	OBJECT CLASS
**	TRANSPORTATION/FREIGHT	U507	22

	FY-86	FY-87	FY-88
310	3,350	3,450	3,600
312	8,000	24,300	3,000
319	13,000	11,000	6,000
TOTAL	24,350	38,750	12,600

B. MISSION EVALUATION PLAN

During FYs 87 and 88 USAID proposes to carry out a total of seven evaluations (five formative evaluations and two summative/impact evaluations). These evaluations will have a general objective of looking at progress and impact achieved during the period covered by this Action Plan in private sector development, institution building, technology transfer, and policy change that must take place in the public and private sectors if Ecuador is to achieve its economic growth, basic human needs and institutional development goals.

The specific evaluations that the Mission will undertake are shown in the following table. Of particular importance are evaluations that will assist the Mission to: (1) identify actual GOE progress in designing and implementing sound economic policies, both at the macro level as well as in sector specific priority areas, i.e. agriculture; (2) identify progress in strengthening the role of the private sector in Ecuador's development process, particularly in export development, and in the use of crop specific agricultural producer's associations as vehicles for technological, production and productivity improvements in the sector; and (3) determine the degree to which the Child Survival effort has been consolidated as a permanent institutional approach in the Ministry of Health and INNFA.

Terms of reference for project level evaluations will be tailored around the quantified objectives established in Section II above. The Mission is currently contracting the services of a qualified Ecuadorean professional to serve as Evaluation Officer and improve the evaluation process through active participation and input starting at the program and project design stage and continuing through the life of the given activity.

TABLE VII LIST OF PLANNED EVALUATIONS
FY 198 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE 51B - ECUADOR

Project List (Project No & Title)	Last Eval Completed (Mo./Yr.)	FY 198 Start (Qtr)	FY 198 To AID/W (Qtr)	FY 198 Start (Qtr)	FY 198 To AID/W (Qtr)	Reasons/Issues	Funding Source ($000)	USAID Person Days	Collateral AID Assistance
0060 Private Sector Health Delivery Model (OPG) HE	NA	2	3	NA	NA	PACD: 9/90 Formative evaluation to measure progress in achieving self-financing private sector health plan, and in providing for basic human needs through improved health services.	Proj. 10 PD&S 10	5	LAC/DR/HN recruit consultant
0049 Malaria Control HE	NA	NA	NA	4	4	PACD: 2/90 The formative evaluation will focus on how effective the project has been in achieving annual planned outputs and recommend actions to SNEM as outlined in Section C.3 of the Project Agreement, and in providing for basic human needs through improved malaria control services. Similar annual review progress evaluation is to be conducted annually 1986-90 per Pro Agreement Section C.3.	Proj. 50	15	None Representatives from S&T/HEA, CDC and PAHD on the evaluation team.

Mission Evaluation Officer: Patricio Maldonado, Program Officer (15% annual time devoted to evaluation work)
* Indicates that the current estimate for FY 1987 is different from the FY 1987 Evaluation Plan in the FY-87 Mission Action Plan

TABLE VII LIST OF PLANNED EVALUATIONS
FY 198 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE SIP - ECUADOR

Project List (Project No & Title)	Last Eval Completed (Mo./Yr.)	FY 198 Start (Qtr)	FY 198 To AID/W (Qtr)	FY 198 Start (Qtr)	FY 198 To AID/W (Qtr)	Purpose/Issues	Funding Source	Funding ($000)	Person Days	Collateral AID Assistance
0015 Integrated Rural Health Delivery System HE	6/84	4*	NA	NA	1	PACD: 9/86 (6/88 Child Survival) This formative evaluation will look at: Timeliness of delivery of project inputs and effectiveness of TA and training; progress in obtaining Child Survival objectives and recommended preprogramming, and in providing for basic human needs through improved health services.	Proj	50	15	S&T/HEA Contract with Johns Hopkins for Child Survival Evaluation
				4	(FY 89) 1	Project impact evaluation including natural; infant mortality survey to verify reduction of infant mortality.	Proj.	100	30	S&T/HEA Contract with Johns Hopkins for Child Survival Evaluation
0050 Macroeconomic Policy Analysis SD	NA	4	NA	NA	1	PACD: 9/87 End of Project evaluation to measure achievements of purpose level indicators, including the extend to which sound economic policies have been designed and implemented. The evaluation will focus on how	Proj.	10	20	None

TABLE VII LIST OF PLANNED EVALUATIONS
FY 198 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE SIR - ECUADOR

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 198 Start (Qtr)	FY 198 To AID/W (Qtr)	FY 198 Start (Qtr)	FY 198 To AID/W (Qtr)	Purpose/Issues	Funding Source	Person Days	$000	Collateral AID Assistance
						effective the project has been in contributing to reorienting public sector macroeconomic policies.				
0051 Agricultural Sector Reorientation Program ARDN	NA	NA	NA	1	2	PACD: 7/90 The formative evaluation will focus on how effective the project has been in contributing to reorienting public sector agricultural policies and in involving the private sector in effective policy dialogue.	Proj.	60	25	AID/W TDY, APA 20 person/days
0019 Non Traditional Agricultural Exports - ARDN	NA	NA	NA	3	4	PACD: 9/87 A summative evaluation to measure impact of the project in diversifying private sector Private Sector Ag. exports from Ecuador and determine need for expanding and/or redirecting the project.	Proj.	25	20	None
0032 Rural Technology Transfer System (Title XII) ARDN	8/84	3	4	4	1	PACD: 9/88 A formative evaluation will assessthe effectiveness of utilizing producer associations as a way to transfer	Proj.	15	20	None

TABLE VII LIST OF PLANNED EVALUATIONS
FY 198 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE SER - ECUADOR

Project List (Project No & Title)	Last Eval Completed (No./Yr.)	FY 198 Start (Qtr)	FY 198 To AID/W (Qtr)	FY 198 Start (Qtr)	FY 198 To AID/W (Qtr)	Reason/Issues	Funding Source ($000)	USAID Person Days	Collateral AID Assistance
						technology and increase agricultural production.			
						The final evaluation will focus on the institutional impacts of the subprojects.	Proj.	15	20	BIFAD 15 person/days

C. GRAY AMENDMENT

In FY 85, USAID/Quito achieved approximately 10% of the entire Agency's Goal set for the Gray Amendment. In FYs 86, 87 and 88, the Mission will continue in its commitment to comply with the Agency's efforts in this area as can be seen in Table 7 below.

In the aforementioned Mission reorganization plan, responsibility within the Mission for insuring compliance with the Gray Amendment has been clearly defined. For both the design and implementation phases.

Also in response to the recommendations of the Management Assessment Team the Mission is establishing a system to insure complete recording of All Gray Amendment contracts.

TABLE 7
USAID/Ecuador Gray Amendment Response

F Y 8 5

Contractor	Date of Contract	Total Value	Amount of Initial Obligation	Balance to Obligate
United Schools of America	FY85(RCO)	2,201,000	1,200,000	1,001,000
United Schools of America	6/14/85	24,871	24,871	-0-
Comprehensive Marketing Systems	5/31/85	251,343	251,343	-0-
Comprehensive Marketing Systems	FY85	610,000	129,000	481,000
Comprehensive Marketing Systems	FY85	18,325	18,325	-0-
Sigma One Corporation	2/1/85	72,724	72,724	-0-
Sigma One Corporation	7/9/85	24,828	24,828	-0-
Sigma One Corporation		4,707,000	400,000	4,307,000
Sigma One Corporation	7/27/85	444,280	444,280	-0-
Creative Associates	2/85	156,000	156,000	-0-
Overseas Education Fund	1/23/85	25,716	25,716	-0-
Devres Inc.	10/15/84	846,986	208,000	638,986
Triton Corporation	FY85	57,569	57,569	-0-
IPPF	FY85	769,354	769,354	-0-
Franklin Export Trading Co	7/19/85	44,636	44,636	-0-
Franklin Export Trading Co	9/25/85	28,328	28,328	-0-
TOTAL FY - 85		10,282,960	3,854,974	6,427,986

FY 86

Franklin Export Trading Co	11/27/85	45,452	45,452	-0-
Creative Associates	1/23/86	70,000	70,000	-0-
To be Determined	FY86	800,000	-0-	800,000
To be Determined	FY86	2,200,000	-0-	2,200,000
To be Determined	FY86	10,000	-0-	10,000
To be Determined	FY86	2,000,000	-0-	2,000,000
To be Determined	FY86	50,000	-0-	50,000
TOTAL FY 86		5,175,452	115,452	5,060,000

Annex A

ECONOMIC ANALYSIS

The prospects for the Ecuadoran economy have darkened seriously in recent weeks due to the sudden sharp fall in world petroleum prices in January. Although the assumed per barrel price of $24 projected in the Mission's PAAD approved in September 1985 had long been recognized as too optimistic, the recent fall to as low as $14 per barrel raises the prospect of an average 1986 price as low as $15 per barrel and perhaps even lower. As a result, unless prices increase substantially from present levels, the balance of payments for 1986 will be in serious disequilibrium and there is a strong liklihood that, unless substantial additional external resources are found, output in 1986 will drop sharply as a result of greatly reduced import capacity. Indeed, if petroleum prices should fall below $15 per barrel, it is doubtful that the GOE could permit the fall in output that would be required if scheduled debt service were to be sustained. To avoid grately reduced growth the government's alternative would be to begin to accumulate significant debt service arrearages in 1986.

On the fiscal side, the decline in estimated oil prices represents a major reduction in the GOE's most important revenue source. Although it has compensated to a certain extent for the revenue loss by exchange rate adjustments and an increase in sales tax rates, it will be difficult to close the emerging fiscal gap and avoid recourse to domestic budget financing. This alternative however would have a serious impact on the availability of private sector credit.

A. Balance of Payments

The Mission's best estimate of the Ecuadorean export position for 1986 is shown on Table 1, together with preliminary results for 1985. The current best estimate of the average price of Ecuadorean crude for 1986 is $17.50 per barrel. This assumes a stabilization of world petroleum markets at about their present levels (January 1986). The export volume of 76.3 million barrels of crude is based on an optimistic estimate of production reaching 114.2 million barrels (313 thousand barrels per day, the maximum physical capacity of the pipeline is 315 thousand), with domestic consumption from production equal to 31.2 million barrels per year (up 1.6 percent from 1985). In addition, an estimated 6 million barrels of exports of heavy distilates is forecast at an average price of $13 per barrel.

Improved prospects for other exports will partially offset the more than half billion dollar decline in revenues from petroleum. The recent doubling of world coffee prices resulting from the Brazilian frost will increase coffee receipts by $185 million in 1986, despite unchanged export volumes. Moderate increases in cocoa prices will also increase export receipts. Among seafood exports, shrimp exports are expected to continue their moderate downward trend of recent years with essentially unchanged prices. Volumes of processed fish products are expected to decline somewhat despite improved price performance. Overall, exports are projected to decline by $312 million from their 1985 level.

Merchandise import projections for 1986 and actual imports for 1985 are summarized on Table 2. The projections for 1986 are based on estimated import requirements necessary to sustain three percent real growth. The most important determinants of the level of imports are the expected increase of eight percent in import unit values resulting from the recent decline in the dollar on world markets, partially offset by the decline in world petroleum prices themselves which will reduce the prices of fuels and lubricants. As a result of these two factors, it is estimated that an increase in imports of 10.1 percent will be required to sustain three percent real growth in 1986.

The overall projected balance of payments position is summarized on Table 3. Interest payments are projected to decline in 1986 as a result of an estimated average one percentage point drop in world interest rates over the course of the year. Among non-factor services, credit items are projected to increase in line with the estimated level of increase in world inflation, while debit items are expected to increase both with the increase in world price levels and with the three percent target increase in domestic production and incomes.

In the capital account, ordinary project disbursements are expected to decline to normal levels after a very large level of disbursements in 1985. Projected amortization is determined by loan contracts, while refinancing items result from already negotiated bilateral and commercial bank multi-year rescheduling arrangements. As a result of the recently signed OPIC agreement and intense interest on the part of foreign oil firms in new exploration, direct investment is expected to increase in 1986. Much of this increase, however, will probably represent the value of imported equipment rather than financing of local currency expenses.

On the assumption that there is no significant capital flight in 1986, the projected ex ante balance of payments deficit would be $267 million. A deficit of this magnitude does not appear to be financeable at this time. Furthermore, this deficit results only if world petroleum prices stabilize at approximately their current

levels. Further declines are possible. A reduction to $15 per barrel would increase the deficit to $451 million for 1986. A decline to $12 per barrel would increase the deficit to $686 million.

The financing of deficits of this magnitude appears out of the question. The alternative is a reduction in output in order to reduce import requirements. The relationship between increases in output and increases in imports is a complex one and one which has not been studied in detail in Ecuador. On the one hand, increases in output require certain levels of both imported capital goods and imported raw material and semi-finished inputs. On the other hand, increases in disposable income will lead to increases in the demand for goods in general including imported goods. These relationships are clearly not fixed. Input and capital goods requirements will depend on the sectors in which growth takes place (less for agriculture, greater for modern sector manufacturing) while the demand for imported final goods will depend on the real exchange rate. In the absence of detailed study of the relationships involved, it has been assumed here that demand for all categories of inputs varies directly in proportion to changes in output; that is, that the income elasticity of demand for all categories of imports is equal to one. It should be noted that the GOE has generally assumed an income elasticity of demand for imports of about 2.

Based on the assumption of unitary demand elasticity, at $17.50 per barrel and no increase in output from 1985 levels, the deficit would decline to $144 million. This still appears difficult to finance without substantial additional external financing, although some reduction in net international reserves appears possible, perhaps up to $75 million. Some additional financing may be forthcoming from the IMF's Compensatory Financing Facility, but this would require an important change in policy an the part of the Fund. Commercial banks are conceivably another source of additional financing, through an agreement to capitalize some portion of interest although more likely in the form of a new money loan (which the GOE is loathe to contract and the banks are not eager to provide). The final potantial financing source is official lenders either through new commitments or accelerated disbursements of existing loans.

If no additional external financing is forthcoming, a three percent reduction in output would permit a reduction in the deficit to $64 million, which is probably within the range which could be covered by a decline in reserves. This, however, would imply 3% negative growth and a reduction in per capita incomes of almost 6 percent.

Further declines in petroleum prices would be even more difficult for the GOE to cope with. At $15 per barrel, a 10 percent reduction in total output would be required to reduce the BOP deficit to $79 million. This is probably beyond the range of political

feasibility. The alternative, of course is arrearages on current debt service payments, with all that that implies both for Ecuador and for the world financial system.

The final column of Tables 1, 2, and 3, provide projections for 1987. Given the current situation in the international petroleum market, these projections are obviously highly speculative. Petroleum prices are assumed (for lack of any better information) to remain at their assumed levels for 1986. Production levels will continue to be constrained by the physical capacity of the pipeline. Domestic consumption is assumed to remain unchanged from its 1986 levels. Other export projections are extrapolated on the basis of recent trends. The most important non-petroleum development in 1987 will be a return of coffee prices to more normal levels, here projected at $1.40 per pound.

Imports are assumed in 1987 to rise both in line with a three percent target level of growth of domestic production and an assumed three percent increase in unit values (other than unit values of petroleum products which are assumed to remain unchanged).

International interest rates, reflected on Table 3, are assumed to remain constant at their 1986 levels, while international disbursements are based on IBRD projections. Refinancings assume a continuation of multi-year reschedulings already in force.

Overall, the balance of payments outlook for 1987 appears far worse than that for 1986, with a deficit of almost $600 million. Essentially, this results from the expected return to normal coffee prices, an expected further deterioration in Ecuador's terms of trade, and an assumption that the GOE will continue to meet its debt service commitments under the existing rescheduling agreement. Furthermore, the option of financing this gap by running down international reserves will no longer be available in 1987 if that option is exercised to the maximum extent possible in 1986, as now appears likely. Unless there is a major turnaround in the petroleum situation, the BOP outlook for 1987 is truly grim.

B. Fiscal Situation.

The decline in petroleum prices falls very heavily on the fiscal accounts. Export sales of petroleum provide approximately one half of total public sector revenue. Moreover, some of the effects which offset the fall in receipts on the balance of payments side; e.g., the increased world price of coffee, have no counterpart on the fiscal side. Moreover, the fiscal situation is made more difficult by the fact that the GOE had already anticipated some deterioration in the fiscal situation in 1986, largely as a result of an anticipated appreciation of the real exchange rate. In contrast to

the almost three percent of GDP fiscal surplus reported in 1985, the GOE was planning in 1986 merely to avoid domestic financing of the deficit; that is, to hold the deficit to levels which could be financed through external resources.

Part of the reason for the decision by the GOE to aim for a lower level of public sector surplus in 1986 appears to be the substantial success of the GOE in improving resource mobilization through the financial system resulting from the introduction in January 1985 of bank certificates of deposit (polizas de acumulacion especiales) with freely negotiated interest rates. By November 30, the total value of ordinary sucre-denominated deposits plus certificates of deposit had increased the lending resources available to the banking system by 67.1 percent over the level of one year earlier. Much of this increase probably represents a diversion to the formal banking system of resources which previously were lent through informal channels with the banks themselves acting as intermediaries (the so-called "extra-bank" market). Whatever the case, the argument formerly made, that it was essential for the public sector to supply funds to the banking system to compensate for the low level of financial system resource mobilization, now appears to have less force than before.

In its budget planning, the GOE had assumed an average export price of petroleum for 1986 of $25.50 per barrel. A decline in price to $17.50 projected in the previous section would result in a decline in public sector revenues equal to 40 billion sucres or 3.6 percent of projected 1986 GDP. To counteract this, the GOE has carried out a devaluation of the "Central Bank intervention" exchange rate (at which all merchandise transactions take place) sufficient to increase the sucre value of dollar receipts by 14 percent. This alone is estimated to increase the the sucre value of petroleum receipts by 7.5 billion sucres (0.7 percent of GDP). In addition, the devaluation will increase receipts from import duties by 2.0 billion sucres (0.2 percent of GDP). On the negative side, the devaluation will increase the sucre value of external debt service payments and certain external purchases of goods and services by approximately 2.0 billion sucres. On balance, then, the devaluation will increase public sector receipts by 0.7 percent of GDP.

An additional revenue measure enacted in January 1986 was an increase in the sales tax from 6 to 10 percent. In 1985, this tax was estimated to have yielded the GOE revenues equal to 1.36 percent of GDP. The recent increase should, therefore, increase revenues by an amount equal to 0.9 percent of GDP. This leaves a remaining unfinanced fiscal gap equal to 2.0 percent of GDP financial system budget financing is to be avoided.

There are a number of potential sources available to close a fiscal gap of this magnitude. One method is to increase revenues. Perhaps the two most obvious means of achieving this are a further

devaluation of the sucre or an increase in the domestic price of petroleum products. For the immediate term, both seem to be under consideration by the GOE. However, a further devaluation would make it difficult for the GOE to achieve its objective of reducing the rate of inflation for 1986 to 16 percent on a December to December basis. An increase in domestic petroleum prices would be politically difficult at the best of times and particularly difficult to justify at a time of falling world petroleum prices, although the GOE recognizes it may not be able to afford this subsidy much longer.

Other sources of financing are an increase in the rate of donor disbursements, and a decline in net international reserves. In fact, the $75 million decline in net international reserves mentioned in the previous section would provide fiscal financing equal to 0.7 percent of GDP and reduce the remaining fiscal gap to 1.3 percent of GDP.

A final method of closing the fiscal gap would be a reduction in expenditures. A reduction of central government expenditures of 7 percent would be sufficient to reduce the deficit by 1.3 percent of GDP and, in combination with a loss of net international reserves of $75 million, would be sufficient to close the remaining gap. Of course, such a reduction would be difficult to achieve. In practice, the GOE is likely to try to use a combination of accelerated external disbursements, loss of net international reserves, and expenditure reduction to eliminate the need for domestic fiscal financing during 1986.

All of the previous estimtates are based on an assumption of an average price of petroleum equal to $17.50 per barrel. Every $1 per barrel reduction below this level widens the fiscal gap by 0.5 percent of GDP and the resources to finance such a gap at prices below $17.50 per barrel simply are not available. Since this also appears to be the critical level in terms of available balance of payments financing, the most likely outcome in the event that prices fall much below $17.50 is the accumulation of arrears on external debt service obligations with the counterpart used to provide the needed relief on the fiscal side.

One final caution should be made that the present state of petroleum markets is extremely uncertain. A recovery of world prices to some level in response to a shutting down of high-marginal-cost production cannot be ruled out. The Ecuadorean picture would brighten considerably if this were to happen. At the moment, it is simply not clear what sort of world supply response may be expected as a result of the recent precipitous price decline. However, at this point, a further decline seems more probable than a recovery.

C. Economic Policy Reforms: Accomplishments of the Febres Cordero Administration.

The administration of President Leon Febres Cordero has organized an exceptionally well-qualified team of private enterprise-oriented economists. This group, with limited assistance from A.I.D., has put together a package of economic measures that are designed to stabilize and reorient the economy in the immediate to short term, and lead to recovery in the medium term. Among those steps already taken are the following:

1. August 1984: To reduce energy subsides, the GOE resolved to continue the 2% per month increase in electricity rates.

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

   a. created the official intervention market;
   b. moved all transactions except public sector transactions, selected imports, and debt servicing on external loans contracted prior to 9/4/84 to the intervention and parallel markets;
   c. reduced the minimum financing period from 360 days and 180 days to 120 days for the majority of imports;
   d. lowered certain import duties; and,
   e. removed most import prohibitions.

3. September 11, 1984: To free the market, the GOE eliminated price controls on 48 of the 55 commodities subject to control.

4. November 6, 1984: To slow the rate of growth of Central Bank credit, the GOE raised the reserve requirement on sight deposits by 2 percentage points to 22 percent.

5. November 1984: To foster foreign investment, the GOE successfully negotiated and signed an OPIC Agreement.

6. December 1984: To stabilize the economy, the GOE successfully completed negotiations for a MYRA (1985-1989) debt rescheduling with foreign commercial banks.

7. December 28, 1984: To increase government revenues and decrease petroleum subsidies, the GOE:

   a. increased domestic gasoline prices by about 65 percent (regular and high octane);
   b. increased the domestic diesel price by 100 percent; and
   c. intends to further adjust prices in the future.

8. January 1985: To make interest rates more flexible, the GOE:

   a. raised the interest rates on commercial lending to 23 percent;
   b. raised the interest on deposits to 20 percent; and,
   c. allowed the banking system to issue term deposit certificates at market-determined interest rates and to determine freely the interest rate applied on loans funded with the proceeds from the placement of such certificates ("polizas de acumulacion"). Banks began issuing the "polizas" in March.

   By November 30, 1985, this mechanism had generated approximately S/. 32.2 billion, some subtantial part of which is estimated to be capital returned from abroad. Of the amount generated, approximately S/. 30.4 billion had been relent. Since their institution, interest rates on the certificates have fallen steadily, underlining their popularity. Rates on 90 to 119-day certificates fell from 26% in April 1985 to 22.8% at the end of November. Rates on the 270-day certificates have fallen from 28% in April 1985 to 24.9% at the end of November.

9. January 1985: To stabilize the economy in the immediate term and restore economic growth over the medium term, the GOE successfully completed negotiations with the IMF for an SDR 105.5 million Stand-by Agreement. The following measures were identified for implementation during 1985 as part of the IMF Stand-by Agreement:

   a. unification of the official and Central Bank intervention exchange rates;
   b. transfer of foreign exchange transactions for services from the parallel market to the unified market;
   c. ultimate implementation of a flexible exchange rate policy;
   d. achievement of an official fiscal surplus through increased revenues from domestic petroleum sales and traditional taxes and expenditure constraints;
   e. limitation of wage increases to the rate of inflation;
   f. elimination of the requirement for advance payments for imports;
   g. ceilings on external debt; and,
   h. limits on expansion of domestic credit.

10. April 1985: To further open the economy, the GOE officially reduced import restrictions.

11. April 1985: To stabilize the economy, the GOE successfully completed negotiations for a MYRA for official debt at the Paris Club.

12. August 28, 1985: To unify exchange rates, all import/export transactions were moved to the Central Bank intervention exchange rate. Prior to this date, the GOE had been gradually transferring specific tranactions from the official to the Central Bank rate. On August 28, the only transactions which continued to take place at the official rate were pharmaceutical imports, Texaco exports, and payment of previously contracted and disbursed foreign debt. With the transfer of the first two of these transactions to the Central Bank rate, the official market was virtually eliminated. Tight monetary policy resulted in strengthening the free market sucre from a low of S/125:$1.00 in February 1985 to S/100:$1.00 at the first of August 1985. Since the Central Bank intervention rate remained constant at S/97:$1.00 and the official rate had been virtually abolished, a de facto exchange rate unification took place.

13. November 13, 1985: To further unify exchange rates, the Monetary Board officially abolished the official rate of exchange on this date (S/67.85:$1.00). No further transactions will take place at this rate of exchange. This complies with the conditions of the IMF Stand-by Agreement, and further closes the gap exchange rates. Political opposition forces characterized the move as a serious devaluation. In fact, as mentioned above, the GOE has been gradually moving transactions from the official rate to the Central Bank Free Market Intervention rate over the past year.

14. January 28, 1986: To further rationalize exchange rates, the GOE devalued the Central Bank Intervention Rate of Exchange from S/. 95/96.5:$1.00 to S/. 108.5/110:$1.00. This was a further 14% devaluation of the sucre.

15. January 28, 1986: To reduce trade barriers to further open the economy, the GOE revised the tariff code to begin the process of reducing protectionism.

TABLE 1
MERCHANDISE EXPORTS
(MILLION DOLLARS AND METRIC TONS UNLESS SPECIFIED)

	1985 PREL.	1986 PROJ.	1987 PROJ
TOTAL EXPORTS FOB	2870.0	2557.8	2441.0
CRUDE PETROLEUM	1825.0	1335.3	1335.3
VOLUME (MILLION BBL)	70.6	76.3	76.3
PRICE	25.9	17.5	17.5
PETROLEUM DERIVATIVES	100.9	78.0	78.0
VOLUME (MILLION BBL)	4.8	6.0	6.0
PRICE	21.0	13.0	13.0
BANANAS	190.0	189.5	192.3
VOLUME	1074.0	1074.0	1090.0
PRICE ($ PER LB.)	0.080	0.080	0.080
COFFEE	184.4	369.2	247.0
VOLUME	76.1	76.1	80.0
PRICE ($ PER LB.)	1.10	2.20	1.4
COCOA, UNPROCESSED	140.0	156.2	154.4
VOLUME	71.2	71.0	70.0
PRICE ($ PER LB.)	0.89	1.00	1.0
PROCESSED COCOA	75.7	85.7	88.8
VOLUME	32.8	33.8	35.0
PRICE ($ PER LB.)	1.05	1.15	1.15
FISH & SEAFOOD	260.3	244.0	245.4
TUNA & OTHER	8.9	9.2	10.6
VOLUME	10.7	11.0	12.0
PRICE ($ PER LB.)	0.378	0.378	0.400
SHRIMP	154.4	146.6	146.6
VOLUME	19.7	19.0	19.0
PRICE ($ PER LB.)	3.55	3.50	3.50
PROCESSED PRODUCTS	97.0	88.2	88.2
VOLUME	279.4	200.0	200.0
PRICE ($ PER LB.)	0.157	0.200	0.200
OTHER PRODUCTS	93.7	100.0	100.0

TABLE 2
MERCHANDISE IMPORTS
(MILLION DOLLARS)

	1985 PREL	1986 PROJ	1987 PROJ
MERCHANDISE IMPORTS	1723	1897	2008
CONSUMER GOODS	325	362	384
FUEL	138	96	99
LUBRICANTS	18	13	13
PRIMARY MATERIALS & SEMI-FINISHED GOODS	778	865	917
CAPITAL GOODS & TRANSPORT. EQUIPMENT	464	561	595

TABLE 3
BALANCE OF PAYMENTS
(MILLION DOLLARS)

	1985 PREL	1986 PROJ	1987 PROJ
BALANCE ON CURRENT ACCOUNT	-99	-546	-813
EXPORTS FOB	2870	2558	2441
IMPORTS FOB	-1723	-1897	-2008
FACTOR SERVICES	-886	-800	-800
INTEREST	-776	-700	-700
OTHER	-110	-100	-100
NON-FACTOR SERVICES	-385	-432	-471
TRAVEL, CREDIT	143	155	160
TRAVEL, DEBIT	-167	-186	-197
OTHER, CREDIT	247	275	283
OTHER, DEBIT	-608	-676	-717
TRANSFERS	25	25	25
CAPITAL ACCOUNT	124	279	228
PUBLIC SECTOR	582	159	88
DISBURSEMENTS	681	385	405
AMORTIZATION	-1225	-1212	-1217
REFINANCING	1126	986	900
PRIVATE SECTOR	-47	120	140
DIRECT INVESTMENT	60	120	140
DISBURSEMENTS	0	0	0
AMORTIZATION	-120	0	0
REFINANCING	13	0	
OTHER AND ERRORS & OMISSIONS	-411	0	0
LIQUIDATION OF ARREARS	-283		
OTHER	-128		
CHANGE IN NET INT'L RESERVES (- = INCREASE)	-25	267	585