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ECUADOR

Action Plan FY 1986-87

BEST AVAILABLE

MISSION ACTION PLAN
FYs 86 and 87

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SECTION I
MISSION'S OVERALL DEVELOPMENT STRATEGY

A. COUNTRY SETTING

Ecuador is one of the poorest countries in South America. Its 1985 per capita GDP, estimated at US$ 1,437 by the IBRD and the Central Bank, masks broad disparities in income levels. Fifty percent of the total population of 9.4 million (1985) lives in rural areas. In 1980, 40 percent of the urban population and 65 percent of those in rural areas were living below the absolute poverty level, a situation which likely worsened during the 1980-1983 period. Less than 25 percent of the rural population has access to potable water, and even fewer live within a reasonable proximity 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 all children under the age of five are malnourished. Adult illiteracy in rural areas approaches 24 percent, and 70 percent of all rural children are forced to leave school by the fourth grade. Disease incidence, especially malaria, is on the rise.

The Ecuadorean economy expanded rapidly during the oil boom of the 1970's. Also during this period the public sector expanded at twice the rate of growth of the GDP. In the period 1980-1983, however, the growth rate declined (in 1983 the economy contracted by 3.3 percent or 6.1 percent in per capita terms) and inflation reached 53 percent. In 1984, the stabilization measures introduced over the previous two years began to have effect. The economy registered modest positive growth of 2.2 percent. However, per capita income continued to decline by 0.7 percent. Despite these intial signs of recovery, an estimated 50 percent of the economy's work force is estimated to be underemployed.

In the 1970's growth was fueled by oil revenues and in the late 1970's mid early 1980's, by external debt. External debt grew from $363 million in 1970 to $6,903 million in 1983. When external creditors began to seek a reduction rather than an increase in lending, the Ecuadorean economy entered a period of sharp decline. The weaknesses of the import substitution model and of external borrowing to maintain internal consumption and investment became apparent. The financial sector, shallow in its institutional development and boxed in by low interest rates, was not able to mobilize sufficient domestic resources to offset the crisis in the

external sector. The agricultural sector, burdened with extensive consumer oriented public sector interventions, suffered additionally from natural disasters; crop output declined by 27 percent in 1983. The highly protected manufacturing sector, confronted by the restricted domestic demand and by trade barriers and payment difficulties in the Andean markets, was not able to switch to other markets.

The GOE began to introduce economic stabilization measures in mid-1982 with the devaluation of the sucre, the first one in 10 years. It was followed by public sector spending restraints, particularly in the capital account, which allowed for a balanced public sector budget in 1984 (following a 1982 deficit equivalent to 6.8 percent of GDP); by import restrictions and by incentives provided to exporters through a more realistic exchange rate policy (the current account balance was $104 million and $212 million in 1983 and 1984, respectively, compared with $1,195 million in 1982); by reducing subsidies in energy and food (further reducing the strain on the fisc); by monetary restraint; and by 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. The 1984 partial recovery brought the economy back to near the 1982 GDP levels although per capita GDP remains, nearer the 1980 level. The economic growth in 1984 was led by increases in crop output (accounting for 39 percent of the growth) and petroleum exports (accounting for 43%). Exports moved from US$2.2 billion to US$2.6 billion, with the major gains being in oil, cacao, fish, and coffee. Inflation was reduced to 25 percent. This performance is attributable to the recovery from the natural disasters, to improvements in the international economy and to the stimulus provided by the cumulative effect of the 1982-1984 stabilization measures.

The GOE administration of León Febres Cordero, which came into office in August 1984, has continued and accelerated the process of policy adjustment to achieve economic stabilization. More broadly, it seeks a restructuring of the economy to make it more competititve and export oriented. In its first six months in office, the Febres Cordero Government took additional decisions in exchange and interest rates areas which furthered the move to a market oriented economy.

The perspective for the Ecuadorean economy for the 1985-1987 period is moderately bright. The GOE is expected to continue to pursue stabilization and the positive effects of structural adjustment can be expected to appear. The projection that stabilization will be fully achieved, however, should be treated cautiously as it is extremely sensitive to two variables-international oil markets and interest rates-over which the GOE has no control. For instance, the GOE's adjustment strategy contained in its January 1985 presentation

to the international financial community as part of a debt rescheduling exercise assumed a $27 per barrel oil price. If this assumption is high by as little as $1 per barrel (3.7 percent), Ecuador would have to cope with an external financing gap of some $220 million in the 1985-1987 period. If the GOE's international interest rate projection (11.5 percent U.S. prime; 10 percent LIBOR) is one percent off the mark, the financial gap will be US$150 million over the period.

Even assuming that the Ecuadorean Government is successful in the 1985-87 period in handling its external and internal financial problems, it faces an extremely difficult task to restructure the economy to lay the basis for long term economic growth. The policies and programs required to shift to a more dynamic, market oriented economy are inherently difficult both to design and to implement. Movement toward a more competitive, export oriented industrial strategy is already being opposed by firms now enjoying excessive protection in the local market. A new agricultural strategy which will reverse the deterioriating terms of trade for the rural areas will face strong opposition from urban groups (e.g., organized labor) which fear rising food prices. A more open position on foreign investment will encounter political sensitivities, and efforts to increase public sector revenue collection will need to overcome widespread non compliance. GOE efforts to control inflation (the GOE is commited to maintaining wage increases within its 20 percent inflation target) is currently being tested in the political arena. The Febres Cordero Administration can be expected to seek greater rationality in other key policy areas (exchange rate, monetary expansion, public sector expenditure, interest rates, fuel subsidies), but every change will encounter opposition from entrenched economic and political interest groups.

B. STRATEGY

Broadly speaking, A.I.D.'s objective in Ecuador is to assist the GOE in its efforts to stabilize the external sector and to restructure the economy along competitive lines. To achieve this objective, the Mission is working closely with both the GOE and with the private sector to create a more competitive economy, a more efficient and somewhat leaner public sector, and an improved distribution of opportunities through its support of investments which seek to meet basic needs. The strategy includes a heightened emphasis on policy dialogue and programs which rely on market forces to stimulate production increases. It also reflects a concentration on areas which are critical to readjustment and in which A.I.D. has the capacity to contribute effectively.

U.S. stabilization assistance during the 1985-87 period will be directed to maintaining imports of key consumer goods (e.g., wheat), capital goods, and raw materials at reasonable levels. It will be necessary to increase DA levels and to supplement long term DA programs with PL 480 Title I and ESF programs which provide a more immediate impact. The availability of these A.I.D. resources will help the GOE to get through this difficult period of economic adjustment and more importantly, through conditionality and the careful programming of local currency generations, will facilitate the essential restructuring effort.

Assistance to revitalize the economy and make it more competitive is the core of A.I.D.'s program. The program involves three basic elements which will be financed with DA monies and with local currency from PL 480 and ESF programs. First, efforts will be concentrated in productive sectors in which Ecuador has a comparative advantage, principally agriculture and related agroindustrial and service sectors. These sectors are central to Ecuador's economic growth because of their potential to yield sizeable gains in output and foreign exchange earnings. They are also sectors in which increases in production (i.e., the supply of food and improved nutrition), incomes, and employment will benefit the widest segment of the Ecuadorean society.

Within these sectors, A.I.D. will address policy, institutional, and technological constraints which adversely affect Ecuador's private entrepreneurs, particularly small and medium sized businesses and farms. These constraints include policies which discourage savings and investment or distort investment patterns; low levels of external investment needed for access to technology, markets, and capital; and inadequate supply of technical and managerial skills to resolve production and marketing problems.

The second element of this strategy includes efforts to meet basic needs within the context of an economy in which direct government intervention is declining. A.I.D. will focus on the health, nutrition, and shelter sectors which are critical to the well-being and the long term increased productivity of Ecuadorean society. Housing construction is of added importance in the short term because of its employment generation effect and because of the commitment which the current government has publicly made to addressing shelter needs. Health, population planning, and nutrition are areas in which A.I.D., backed by the scientific and managerial resources of the U.S., is well qualified to accomplish a major impact with a limited investment of resources.

The third element in A.I.D.'s program responds to the challenge of reorienting the public sector to become a leaner and more efficient performer. A.I.D. will assist the GOE to create a positive policy

climate for increased private sector production. Complementing this, and particularly necessary given the deterioration in government savings, A.I.D. will provide training and technical assistance to upgrade tax administration. Finally, in agriculture, health, and narcotics awareness, A.I.D will help the GOE to perform better those functions which can most appropriately be carried out by the public sector, and to divest itself of those in which market forces can contribute to a better performance.

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SECTION II
FYs 86/87 PROGRAM AND POLICY STRATEGY

A. PROGRAM STRATEGY

1. Production and Productivity in the Private Sector

(a) Programmatic Objective

To increase private sector production and productivity in comparative advantage sectors in which there is the greatest potential for employment generation.

(b) Goals

Goal No. 1
To increase the production and productivity of small and medium size enterprises in agriculture and small industry and in related service industries.

Benchmarks:

Agriculture and Agribusiness

-- Six producer associations actively involved in technology generation and transfer programs.

-- Increase the rate of reforestation to 10,000 hectares/year.

-- Stimulate investment in agriculture by increasing land tenure security on 15,000 farms.

-- Provide irrigation water for 3,500 hectares of small holder production in the central highlands region.

-- Provide credit to 2,800 small farm families in the Quimiag-Penipe, Salcedo and Jipijapa Integrated Rural Development (IRD) areas.

-- Make 20 investment loans to agribusiness engaged in major new or strategically important activities.

-- Provide direct technical assistance to 30 agribusiness firms.

-- Provide protection from flooding to 85,000 hectares of farm lands in the province of Guayas.

Small Business

-- Extend to the formal financial sector low cost, financially viable credit mechanisms which provide new loans at the rate of 2,000 per month to small business.

-- Introduce new legal regimes for artisans and small industries which reduce distortions caused by licensing and registration procedures.

Goal No. 2:

To strengthen and expand the capabilities of the private sector to participate actively in the formulation of policies.

Benchmarks:

-- Establish six advisory committees from producer commodity groups to work formally with Ministry of Agriculture (MAG) programs.

-- Establish a high level Agricultural Science Education, Research, and Extension Council to review agricultural education, research, and extension, identify major constraints, and develop recommendations.

-- Establish an independent foundation capable of conducting agricultural sector policy analysis.

-- Hold five formal workshops, conferences, and seminars with groups from the various agricultural organizations centered on such themes as tariffs, exchange rate policy, credit, and interest rates.

Goal No. 3:

To increase membership and capacity of private sector organizations to improve supply of services to members.

Benchmarks:

-- Develop cooperative interchanges among Ecuadorean leaders of private sector agricultural producer associations, and campesino organizations and counterpart organizations in the United States and other Latin American countries.

-- Increase membership of six private agricultural producer organizations, especially among smaller scale producers, and increase the quality and type of service provided to members.

-- Achieve financial viability of the small industrialists federation with a membership of 10,000 firms.

-- Expand the influence of the Federation of Exporters among agribusiness exporters (including a specific operational agreement with the wood products producers) and increase Federation membership from 100 to 150 firms.

-- Establish a mid-level professional development institute within the Guayaquil Chamber of Commerce.

Goal No. 4:

To increase the growth performance of the non traditional agricultural export sector by 10 percent per year while maintaining market shares in traditional export markets.

Benchmarks:

-- Stimulate cacao production and exports by rehabilitating old cacao plantations covering up to 30,000 hectares.

-- Maintain levels of coffee exports by initiating coffee leaf rust control activities on 5,000 coffee farms.

-- Complete 40 market studies of non traditional agricultural export products.

-- Install an external market information and service system within the Federation of Exporters, with the assistance of a U.S. firm.

-- Arrange the attendance of 100 Ecuadorean exporting firms at specialized fairs in U.S. markets and the visits of 20 U.S. buyers to Ecuador.

-- Prepare firm-specific export development plans for 50 Ecuadorean exporters.

-- Provide 50 product/market profiles to Ecuadorean exporters.

-- Host five specialized workshops on technologies related to improving export products for Ecuadorean firms.

-- Provide direct technical assistance on marketing and production to 30 agribusiness firms.

Goal No. 5:

To raise the level of domestic financial savings and increase foreign investment in comparative advantage sectors (agriculture, agribusiness).

Benchmarks:

-- Identify policy options and institutional constraints and initiate policy reform aimed at strengthening domestic capital markets.

-- Initiate institutional improvements in domestic capital markets in order to increase domestic savings.

-- Reduce and eliminate subsidies in financing shelter solutions to avoid the decapitalization of Ecuador's shelter institutions and to scale up the supply of low cost shelter solutions.

-- Develop and apply a readjustment mechanism for public and private sector medium and long term mortgage and short term home improvement lending.

-- Identify bottlenecks and initiate reforms within the GOE related to the foreign investment authorizing process.

-- Install a system of services for identifying and promoting investment opportunities and matching with potential investors.

-- Complete 50 firm-specific investment opportunity profiles.

Goal No. 6:

To improve and expand the human resource base of the private sector.

Benchmarks:

-- Establish a commercial skills training program in Guayaquil and complete a full year cycle with 2,000 individuals trained.

-- Establish and initiate operations of a graduate business management school.

-- Expand agricultural training opportunities to include: long term training in the U.S. for 30 University Agricultural faculty; in-country workshops for 100 agricultural faculty;

participation of Ecuadorean youths at the Pan American Agricultural School; expansion of campesino training activities; 4-F short courses for 6,000 farm youths.

-- Provide technical skills training to small and medium scale enterprise workers.

2. Basic Human Needs Sector

(a) Programmatic Objective

To increase and expand access to resources, infrastructure, and related services, through model low cost delivery systems in health, population, rural development, housing, and nutriton to vulnerable, low income, marginal groups throughout the country.

(b) Goals

Goal No. 1:

To reduce incidence of immunopreventable diseases (polio, measles, and BCG); to reduce infant mortality from diarrheal diseases by 50 percent; and to reduce malaria morbidity and mortality.

Benchmarks:

-- Expand coverage of immunization and ORT programs nationwide.

-- Establish national ORT program in all Ministry of Health (MOH) delivery units achieving a ten fold increase in the number of DRS packets distributed.

-- Implement mass media, social marketing program for ORT using messages developed with community inputs.

-- Develop and implement nationwide a stratified, multifaceted malaria control methodology.

-- Train 2,000 voluntary collaborators to work in malaria control activities.

-- Establish a malaria surveillance system, including laboratories, PHC system, collaborators and sentinel monitoring points for measuring incidence levels.

-- Reduce annual malaria parasite incidence to 1.6 cases/1000 and P. Falciparum to less than 10 percent of all cases

(improvement over current situation of API of 10/1000 and P. Falciparum of about 25 percent).

-- Expansion of rural potable water and sanitation activities to 100 new communities, benefiting approximately 50,000 people.

Goal No. 2:

To complete analyses of the existing nutriton situation and test alternative nutrition field interventions to guide national nutrition policy decisions.

Benchmarks:

-- Complete a national nutrition survey.

-- Institutionalize nutrition education related to growth monitoring, nutrition surveillance, breast feeding, and weaning practices in several areas of the country through the MOH and PVO projects.

-- Develop a comprehensive nutrition/health education program in the eastern tropical jungle region that will include the design and implement a nutrition/health curriculum module for use in teacher training centers; and in-service training in nutrition/health for 100 primary school teachers.

-- Develop new high nutrition foods for test marketing in community stores in three IRD areas.

-- Improve the distribution of food supplements to vulnerable groups using local resources and local foods, thereby phasing out the distribution of PL-480 Title II food commodities.

Goal No. 3:

To expand access to, and improve the quality of, family planning (FP) services in Ecuador thereby increasing contraceptive use among at-risk women from 43 percent to 45 percent.

Benchmarks:

-- Increase the number of FP service units from 198 to 260 in Campesino Social Security; from 38 to 45 in the Armed Forces; and from 23 to 50 in Social Security preventive medicine.

-- Initiate a Social Marketing of Contraceptives program in the private sector, with 1700 distribution outlets (50 percent of total pharmacies) in operation.

-- Expand a community based contraceptive distribution program in rural areas, to 970 distribution posts.

-- Expand service units under the natural Family Planning program through the Ecuadorean Church to six units in Cuenca and Guayaquil.

-- Introduce family planning services on a pilot basis in indigenous communities.

-- Establish a central supply and logistics system for FP commodities.

-- Train 600 pre-graduate medical students, 140 pre-graduate nurses, 50 pre-graduate nurse midwives, 200 doctors, 180 auxiliary nurses, and 20 social workers per year to improve the provision of FP services.

-- Enroll 70,000 new users in public and private FP programs.

-- Continue information and training on population and demographic issues for public and private sector leaders.

Goal No. 4:

To expand the supply of and access to low-cost shelter solutions by at least 100 percent.

Benchmarks:

-- Complete 22,315 shelter solutions, 11,500 home improvement loans, and 10,815 new construction solutions.

-- Develop a strategy to progressively introduce improved, regional building materials into housing programs.

Goal No. 5:

Develop infrastructure, mechanisms, and outreach capabilities to improve the provision of lower cost health services to 150,000 people in three IRD areas.

Benchmarks:

-- Fully establish priority PHC activities, including health promotion, ORT, immunizations, MCH feeding, and water and sanitation in three IRD areas.

-- Install rural water supply and sanitation model systems complete with self-financing and community maintenance activities in 60 communities in six provinces.

-- Install 500 locally produced handpumps.

Goal No. 6:

To develop infrastructure, mechanisms, and outreach capabilities to better respond to natural disaster situations in the future.

Benchmarks:

-- Protect 85,000 hectares of farm lands in the Province of Guayas from flooding.

-- Protect 26 currently vulnerable communities in Guayas Province from flooding.

-- Protect 130,000 persons in the provinces of Los Ríos and Guayas from flooding.

-- Repair potable water and sewerage systems for 64 large and small communities.

-- Repair and rebuild 60 kilometers of streets and associated drainage systems in the Guayaquil suburb of El Guasmo.

-- Provide potable water to 6,000 El Guasmo families.

-- Strengthen within the Ecuadorean Development Bank (BEDE) the capability to coordinate the disaster response activities of a variety of public sector agencies.

3. Reorientation of the Public Sector

(a) Programmatic Objective

To reorient selected GOE Ministries and agencies to become more effective and efficient in important fiscal management, administrative, and programmatic areas and to establish a sound policy environment in support of the productive sectors of the economy, within the context of the market oriented private sector approach adopted by Ecuador.

(b) Goals

Goal No. 1

To provide improved analytical capability and policy analysis information to senior Ministry of Agriculture executives for decision making.

Benchmarks:

-- Establish a staff economist group in the Office of the Minister of Agriculture to provide timely information for decision making.

-- Complete specific studies on priority policy issues within the MAG, including: domestic resource cost to determine the country's comparative advantage; pricing policy; fertilizer production and incentives; and divestiture opportunities in the areas of agricultural inputs, staple foods and consumer product retailing, and government owned production units.

Goal No. 2

To improve the administrative effectiveness of the MAG's National Forestry Program (NFP).

Benchmarks:

-- Develop and implement an administrative manual and, establish an adequate accounting and financial management system in the NFP.

-- Strengthen in-house technical and analytical capability in the NFP.

Goal No. 3

To carry out administrative reforms in the public housing sector and establish agile mechanisms that will facilitate achievement of the Febres Cordero Administration's housing objectives.

Benchmarks:

-- Develop and put into use manuals that clearly describe the terms and conditions of the Housing Bank program and describe project and contract development and approval procedures.

-- Decentralize project identification, design, and implementation in the housing sector to the regional offices and agencies of the Housing Bank through agile and effective administrative procedures.

Goal No. 4

To increase GOE fiscal management capability leading to increased revenues collected from non petroleum taxes (principally income and sales taxes) of 12 billion sucres above and beyond present levels, and to increased efficiency in implementing GOE expenditure policies.

Benchmark:

-- Reorganize the Ministry of Finance's General Directorate of Revenues. Revise and modify, as required, the procedural aspects of the Ecuadorean tax code to facilitate improved tax collection.

Complete a diagnostic analysis of GOE expenditure policies and planning, budgeting, disbursement, and accounting systems in order to introduce follow-on waste reduction and efficiency enhancement measures.

Goals No. 5

To institutionalize a GOE national training system to improve technical and program skills of career public sector officials.

Benchmarks:

-- Develop training models for key GOE Ministries and agencies such as the Ministry of Agriculture, Ministry of Health, Ministry of Finance, and Central Bank.

-- Provide public administration training to 3380 officials.

Goal No. 6

To expand the capability of the National Directorate on Dangerous Drugs to raise awareness of the Ecuadorean public about the hazards and domestic threat posed by narcotics production and consumption.

Benchmarks:

-- Launch and implement a one year national education program.

-- Establish coordination mechanisms with PVOs to provide outreach services.

B. POLICY AGENDA

The following Policy Agenda presentation parallels that of Section III-A discussion of programmatic objectives in the areas of production and productivity, basic human needs, and public sector efficiency. The agenda will be addressed through dialogue, negotiations, and project evaluations, with both public and private sector entities. In addition, a Policy Agenda for ESF is provided under Paragraph 4 below.

1. Production and Productivity in the Private Sector

Background. Over the past year, the GOE has taken a series of macroeconomic policy decisions aimed at establishing the framework for a more market oriented approach to development. The resulting changes are part of a broad shift from an import substitution orientation to a more export oriented one. The measures taken have included devaluations, restrained monetary growth, increased interest rates, and reduced public sector spending.

The initial results of the policy changes have been successful. Markets are, in several key areas, beginning to operate more freely. There are some indications, for instance, that changes in interest rates and investment policies have begun to reduce distortions and to increase activity in selected capital markets. Removal or reduction of a wide range of subsidies and price controls on construction materials, consumer goods, and agricultural products combined with reductions of tariffs and import restrictions have opened many product markets to more competitive forces. Devaluations have made comparative advantage based exports in agro-related sector more attractive and have contributed to the increase in exports. While these policy changes have had a significant impact in beginning to reorient the economy, much remains to be done.

Policy dialogue agenda. The policy changes which A.I.D. would like to see are at two levels. The first is the macroeconomic policy level where continued adjustments will be required to further the move to a free market framework. Three macro economic areas are of special concern. In the exchange rate area, the private sector presently confronts a three tier market. A change towards a unified and more market (as opposed to administratively) determined rate structure is desirable to eliminate the distortions introduced by multiple exchange rates into investment and consumption patterns.

In the interest rate area, there is a wide dispersion of controlled interest rates and credit allocations due to regulation rather than market related cost and risk differentials. While the GOE has made a first step toward introducing market determined interest rates, increased reliance on market forces to determine rates is required.

A specific change which would assist in harnessing market forces in housing and other sectors, particularly for generating term financing, would be to remove remaining restraints on floating or variable interest rate loans and deposits.

In the area of subsidies, petroleum price subsidies were reduced modestly at the end of 1984, and electricity prices are being readjusted upward on a systematic basis. Continued reductions in subsidies are desirable to discourage the substitution of energy for other inputs into production, to discourage excessive consumption, and to eliminate the incentive to smuggle petroleum products to neighboring countries.

In these macroeconomic areas, the Mission's strategy is to continue to coordinate closely with the multilateral donors while increasing its own direct involvement in policy dialogue. The Macroeconomic Policy Analysis Project will provide for the execution of specific studies in the fiscal and capital markets areas which will form the basis for the discussion of the policies mentioned above.

Policy changes are also required at the sectoral level. With many of the broad macro-level policies being adjusted to a more market oriented emphasis, attention must be given to those protectionist, import substitution policies which remain in place at the sectoral level. The Mission has identified a number of these in areas in which the Mission is engaged in project activities. In these sectors, the Mission intends to support policy related analyses which result in concrete recommendations to the GOE. Because of the good relations and the similarity in thinking between the Mission and the GOE about the need to move to a more competitive economic framework, the Mission expects that these recommendations will be seriously considered. Also, in these sectors, the Mission is strengthening private Ecuadorean institutions' capacities to participate effectively in the policy formulation process or particular Mission concerns and proposed actions in these areas are as follows:

(a) Investment. A general disincentive to foreign investment is procedural; namely, the time-consuming GOE approval process. The Mission will analyze this constraint and make suggestions to the GOE for streamlining the process. Follow-up will include the addition of an investment promotion component to the Nontraditional Agricultural Exports Project.

Private sector investment is constrained in some sectors which are controlled by public sector enterprises. This is particularly true in agriculture, where public enterprises predominate or play an important role in seeds, animal vaccines, semen, fertilizers, and grain marketing. The Mission, through its activities which follow-on to the Presidential Agriculture

Task Force and its PL 480 Title I negotiations, is engaged in an ongoing dialogue with the GOE to, sell off where feasible, all or part of the Government investment in these areas. To support the dialogue process, possible divestiture actions are being analyzed under the small Agriculture Transition Support Project.

In addition to the above agricultural areas, the building materials industry is a priority area for analysis of ways to promote private sector investment and GOE divestiture. In both the agricultural and building materials areas, follow-up actions to the studies are contemplated, which will include funding of activities to promote and encourage private sector take over or competition with existing government entities.

(b) Exports. Assuming that continued progress is made in achieving a realistic exchange rate, the principal constraints to increased exports (other than petroleum and the major traditional commodities) will be procedural and institutional. The export process, including the number of steps and documentation required, will be studied and suggestions for rationalization will be presented to the GOE. Institutionally, major gaps appear to exist in areas such as export insurance, trading companies, quality guarantees, and drawback schemes. These require legal or regulatory changes. The details of these changes will be analyzed and proposals developed and promoted to the GOE under the Nontraditional Agricultural Exports Project.

(c) Small business. An initial overview of the small enterprise sector indicated that GOE subsidies (subsidized credit, tax exclusions) and services (technical assistance, training, marketing services) do not significantly assist the small scale sector and may actually operate as disincentives. Policies in key areas (most importantly credit pricing and allocation) serve ultimately to restrict access in formal factor markets and to channel the smaller enterprises, particularly those headed by women, into fragmented and distorted informal sector markets. Options for policy changes will be identified and promoted to the GOE. These options and related activities will be developed in the Small Business Development Project.

(d) Capital markets. The prospect for the medium term, even assuming that the foreign exchange constraint is overcome, is that the recovery and growth of the Ecuadorean economy will be savings constrained. Foreign borrowing will no longer be available as a major source for domestic investment. One of the major and most direct ways of addressing this constraint is by increasing the capacity to mobilize domestic savings through the expansion and deepening of local capital markets. Accomplishing this will require, (including legal and regulatory changes) along with institutional changes policy shifts in the interest

rate, fiscal, foreign exchange, and monetary areas. Until adequate levels of return are provided to savers, it is not useful to expect any notable improvement in savings mobilization. Assistance in the form of policy analyses and development of implementable recommendations will be carried out by long and short term consultants will be provided to the GOE through the Macroeconomic Policy Analysis Project. Follow-up will be provided under the Capital Markets Development Project. USAID is supporting the savings and loan organizations in their dialogue with the GOE to arrive at an acceptable adjustment mechanism that would help with the S&L portfolio's low rate of return through HG negotiations.

(e) Price controls. The GOE has reduced the number of producer and retail items subject to price controls. Major controls, however, remain on wheat, milk, and seed prices. For example, while wheat subsidies have been reduced, wheat continues to be largely imported and sold at prices which discourage local production to the detriment of small farmers. The effects of these policies will be studied and options for change will be developed and promoted to the GOE under the Agricultural Sector Reorientation Project. Also, in the context of the PL 480 Title I negotiations, the Mission is discussing the need for a review of grain pricing policy, including the subsidy for imported grains, as a means of stimulating production.

The GOE, which is the principal stockholder in the country's cement companies and the owner of one of the nation's two steel processors, continues to maintain price controls over these two key construction materials. This situation is now being studied through an analysis of the production capability of the building materials sector.

(f) Housing. The search for an adjustment mechanism for long term financing has begun. Negotiations of the HG were used to raise issues of subsidies and appropriate size and cost of units. Although the Mission has secured GOE agreement in principle on these points, continued Mission efforts will be required to ensure that policies and investment strategies are appropriate.

2. Basic Human Needs

Background. The current and former GOE administrations have been strongly committed to meeting basic human needs. Indeed, the dominant theme of the recently inaugurated Febres Cordero Administration is the provision of "food, shelter, and employment". The meeting of basic needs in a period of economic adjustment during which the size of the public sector is not expected to increase is, however, one of the major challenges confronting the GOE. Success will require the revision of policies to encourage a shift to

greater reliance on private sector efforts where feasible (e.g., shelter) and the introduction of new, cost-effective technologies (e.g., ORT).

Policy Dialogue Agenda.

(a) Shelter. The decapitalization of housing sector institutions is a limiting constraint to the increased supply of low-cost shelter solutions. A financial adjustment mechanism that would ameliorate the problem of low rates of return on savings and loan association portfolios is being supported by USAID. One of the conditions for establishing the housing finance rediscount mechanism in the Central Bank under the newly authorized HG-0007 program is the establishment of an adjustment mechanism for long term credit. In addition, the HG negotiations are addressing issues of subsidies, costings, and specifications, all of which, while intended to improve the housing stock, result in restricted supply and fragmented markets.

(b) Immunization and ORT. Improved performance in disease prevention is needed to offset the potentially greater costs of curative programs. USAID is seeking a concerted effort to reduce infant mortality through increased immunization and oral rehydration therapy technologies. Success in this effort would be reflected in a 25 percent budget increase in MOH in these areas. Successful pilot efforts have been financed under the Integrated Rural Health Delivery Systems Project and initial indications are that the GOE will commit itself to a nationwide program.

(c) Malaria. A broad, institutional approach is required to reduce the growing incidence of malaria and to bring this disease under control. The establishment of a National Malaria Committee, including the MOH, the Ministry of Defense, the National Malaria Erradication Service (SNEM), and PAHO, and the incorporation of malaria control into the general health services system (as opposed to being exclusively a SNEM service) are the steps which will be promoted by the Mission. Activities in this area will be financed under the Malaria Control Project.

(d) Population. Population growth in Ecuador continues at a relatively high 2.9 percent annual rate. This growth will severely strain development gains in all the other social sectors, e.g. housing, health services, education, and nutrition. Current public sector efforts in family planning are modest, while forthright population policy declarations are noticeably absent. USAID will expand its efforts to sensitize political and economic leaders through studies, seminars, and media coverage sponsored by private sector organizations, by extending the current Population and Family Planning Project. On the public sector front, the Mission will work with the GOE

to obtain administrative approval for the pricing of donated contraceptives for sale in a nationwide commercial retail sales program.

(e) Nutrition. Despite increasing evidence of malnutrition among the critical 0-5 age group, the GOE has yet to develop a national food and nutrition policy. However, a recently created National Nutrition Committee, plus strong commitment by the Vice-President as head of the National Planning Council, bode well for new initiatives in this field. A.I.D will provide major financial and technical resources to implement a National Nutrition Survey, which will serve as the principal policy and programming guide for the current GOE administration as it addresses the "food" commitments of its campaign platform.

(f) Alternative Financing and Delivery of Health Services. Self-financing private sector models are needed to supplement the inadequate quantity and quality of services provided by the MOH. The high cost, high technology, curative orientation of the current system is inconsistent with health needs of the poor, and has already strained the GOE budget to the maximum, while only achieving minimal coverage. USAID's Integrated Rural Health Delivery System Project is supporting the development of lower cost community based services, as well as management improvement activities at the MOH central and regional levels. Future emphasis of A.I.D. support will include policy studies on drug pricing and demonstration of private sector delivery models based on the concept of pre-paid, self-financing insurance schemes.

3. Reorientation of the Public Sector

Background. The public sector's participation in the Ecuadorean economy grew steadily during the 1970's and early 1980's. Public sector investment as a percentage of total formal sector investment rose from 44.6 percent in 1978 to 53.7 percent in 1982. Value added by the public sector as a percentage of total formal sector value added was in the 30-35 percent range in the early 1970's. It was in the 45-50 percent range in the early 1980's. The stabilization measures of 1982-1984 restrained the growth of the public sector, principally by cancelling or delaying planned investments. The challenge confronting the current GOE administration is to maintain and improve government services in functional areas in which there is a case for a strong government role (e.g., drug control, education, health, genetic improvement research, and seed certification) and to divest or reduce its interventions in areas in which the case is strong for a more significant role for nongovernmental organizations or market forces. The four areas of government in which policy issues related to a leaner, more efficient public sector are being addressed by USAID activities

are: agriculture, health, fiscal administration, and exports and investment.

a) Agriculture. GOE Agricultural policy in recent years has emphasized control and public sector intervention rather than encouraged private sector investment and production. This policy emphasized ad hoc decision making rather than an analysis of the issues and evolved with minimum private sector inputs. The result was the creation of an inefficient unwieldly bureaucracy, direct market intervention through the creation of inefficient state companies, and a price policy which emphasized income distribution rather than resources allocation objectives. The Mission, through policy dialogue (by means of the follow-up on the U.S. Presidential Commission on Agriculture, PL-480 and project design discussions) combined with project resources, is working with the new Government to redirect its policy. The Agricultural Transition Support (ATS) Project provides funds to assist the Ministry of Agriculture complete a major reorganization to better serve the new private sector, free market orientation of the Government.

The ATS and the follow-on Agricultural Sector Reorientation (ASR) projects will examine options for divestiture of many of the agricultural parastatals while assisting the GOE in the development of a strategy for eliminating government price interventions.

Given that the GOE private sector oriented marketing strategy will only function if all groups (public and private) have access to information that permits them to make rational decisions, the Mission is assisting the GOE to strengthen its agricultural crop and market news reporting functions and develop a national system of grades and standards required by the information system. Support is also being provided to both the public and private sectors to develop their policy analysis capabilities and thus support improved decision-making and private-public sector dialogue.

(b) Health. The management of Government operated health services is overly centralized. Resource allocation emphasizes high level personnnel and hospital care. Decentralization and a greater emphasis on community level preventive care using paraprofessionals and proven primary health care approaches (ORT, breast feeding, growth monitoring, and immunization) are required. Under the Mission's Integrated Rural Health Delivery System Project dialogue with the GOE on various aspects of these issues is maintained continuously. The Mission is also promoting a national campaign, including intensive media efforts and private sector marketing techniques, to increase the use of the basic proven technologies. The campaign, with the active

support of the First Lady, is expected to increase the GOE's interest in adopting these technologies in their services. An operations research project (PRICOR) is examining the options for a more effective health promoter service and the recommendations will be discussed with the GOE.

(c) Fiscal Administration. Improved tax collection is a major challenge confronting the GOE. To accomplish this requires a reorganization of the Ministry of Finance's General Directorate of Revenues and a revision of the Ecuadorean tax code. The Fiscal Administration Development Project will support the needed institutional changes. The project will also finance studies and recommendations to the GOE in the following policy areas which affect collection levels: (1) the likely revenue effects of changes in the GOE tax rate structure; (2) the GOE's revenue sharing mechanism; (3) the current GOE system of customs documentation; and (4) the procedural aspects of the GOE tax code.

(d) Exports and Investment. The present services of the GOE to assist in increasing exports and in attracting investment are considered ineffective by the private sector clients of these services. Policy changes which would contribute to a more focused and client responsive approach include a consolidation of services, improved selection and training of staff and, in the case of investment authorization, the adoption of criteria which are less restrictive in their treatment of profits and in their requirements for divestiture. The GOE is generally in favor, in principle, of these changes. Activities funded under the Nontraditional Agricultural Export Project will assist in identifying and promoting the specific steps required.

4. ESF and Economic Structure Policy Agenda

Background: Oil was discovered in Ecuador in 1967, and by 1971 Ecuador was a net petroleum exporter. In 1973, world oil prices quadrupled, and they continued to increase throughout the 1970s. This sparked a 10 year period of rapid growth in the Ecuadorean economy. During the 1970's real GDP grew at almost eight percent annually; the value of exports rose from $400 million in 1970 to $1.1 billion in 1980 (1975 prices); real output of the manufacturing sector increased 150 percent. Per capita incomes increased, and large increases in public expenditures in certain social areas resulted in longer life expectancy, decreased overall and infant mortality rates, and increased school enrollments.

This impressive increase in income also had serious negative effects, as more thoroughly discussed in Annex I. These, as well as other factors, caused the economic recession into which Ecuador entered in 1982.

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

In 1983, however, the economic situation received another serious blow when severe flooding in the coastal areas wiped out agricultural production, severely damaged and destroyed physical infrastructure which fueled inflation and led to a decline of 3.3 percent in real GDP. In addition, because of an additional 14 percent decline in petroleum prices, the terms of trade continued their sharp downward trend. Nevertheless, the fiscal austerity and other measures implemented the previous year did begin to pay off in spite of these reverses. The overall public sector deficit was reduced to about one percent of GDP in 1983, as compared to 7-8 percent in 1982. The external sector also recorded some improvement as the disequilibrium in the balance of payments current account was reduced to about one percent of GDP from almost 12 percent in 1982. As a result, the overall balance of payments deficit was reduced to $50 million as compared to $420 million in 1982.

Officially reported, but preliminary, end of year data for 1984 showed an overall increase in GDP of about 2.2 percent which translated into a per capita income decrease of 0.7 percent. In 1984 exports of unprocessed cocoa were the only ones that increased in volume. Bananas, coffee, and fish and seafood exports fell. For 1985, a reasonable recovery from the effects of the 1983 floods and the more attractive exchange rate may lead to volume increases in most of the important non-petroleum exports.

1984 economic performance indicators will be available in April, and current, but unofficial, estimates from the Central Bank indicate that overall GDP may have increased by slightly more than 2.2 percent (2.3-2.5 percent). For 1985, the GOE and the IMF predict overall GDP growth of 2.5 percent, assuming that inflation can be held to a maximum of 20 percent. Inflation in 1984 averaged 25 percent over the twelve month period. If the 1984 GDP figure is accurate, and if estmates are close to correct for the 1985 calendar year, it will mean that the Ecuadorean economy will have experienced four consecutive years of negative per capita GDP growth (1982-1985).

Policy Agenda. The administration of President Febres Cordero which took office on August 10, 1984 has organized an exceptionally well-qualified team of private enterprise-oriented economists. This group has put together a package of economic measures that are designed to stabilize 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:

a) August 1984: To reduce energy subsidies, the GOE resolved to continue the 2 percent per month increase in electricity rates.

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

(1) created the official intervention market.

(2) moved all transactions except public sector transactions, selected imports, and debt servicing on external loans contracted prior to 9/4/84 to the intervention and parallel markets.

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

(4) lowered certain import duties.

(5) removed most import prohibitions.

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

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

e) December 1984: To stabilize the economy, the GOE successfully completed MYRA negotiations with foreign commercial banks (1985-1989).

f) December 28, 1984: To increase government revenues and decrease petroleum subsidies, the GOE:

(1) increased domestic gasoline prices by about 65 percent (regular and high octane).

(2) increased the domestic diesel price by 100 percent.

(3) intends to further adjust prices in the future.

g) December 1984/January 1985: To make interest rates more flexible, the GOE:

(1) raised the interest rate on commercial lending to 23 percent.

(2) raised the interest on deposits to 20 percent.

(3) 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.

h) 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.

In addition to the above, the following measures have been identified for implementation during 1985 as part of the IMF Stand-by Agreement recently negotiated and approved:

a) Unification of the official and Central Bank intervention exchange rates (prior to first draw-down under the IMF Agreement);

b) Transfer of foreign exchange transactions for services from the parallel market to the unified market;

c) Ultimate implementation of a flexible exchange policy;

d) Achievement of an official fiscal surplus through increased revenues from domestic petroleum sales and traditional taxes and expenditure constraint;

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.

For its policy dialogue with the GOE, A.I.D. has developed the following agenda of measures which are of particular importance to the A.I.D. strategy and program in Ecuador:

a) Subsidies: A.I.D. supports the GOE's objective of gradual elimination of subsidies on domestic petroleum products. However, adjustments have been implemented in an ad hoc and erratic manner and have, therefore, caused unnecessary disruption. Through its policy dialogue, A.I.D. will encourage the GOE to consider a domestic petroleum pricing policy which calls for systematic and scheduled price increases.

b) Interest Rates: A.I.D. supports the GOE's intention to move toward positive real interest rates. However, the adjustments to interest rates which the GOE has made, have been achieved by

ad hoc increases in the interest rate ceilings. A.I.D. will encourage the GOE to adopt measures which will eliminate interest rate ceilings on lending operations and ensure positive rates on deposits in a gradual and systematic manner.

Since the administration of President Febres-Cordero came to office, A.I.D. has been actively involved in policy dialogue with the GOE economic team. One of the mechanisms which has facilitated this process to date, and which will continue to ensure a more formal and systematic approach to dialogue focussed on the agenda outlined above, is the Macroeconomic Policy Analysis Project (518-0050). This project was approved in September 1984, and will finance a series of policy analyses related to the agenda items during 1985. A policy recommendation "implementation committee" which consists of the senior economic advisors of the administration and A.I.D. has been structured and is currently awaiting the arrival of external advisors. The implementation committee will have at its disposal the means to conduct follow-up analyses on policy recommendations and establish procedures for the implementation of recommendations.

As part of this project, the GOE Project Coordinator formally reports on a quarterly basis to A.I.D. on the status of the GOE economic readjustment process, which includes progress of discussions held by the government with representatives of the private financial, industrial, non-traditional export and agricultural sectors with repect to interest rates, investment issues, and other proposed policy changes. On a more informal basis, the GOE Project Coordinator and Economic Advisor have made themselves available to A.I.D. whenever requested for briefings and analysis. The Mission expects this close relationship to continue.

C. STRATEGY FOR UTILIZING PVOs

With limited finanacial resources and staffing, USAID relies on a range of approaches to achieve programmatic objectives. One of these approaches is close collaboration with PVOs. USAID emphasizes through PVOs, strategies that demonstrate low cost, affordable models to deal with development problems. Through relatively modest initial investments with PVOs, USAID promotes cost-effective models that can be replicated on a national scale using donor or private resources. Consistent with this approach, PVOs are selected to participate in specific, project level activities in which they have a comparative advantage such as: transfer of low cost, appropriate technologies; development of human resources, particularly in the area of technical skills; assistance to microenterprises; participation of women in the development process; strengthening progressive elements of the private sector, (i.e., producer associations, banker associations, chambers of commerce); and strengthening delivery systems to the poor. In addition to

technical criteria, the selection a PVO is based on their capacity to mobilize non-A.I.D. support. Indeed, an important objective often is to increase the capacity of PVOs to mobilize financial support from other public and private sector. The specific activities of PVO projects all generally have important institution building, technology transfer, and training components.

The active participation and input from U.S. and indigenous PVOs will continue to be a key element in the USAID program. PVOs are currently demonstrating new technologies and improving and expanding delivery systems, particularly in areas where public sector coverage is qualitatively and quantitatively inadequate (e.g., family planning, environmental education, technical skills training, etc.). During the next two years USAID intends to further integrate PVOs in two ways: (1) strengthening the development impact of ongoing activities; and (2) extending PVO projects into new sectors where private sector participation is critical (e.g., housing, small enterprise development, agricultural services, etc.).

A key feature to USAID strategy for involving PVOs in Ecuador's development process is the utilization of the combined efforts and experience of U.S. and local PVOs in individual project level activities. This has proven to be a successful approach and USAID will continue to promote and support these types of "joint venture" in the future.

In sum, USAID assigns high priority to the involvement of both U.S. and indigenous PVOs in areas that are consistent with the overall Country Strategy.

FY 1985 ACTION PLAN
518- ECUADOR

D. Summary Program Funding Chart

			(U.S.$000) FY-86	FY-87
1.	Development Assistance			
	a. Agriculture, Rural Development and Nutrition	Total	13300	11600
		Grants	6700	6600
		Loans	6600	5000
	b. Population	Total	800	1050
		Grants	800	1050
		Loans	--	--
	c. Health	Total	2950	3950
		Grants	1150	2450
		Loans	1800	1500
	d. Education	Total	3900	3050
		Grants	3900	3050
		Loans	--	--
	e. Selected Development Problems	Total	5500	7100
		Grants	3500	5100
		Loans	2000	2000
	D.A. Accounts	Total	26450	26750
		Grants	16050	18250
		Loans	10400	8500
2.	Economic Support Fund (ESF) Loans		25000	25000
3.	PL-480 Title I		25000	25000
4.	PL-480 Title II		800	800

PROPOSED FUNDING BY PROJECT AND ACCOUNT

FYs 86 AND 87

($000)

Project Title	L/G	O/N	Proj. Number	LOP Funding	FY-86 Funding	FY-87 Funding
Agriculture, Rural Development and Nutrition						
PD and S	G	O	518-0005	--	600	700
Non Traditional Agricultural Exports	G	O	518-0019	4400	600	500
	L	O	518-0019	8000	--	1000
Rural Technology Transfer System	G	O	518-0032	5300	600	1000
Agricultural Sector Reorientation Program	G	O	518-0051	6800	1500	1000
	L	O	518-0051	2000	600	--
Cacao Rehabilitation Project	G	N	518-0053	2500	1000	1000
	L	N	518-0053	7500	2500	1500
Coffee Leaf Rust Control Project	G	N	518-0054	2000	1000	500
	L	N	518-0054	8000	2000	1500
Strengthening Agricultural Universities	G	N	518-0057	3000	--	1000
Land Titling Project	G	O	518-0059	2500	1000	500
	L	O	518-0059	7500	1500	1000
Proposed OPGs	G	O	518-9999	--	400	400
TOTAL FOR ACCOUNT					13300	11600
GRANTS					6700	6600
LOANS					6600	5000
Population						
PD and S	G	O	518-0013	--	50	50
Population and Family Planning	G	O	518-0026	10000	750	1000
TOTAL FOR ACCOUNT GRANT					800	1050
Health						
PD and S	G	O	518-0009	--	250	150
Malaria Control Program	G	O	518-0049	2500	500	500
	L	O	518-0049	7500	1800	1500
Nutrition Education Project	G	N	518-0060	2100	--	1500
Proposed OPGs	G	O	518-9999	--	400	300
TOTAL FOR ACCOUNT					2950	3950
GRANTS					1150	2450
LOANS					1800	1500

1/ Loan/Grant
2/ Ongoing/New

Project Title	L/G	O/N	Proj. Number	LOP Funding	FY-86 Funding	FY-87 Funding
Education and Human Resources						
PD and S	G	O	518-0016	--	230	250
Training for Development	G	O	518-0017	1300	370	--
Graduate Management Training	G	O	518-0035	7000	2000	1500
Technical Skills Development	G	N	518-0055	3500	1000	1000
Proposed OPGs	G	O	518-9999	--	300	300
TOTAL FOR ACCOUNT					3900	3050
GRANTS					3900	3050
LOANS					--	--
Selected Development Activities						
Special Development Activities	G	O	518-0004	--	100	100
PD and S	G	O	518-0011	--	600	600
Fiscal Administration	G	O	518-0042	4800	500	1000
Development	L	O	518-0042	2000	1000	--
Macro Economic Policy Analysis	G	O	518-0050	1300	400	--
Small Business Development	G	N	518-0056	3200	1000	1500
Capital Markets Development	G	N	518-0061	2000	500	1500
Project	L	N	518-0061	4000	1000	2000
Proposed OPGs	G	O	518-9999	--	400	400
TOTAL FOR ACCOUNT					5500	7100
GRANTS					3500	5100
LOANS					2000	2000
COUNTRY TOTAL					26450	26750
GRANTS					16050	18250
LOANS					10400	8500

1/ Loan/Grant
2/ Ongoing/New

MISSION ACTION PLAN
FYs 1986 and 1987
518 - ECUADOR

SECTION III
IMPLEMENTATION PLAN

A. NARRATIVE

1. Project Overview

As defined in Sections I A and B, and II A and B 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 leaner and better performers in the social and economic development process of the country.

To implement this strategy, USAID will:

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

- Integrated Rural Development/Agriculture
- Rural Technology Transfer System
- Campesino Training System
- Forestry Sector Development
- Nontraditional Agricultural Exports
- Agricultural Sector Reorientation
- Land Titling and Land Markets
- Population and Family Planning
- Integrated Rural Health Delivery Systems
- Malaria Control
- Training for Development
- Graduate Management Program
- 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-86 and FY-87 Projects. These projects, in order of priority, are as follows:

FY - 86 Projects

1. Small Business Development

2. Cacao Renovation and Rehabilitation
3. Capital Markets Development
4. Coffee Leaf Rust Control
5. Technical Skills Development

FY - 87 Projects

1. Strengthening Agricultural Universities
2. Nutrition Education

2. Ecuador Pipeline Analysis

(a) Overview

The current A.I.D. program in Ecuador was initiated in early FY-80 at the request of the then newly-installed democratic administration. Largely because of the FY 80-82 program building, the project portfolio and the Mission's pipeline grew considerably in a short period of time. After 1984, AID/W declared its strong commitment to supporting the current GOE administration, including a major increase in DA funding levels as well as other resources. As a result, FY 85-87 will again be a period of portfolio development and significant obligations of DA funds for both ongoing and new projects. Thus, the pipeline is projected to continue to grow at a moderate rate. However, this reflects what is still a relatively new program. Viewed from the perspective of the liquitation rate, the Mission's implementation performance, we believe, is unusually good.

(b) Current Status

As of December 31, 1984, USAID/Ecuador's active portfolio consisted of DA obligations totaling $88.8 million. Expenditures against these obligations totalled $26.3 million, resulting in a pipeline of $62.5 million. Loan funds constituted 73 percent of that pipeline.

(c) Trends

Steady and substantial progress has been made in implementing the Ecuador program. Expenditures have followed a rising trend line since FY-81 (see Table 1 and Figure 1). Expenditures in FY-83 and FY-84 were 176 percent and 125 percent, respectively, higher than the preceding year. This reflects the additional emphasis on implementation that the Mission was able to give during those years when project development activities diminished.

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 19 percent at the end of FY-84 (see Figure 2). Expenditures during the last two quarters of FY-84 and the first quarter of FY-85 have been particularly strong resulting in liquidation rates (on an annualized basis) ranging from 20 percent to 46 percent.

Several projects have contributed in a major way to this improved pipeline situation. By 1982, implementation of the Intergrated Rural Development/Agriculture (518-0012) and Integrated Rural Health Delivery System (518-0015) projects shifted toward field activities, including loan financed infrastructure construction which greatly boosted expenditures. By early FY-83, the subprojects under the Population and Family Planning Project (518-0026) began disbursing. In addition, the excellent performance of the central government component of the Revenue Generation for Development Project (518-0036) contributed to increased grant expenditures. The first tranche of the Emergency Rehabilitation Project will be nearly totally disbursed by March 31, 1985. Finally, the Mission's sizable portfolio of OPGs has progressed well.

While expenditures have improved markedly, they have consistently fallen short of planned levels. On the other hand, the FY-84 expenditures alone were 23 percent greater than total expenditures over the preceding four years combined, indicating that the planned levels were overly optimistic.

(d) Projections

The Mission expects continued good progress in implementation of the existing portfolio. Most of the projects are now well underway, and the Mission has taken decisive actions to terminate or redesign certain problem projects. On the other hand, due to the Mission's substantially increased OYB, obligations will increase at a faster pace over the next two or three years compared to recent years. Moreover, a large share of these obligations will be for new development assistance projects which will undergo start-up periods with relatively low expenditures. Therefore, the pipeline situation may be expected to show continued increased expenditures though not at the rate experienced since 1982.

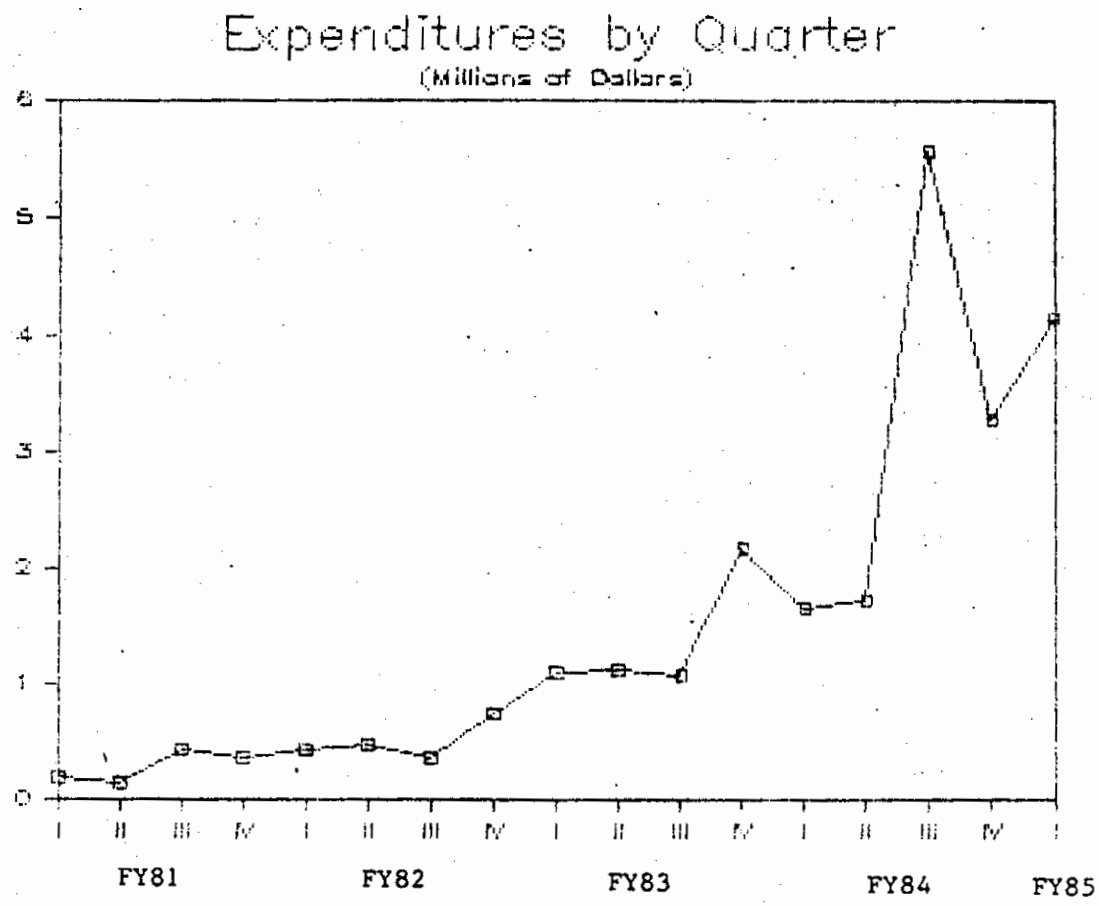
TABLE 1

Ecuador Pipeline
DA Funds ($000)

Fiscal Year	Quarter	End of Period Obligat.	End of Period Expend.	Pipeline	Quarter Expend.	Annual Liquid. Rate*	FY Expend.	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		

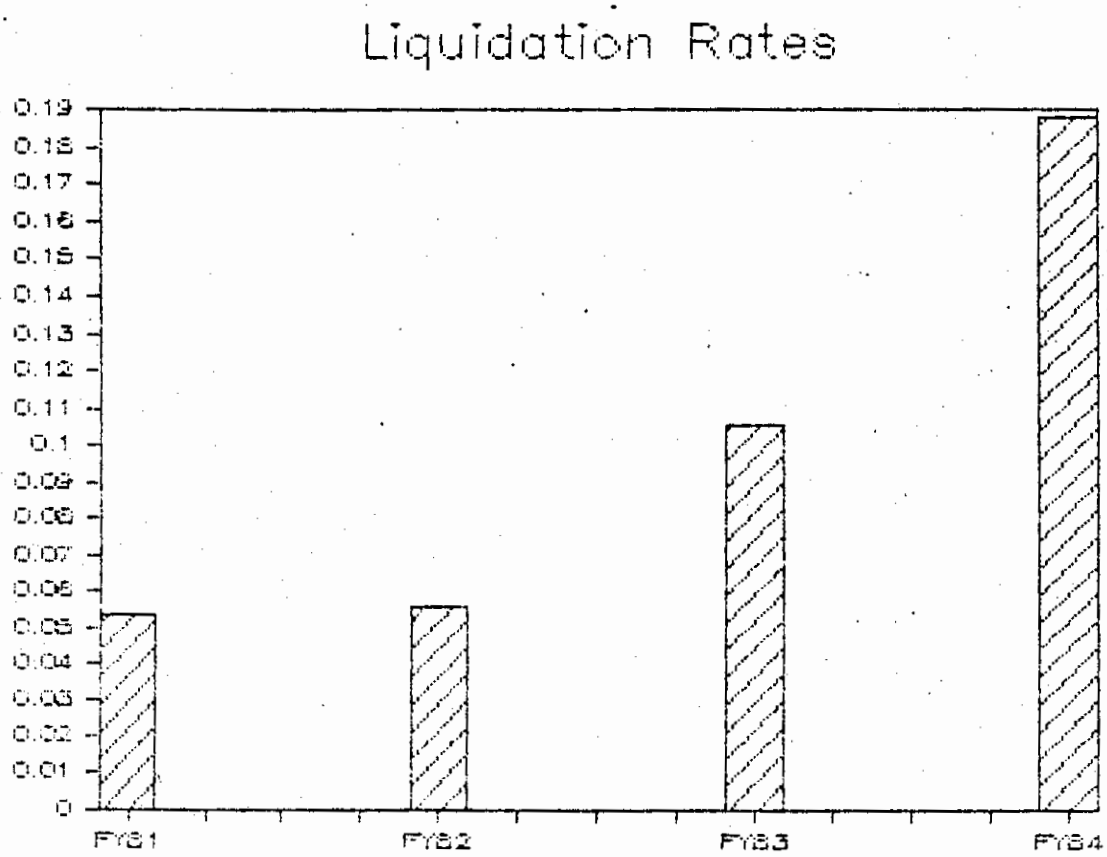
* Based on annualized quarterly expenditures

FIGURE 1



BEST AVAILABLE

FIGURE 2



BEST AVAILABLE

3. Mortgage Analysis

The attached Table 2 shows USAID Project Portfolio Mortgage Projections through September 30, 1987. These projections are consistent with A.I.D.'s policy to provide a very strong initial support (FYs 85 and 86) to the new GOE Administration that was inaugurated on August 10, 1984 and concentrating on implementation and liquidating the mortgage in FY-87 and the out years. Accordingly, five new project start-ups are being implemented in FY-85 (Agricultural Sector Reorientation, Land Titling, Malaria Control, Graduate Management Program, and Fiscal Administration Development). Five new projects are being proposed for FY-86 (Cacao Rehabilitation, Coffee Leaf Rust Control, Agricultural Universities, Small Enterprise Development, and Technical Skills Training). In FY-87, only two new projects are being proposed (Capital Markets Development and Nutrition Education) to allow for mortgage liquidation as well as emphasis on implementation.

The Mission considers that even with the initial emphasis on new incrementally funded projects in FYs 85 and 86, and the corresponding creation of an additional mortgage, 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". The mortgage at the end of FY-85 of $58,080,000 vs. the FY-85 program level of $26,017,000, and the mortgage at the end of FY-86 of $58,330,000 vs the FY-86 Program level of $26,450,000, are reasonably consistent with this guideline. The mortgage situation at the end of FY-87, i.e., mortgage of $36,680,000 vs. the FY-87 program level of $26,750,000 is well below the parameter established in the guidance. This shows the Mission's concerted effort to consistently reduce the mortgage as a primary objective for FY-87 and the out years.

Finally, the Mission proposes to manage and deal with its mortgage by gradually increasing the amounts of program funding for mortgage liquidation from FY-85 through FY-87. The figures shown below clearly demonstrate this trend:

(U.S.$000)

	FY-85		FY-86		FY-87	
	Amount	%	Amount	%	Amount	%
Mortgage Liquidation	9737	37.4	14950	57.0	22850	85.4
New Incrementally Funded Projects	16280	62.6	11500	43.0	3900	14.6
TOTAL	26017	100.0	26450	100.0	26750	100.0

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

BEST AVAILABLE

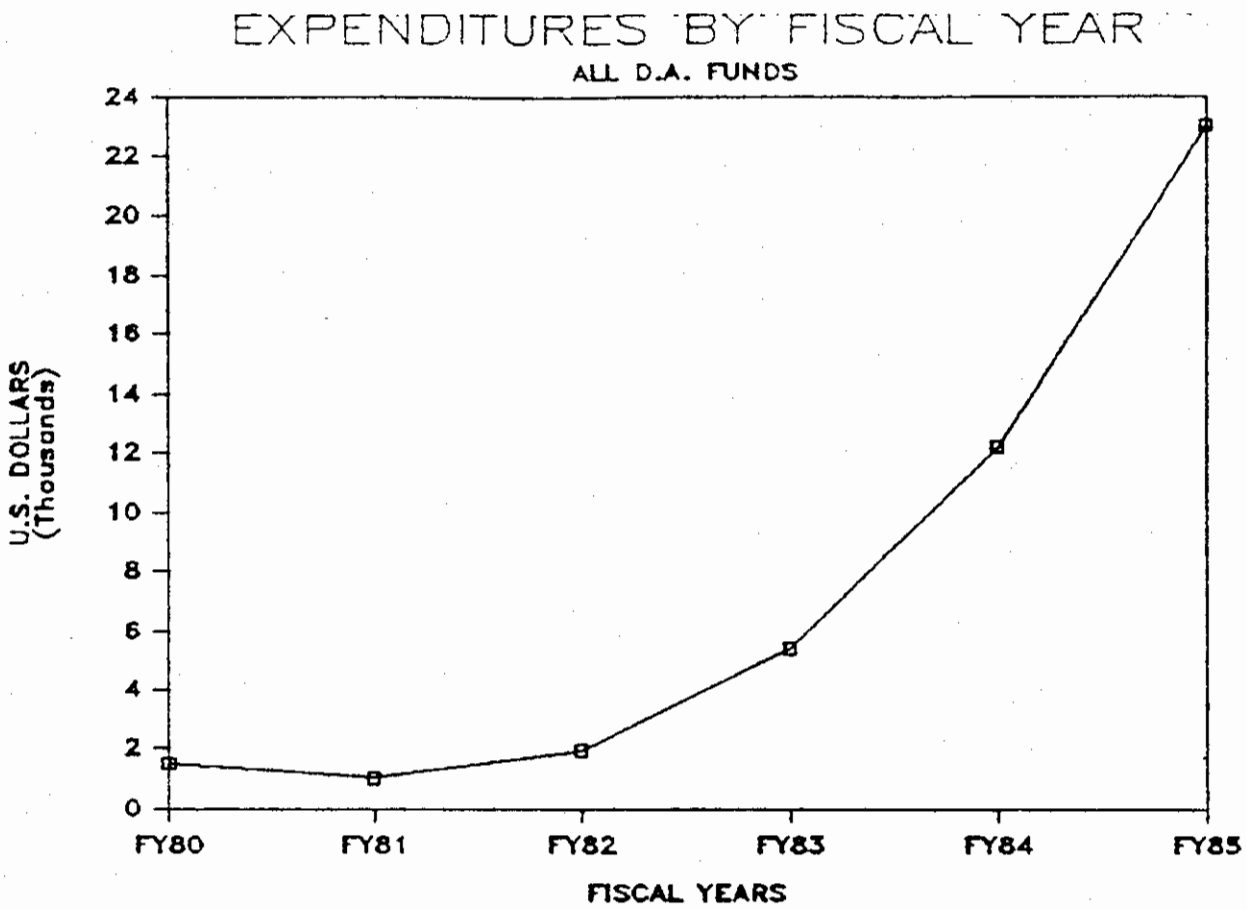
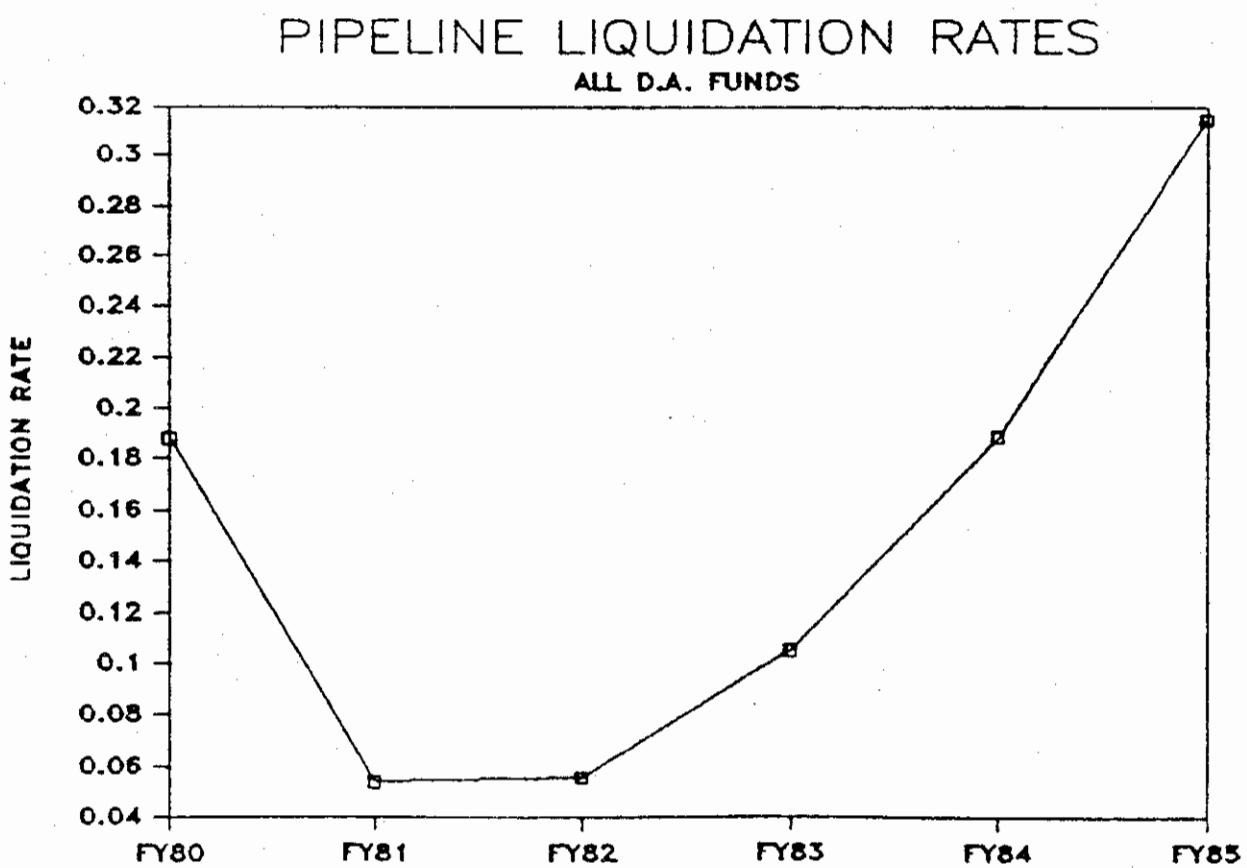


FIGURE 1



B. PROJECT DESCRIPTIONS

Following are project descriptions for projects proposed for initial funding in FY-86 and in FY-87. These projects have been comptualized in keying with the specific program and policy agenda and objectives established under Sections II-A and B above.

FY-86 Projects

a. Project No. and Title: 518-0056 - Small Business Development

b. The Problem: USAID has undertaken during FY-84 and FY-85 a number of analytical and small project activities focused on the small scale sector. In carrying out these activities with several of the main private institutions of the sector, the Mission has identified limiting constraints to the development of small businesses in Ecuador. These constraints are: restricted credit and venture capital availability; skills deficiencies at management and technical levels; and the limited access of small firms to design, engineering, production, and marketing assistance.

There currently are more than 3,000 small manufacturing units with five to 20 employees and at least 100,000 artisan workshops with four or fewer workers. In 1980, the national census agency reported that 94 percent of the manufacturing units in Ecuador had less than 10 employees. As compared with larger firms, the cost structures of small enterprises are more dominated by the use of labor and domestic raw materials, their unit cost of creating a job is lower, their units are less concentrated in the two main urban centers of Quito and Guayaquil, and they are the enterprises most oriented to producing goods and services for the mass market. It requires about five times more capital investment to create a job in Ecuador's large scale industry sector than in the small scale sector. Increased investment in this sector to address the constraints noted above will thus benefit an unusually larger number of relatiely low income workers.

c. Relationship to A.I.D. Policy Objectives: This project will directly strengthen private enterprises and the private enterprises system in ways which involve and benefit lower income families.

d. Relationship to the Approved Mission Strategy: A more efficient and competitive private productive sector is necessary for the long run growth and development of the Ecuador economy. A.I.D. assigns high priority to activities which address those constraints which limit the performance of private businesses and which distort the play of market forces. Within this

framework A.I.D. assistance is targeted at the needs of small and medium size firms in productive sectors.

e. Project Components: The project will consist of technical assistance to private sector organizations to: (a) promote policy dialogue and policy changes necessary to remove financial and technical constraints to the small business sector; (b) develop low cost, mass market credit extension mechanisms and introduce these mechanisms into the practices of private financial institutions; (c) leverage private sector credit to the small enterprise sector; and (d) increase to access of small firms to design, engineering, production, and marketing assistance. It is anticipated that ESF local currency generations in FY-86 will be utilized to establish the credit fund for this project. While achieving substantial direct impact in terms of new investment and employment, the project will also strengthen the long term capacity of private institutions to provide the recurrent flows of financial and technical services necessary for sustained sector development. The private sector organizations will likely include those of the financial sector, representative organizations, and specialized foundations and sector service organizations.

f. Financial Plan:

Functional Account: SD

		U.S. $000)	
Funding:		FY-86	LOP
	Loan (ESF)	3,000	3,000
	Grant (DA)	1,000	3,200
	TOTAL	4,000	6.200

a. Project No. and Title: 518-0053 Cacao Renovation and Rehabilitation

b. The Problem: Cacao is a traditional Ecuadorean export crop. While processed and raw cacao exports in 1980 were valued at over $200 million, they have declined in recent years. Ecuador produces five percent of the world's cacao but 75 percent of the aromatic cacao which is used for blending with nonaromatic cacao. There are over 60,000 producers (80 percent being small) and the total area planted is over 500,000 hectares.

Ecuador is not maintaining its position as a cacao producer. Productivity is very low. The mean total crop for the three years prior to 1983-84, in which abnormal weather reduced yields, was about 80,000 tons, an average of 0.5 Kg. of dry cacao per tree, or some 8-9 pods per tree. This is the same productivity as completely abandoned cacao would produce.

Both technical and financial factors have played a role in cacao's decline. The traditional national cocoa varieties have gradually been mixed with introduced varieties. The resulting hybrid produces beans which require new methods of fermentation and drying. Most cacao farmers, however, have continued to use traditional methods which result in reduced quality and quantity. Applied research and improved extension systems are needed to help producers improve their cultivation and preparation practices. Small producers also encounter difficulties in gaining access to credit to renovate their holdings and adapt improved technologies.

The purpose of this project is to raise the productivity of Ecuadorean cacao plantations and improve the quality of the beans being exported. This will contribute importantly to the revitalization of the Ecuadorean cacao sector, enabling it to maintain its position as an important exporter of high quality cacao.

c. Relationship to A.I.D. Policy Objectives: The A.I.D. Policy Paper on Food and Agricultural Development has four broad policy elements. The cacao project would directly address three of these elements as follows. Improved country policies will result from a study of cacao policy, the project will develop human resources and institutional capacity in producer associations and in the National Cacao Program (PNC). Finally, the project will create opportunities for expanding the role of the Ecuadorean and U.S. private sector by working closely with cacao producer associations and their members, and involving the U.S. cacao industry.

d. Relationship to the Approved Mission Strategy: The project is consistent with the Mission's approved strategy of promoting production and productivity gains in the private sector by addressing key policy, technological, and institutional constraints. The export focus of the project is also supportive of the Mission's strategy of promoting a more external oriented economy. Finally, the project will contribute to Mission efforts to increase small farm productivity and incomes.

e. Project Components:

Policy. The project will fund a study of the policy environment for cacao production in Ecuador. The study will examine pricing and taxes, delimit the areas in which cacao should be encouraged, define priority research problems, analyze Ecuador's position in world markets for cacao (especially the possibilities for "aromatic" cacao), and analyze the relative value of exporting beans as opposed to semi-manufactured products.

Credit. A line of credit will be established to improve the access of small cacao producers to medium and long term financing to rehabilitate their holdings. If available, PL 480 local currency will be used (rather than DA funds) to support this activity.

Technology Extension. The project will establish a strong system of technology extension to cacao farmers. The system will consist of well trained cacao technicians adequately provided with transportation. The emphasis of the extension program will be on-site analysis of individual cacao farmers' problems in conjunction with the provision of the credit necessary to solve those problems. Special attention will be given to helping cacao farmers adopt improved techniques for fermenting and drying cacao beans to obtain the highest possible quality. The extension program will be carried out by either the PNC or producer associations or both. This component will include financing for extension equipment and materials.

Research. The focus of the research component of the project will be the design of research projects with the National Research Institute (INIAP) which have a practical value for cacao farmers. The results of the research will be of immediate use to the extension component of the project.

Marketing. The focus of the marketing component of the project will be the establishment of quality standards throughout the marketing system in order to give producers an incentive to produce the highest quality cacao possible. The quality standards will be established and enforced by the cacao associations and the PNC.

f. Financial Plan

Functional Account: ARDN

	(U.S.$ 000)	
Funding:	FY-86	LOP
Loan	2,500	7,500
Grant	1,000	2,500
TOTAL	3,500	10,000

a. Project No. and Title: Capital Markets Development

b. The Problem: The recovery and growth of the Ecuadorean economy is savings constrained (a conclusion supported by the most recent IBRD macroeconomic analysis). Ecuador relied on foreign borrowing for financing the large current account deficits of the 1979-1982 period. The obverse side of this has been low levels of domestic resource mobilization. Domestic interest rates were kept artificially low thus discouraging savings by the private sector. Also, the institutional structure to mobilize local capital stagnated in the face of the ready availability of foreign debt, and, domestically, the capacity of the Central Bank to make low (negative in real terms) interest rate credit available to the private sector. The GOE's exchange rate policy over this same period also had the effect of encouraging foreign borrowing, as opposed to domestic capital raising, by the private sector. The result was a dependence on external debt and on the public sector's extension of credit by the Central Bank. When the crunch came, beginning in 1982 in the form of an imbalance between the country's ability to earn foreign exchange and, on the other hand, its foreign debt service obligations, the local financial system was unable to respond with an increase in the mobilization of domestic savings. This project will address this problem of low savings levels.

c. Relationship to A.I.D. Policy Objectives: Capital markets which can respond to market forces as they aggregate and allocate resources are a central component of a private enterprise system. The development of a private enterprise system is an important element in the Agency's approach to fostering economic development. This project, which seeks to expand and deepen private capital markets in Ecuador, will contribute directly to a more market oriented development approach.

d. Relationship to the Approved Mission Strategy: This project is in direct support of the Mission's strategy of assisting with structural adjustment, in this case in capital markets. It is also both an outgrowth of ongoing and in support of future policy dialogue efforts. The capital markets studies financed under the Macroeconomic Policy Analysis Project are expected to identify policy options for the GOE and institutional needs of the private sector to assist it to respond to an improved policy environment. These policies studies will contribute most of the material required for designing the project's specific activities. The project, in turn, will provide for Mission involvement in capital markets, and thus strengthen its policy dialogue capabilities in the interest rate, investment, and other related areas.

e. Project Components: This project will provide technical and financial assistance to expand and deepen local capital markets in Ecuador. This will include policy level assistance to identify and maintain realistic interest rate policies and to monitor and advise on the effects on capital markets of the development of policies in other areas (e.g., exchange rate and fiscal policies). It will include training and technical assistance to private financial sector organizations to upgrade their capacities and to bring them more in line with the needs of the economy. It will include the expansion of existing institutions or, if a technical analysis indicates that it is warranted, the development of new institutions to mobilize private capital for purposes of productive investment in comparative advantage sectors. The implementing organizations will be private representative organizations of the financial sector (e.g., Association of Banks, Association of Financieras).

f. Financial Plan:

Functional Account: SD

		(U.S.$ 000)	
Funding:		FY-86	LOP
	Loan	1,000	2,000
	Grant	500	4,000
	TOTAL	1,500	6,000

a. Project Number and Title: 518-0054 Coffee Leaf Rust Control Project

b. The Problem: Coffee is one of the main traditional export crops of Ecuador. Statistics for 1983 show 320,000 hectares harvested, a yield of 1.38 million 60 kg. bags, historical average yields of 245 kg/Ha, total exports of 1.33 million bags (25 percent of which is assigned directly to producer associations), and export earnings of $170 million. Eighty percent of Ecuadorean coffee is produced by small farmers.

The future of the coffee industry is now being threatened by an outbreak of coffee leaf rust. The rust first appeared in the Amazon region of Ecuador in 1981 and has began to spread toward the major coffee growing regions in Ecuador. If the disease is allowed to continue to expand unchecked, the impact will be devastating for the Ecuador coffee industry as production losses from this disease have been as high as 80 percent in other coffee growing areas in Latin America. The coffee producers are aware of the danger and have imposed a one dollar per bag export levy to help finance a program against the disease. The producers and the GOE have requested USAID assistance in helping them to formulate and implement a coffee leaf rust control project.

c. Relationship to A.I.D. Policy Objectives: The project is consistent with A.I.D. priority areas of emphasizing the private sector and the transfer of technology. Although GOE assistance through the coffee program of the MAG will be required to assure the wide coverage needed, the project will work closely with coffee producer organizations to implement technology transfer for controlling coffee leaf rust. Since most coffee producers have small operations, the project also will have substantial benefits for lower income producers.

d. Relationship to the Approved Mission Strategy: This project focuses on an export crop which has traditionally provided significant foreign exchange earnings. It is consistent with A.I.D.'s country strategy of revitalizing and improving economic growth through projects which predominately target support for economically viable small holder producers. The project reflects Mission and GOE concern that Ecuador maintain its traditional export market production and market shares while expanding nontraditional exports. It also is consistent with Mission strategy to support closer cooperation between producer associations and the GOE entities.

e. Project Components: This project will be a four year program and will directly impact on 60,000 producer families and indirectly on an equal number involved in marketing and

processing the product. It will be implemented through the MAG's National Coffee Program jointly with private coffee producer associations and cooperatives. To accomplish control of the disease, the project will include the following activities:

1. Development and implementation of a prevention and/or chemical control program to be used as an intermediate measure to reduce the unfavorable impacts of the disease while longer run program are being developed and implemented.

2. Identification of rust resistent varieties from other countries and matching them to the appropriate agro-ecological regions of Ecuador.

3. Development, based on original country technical data and Ecuadorean cost, price, and farming system conditions, of technical packages to be used in the dissemination of the new varieties.

4. Development and implementation of programs to quickly multiply the resistant varieties.

5. Initiation of a massive program to disseminate the new varieties including the technological packages that must be used to successfully utilize the new varieties.

f. Financial Plan

Functional Account: ARDN

		U.S. $000)	
Funding:		FY 86	LOP
	Loan	2,000	8,000
	Grant	1,000	2,000
	TOTAL	3,000	10,000

a. Project No. and Title: 518-0055, Technical Skills Training

b. The Problem: One of Ecuador's key constraints to private enterprise development is the lack of adequately trained and skilled workers. This constraint affects production and productivity, particularly in small and medium sized enterprises in industry, services, commerce, and agriculture.

The medium, small, and informal sectors are contributing the largest share to the growth of total employment. However, there is not comparable growth of real output, indicating stagnant productivity which, at least in part, reflects poor technical skills.

Cognizant of this situation, President Febres Cordero, in his inaugural speech, announced that his Administration assigns a high priority to qualitatively and quantitatively improving and expanding public and private sector technical skills training facilities throughout the country.

c. Relationship to A.I.D. Policy Objectives: Agency policy paper on Basic Education and Technical Skills recognizes the importance of assisting LDCs "establish more efficient systems of education to moderate their recurrent cost and administrative burden and to relate them more effectively to employment opportunities and trained manpower needs". This project is geared towards addressing A.I.D.'s policy objectives by providing assistance to improve the quality of technical skills training programs in Ecuador.

d. Relationship to the Approved Mission Strategy: The Mission strategy establishes that one of the most serious constraints to private sector development, especially in the small enterprise and informal sector (the largest employers in Ecuador), is the lack of skilled workers. This project will address this constraint by improving the quality of technical training being provided in the country, in the public as well as in the private sector.

With regards to policy concerns, the project will assist USAID in its dialogue with the GOE and the private sector to obtain a policy commitment to introduce modern learning technologies in technical training systems.

e. Project Components: The project addresses the shortage of skilled workers in Ecuador's private sector, particularly in those areas in which A.I.D. is working (agribusiness, housing, and small and medium enterprises) by making better use of the financial and human resources presently available in those institutions (as opposed to expanding the budgets of training institutions). The project will benefit from the Mission's positive experience with several Ecuadorean PVOs which have developed effective skills training programs.

The selection of institutions to participate in the project will be made on the basis of needs of the labor market and on the potential and willingness of the training institutions to make the following types of changes:

1) Direct or redirect curriculum development activities towards the areas that offer the greatest potential in the job market;

2) Introduce new teaching and curriculum methodologies (such as the competency based curriculum approach);

3) Establish learning resources development units;

4) Establish systematic teacher training programs;

5) Develop permanent, institutionalized linkages between training institutions and the private sector to increase the influence of employers on the training curriculum;

6) Incorporate and promote the active participation of women in the teaching and learning process; and

7) Make optimal utilization of installed capacities.

The project would primarily finance U.S. and Ecuadorean technical assistance and training. Equipment would only be considered if it were essential to address a specialized skill need identified through a survey. Some local costs for project management and start-up would also be considered.

f. Financial Plan:

Functional Account: EHR

(U.S.$000)

Funding:		FY-86	LOP
	Loan	--	--
	Grant	1,000	3,500
	TOTAL	1,000	3,500

a. Project No. and Title: 518-0058 Economic Stabilization Program

b. The Problem: The Ecuadorean economy is just beginning to emerge from the severe economic recession of 1981-1983. Although a series of historical, structural, and external factors were responsible for this recession, a shortage of foreign exchange has been the most immediate cause.

The government of President Leon Febres-Cordero is committed to achieving economic growth within the context of a free market economy, based on private sector production. To accomplish this, the GOE is committed to a policy strategy of stabilizing the economy in the immediate term and addressing the structural problems of the economy in the short to medium term. Promotion and development of new exports, attraction of investment both domestically and from abroad, and sound fiscal and monetary management form the basis of the GOE strategy.

In its initial six months in office, the Febres Cordero Administration has taken steps both to secure stabilization of the external sector and to begin the restructuring necessary for growth. Energy subsidies (electricity, gasoline, etc.) continue to be gradually reduced. The exchange rate regime continues to be adjusted in a realistic fashion through gradual elimination of the official exchange rate (S/.67.85=$1) as more and more transactions are moved to either the "intervened" rate (S/.96.50=$1) or the free market rate (S/.119=$1, 3/15/85). To increase domestic savings and improve the allocation of credit the GOE has moved toward positive real rates of interest. It has raised both credit and deposit rates to new highs, and it has allowed the issuance of term deposit certificates at market-determined interest rates. By the end of January 1985, the GOE had reached agreement with the IMF for an SDR 105.5 million Stand-by Arrangement and with the consortium of commercial banks for a $4.3 billion multi-year rescheduling agreement (MYRA) of Ecuador's debt.

Assuming a series of GDP projections and fiscal austerity measures holds throughout 1985, a successful implementation of the Stand-by Agreement recently approved but not yet signed by the IMF, successful completion of the MYRA agreement, and a successful Paris Club renegotiation of official debt, the GOE predicts that economic stabilization will be attained by the end of 1985. Both balance of payments and fiscal equilibrium are projected to be achieved.

However, cautions are required on all fronts. While the economic performance projections are not unrealistic, they are optimistic. Several sources of foreign exchange (e.g., banana revenues and drawdowns on concessional assistance programs) are

not likely to be fully achieved. More importantly, a small decline in the projected international price of oil ($27/barrel) and/or an increase in external interest rates would greatly reduce the probability that the GOE will achieve balance of payments equilibrium in 1985. ESF resources made available during CY 1985 and 1986 would assist the GOE by providing substantive USG support for the economic policies and the restructuring activities of the Febres Cordero Government and by providing the GOE with a marginal amount of funds which would assist to ensure equilibrium and stabilization in the short term and achieve modest economic recovery in the medium term.

c. Relationship to A.I.D. Policy Objectives: The proposed ESF program is fully consistent with A.I.D. policy to promote long-term, broad-based economic growth in developing countries and A.I.D.'s concern that A.I.D. recipient countries develop sound economic policies which promote such growth.

The Febres Cordero Government is clearly on the road to accomplishing a major restructuring of its economy that is fully consistent with A.I.D. development policies (e.g. free market interest rates, private enterprise based development) as well as larger USG economic and political interests (e.g. emphasis on foreign investment and international trade, commitment to meeting its international financial obligations, etc.). The real commitment on the part of the Febres Cordero Government to the introduction of sound economic policies suggests that, unlike some countries that effectively use ESF to put off needed reforms, Ecuador will utilize ESF to soften the initial dislocations and to ensure the success of its stabilization and structural reform measures.

d. Relationship to the Approved Mission Strategy: The project supports the overall Mission strategy of assisting Ecuador to stabilize the current economic situation, restucture its economy, and renew economic growth while at the same time ensuring the implementation of ongoing social and economic development efforts. The economic policy objectives of this program are consistent with the FY-84 Macroeconomic Policy Analysis Project which is providing technical assistance to the GOE in the area of economic restructuring as well as with studies of agricultural policies funded with PD and S and under the FY-85 Agricultural Sector Reorientation Project.

e. Project Components: In order to support the GOE strategy for recovery and revitalization of the economy, this program will provide an urgently needed balance of payments cushion in support of the GOE's objective of BOP equilibrium in the current calendar year. Funds will be attributed to the importation of productive inputs from the U.S. by the private sector. Local

currency generations will be used by both the public and private sectors. On the public sector side, local currency generations will ensure the availability of needed counterpart for high priority development investments. On the private sector side, local currency generations will be utilized to provide working capital to, and promote investments in productive enterprises in, both the agricultural and smaller industrial sectors. The foreign exchange provided through the cash transfer will be managed by the Central Bank. Import attribution will be the responsibility of A.I.D. which will depend heavily on control data provided by the Swiss customs control company (S.G.S.) currently under contract to the GOE.

f. Financial Plan: ESF resources totalling $50 million over Fiscal Years 1986 and 1987 will be requested, as follows:

	(US$000)	
	FY-86	LOP
ESF Loan	25,000	50,000

FY-87 Projects

a. Project Number and Title: 518-0057 Strenghthening Agricultural Universities

b. The Problem: The agricultural sector in Ecuador faces a severe shortage of qualified professionals. The lack of well trained personnel in agricultural economics, policy, and marketing is especially noteworthy. These deficiencies are directly linked to the long term growth prospects of agriculture. In the public sector, poor training contributes to weak policy analysis capability and inappropriate policies. In the private sector, the lack of adequately trained technicians and managers is a constraint on the performance of agricultural and agribusiness enterprises.

A fundamental cause of this situation is the deficiencies in university level agricultural education. Among the deficiencies which have been identified in the agricultural education system are: (1) a general lack of advanced training within the university faculties; (2) curricula that are highly theoretical and which lack practical applications; (3) a lack of research resources for faculty members; (4) a lack of advanced level training within the country; (5) inadequate facilities, textbooks, and equipment; (6) an insufficient number of opportunities for study abroad due to the low number of scholarships available; and (7) an overly generalized course of study which does not offer an adequate range of specialized degree options to meet the needs of a modern, specialized agricultural production and marketing system. The lack of specialized training in agricultural economics, policy, and marketing is especially noteworthly.

The GOE is aware of these problems and has requested USAID assistance in overcoming the problems associated with the quality of agricultural university graduates. This project would address several of the above constraints on a pilot basis so as to begin to shape the future directions of agricultural education. The project will focus on a small number of universities and programs within those universities.

c. Relationship to A.I.D. Policy Objectives: The project will contribute directly to institution building by strengthening university level agricultural education. It also will contribute to strengthening other public and private institutions by providing a larger supply of better trained professionals for staffing. In addition, it will contribute to the development of improved policy dialogue by strengthening agricultural economics analysis which is a very weak area in the agricultural sector, and one where an improved analytical

capacity is required to provide the basis for a meaningful dialogue. Finally, the project is consistent with the recommendations of the Kissinger Bipartisan Commission for Central America in that it addresses a clearly identified need to increase and expand training opportunities in the U.S. for Latin American professionals, technicians, and students.

d. Relationship to the Approved Mission Strategy: The Mission country strategy specifically calls for activities to strengthen the agricultural education system as a means of overcoming human resource constraints and thereby promoting growth in this vital sector.

e. Project Components: The project will include in-country training activities to upgrade agricultural teaching programs and overseas advanced degree training for faculty members from selected regional universities. A strong emphasis will be given to integrating agricultural economics into the curriculum of the university agricultural programs. The program will be implemented through a contractual arrangement with a U.S. university or consortium of universities.

In-country training - A major emphasis of the project is to upgrade the quality of faculty and course offering in selected universities as rapidly as possible. This is required if the deficiencies due to lack of advanced degrees and in-country graduate training are to be addressed quickly. To accomplish this, short term technical assistance will be provided within the country to present workshops, seminars, and courses to upgrade and update the teaching faculties of the cooperating universities. Technical assistance also will be used to assist in revising the curricula in ways to overcome the problems of overly generalized agriculturalists and to move toward the specialized training required by a modernizing sector. In certain areas where trained faculty do not exist and until faculty sent abroad for training return, it may be necessary to provide short term expatriate faculty to teach some of the new courses, especially in agricultural economics, policy, and marketing.

Advanced Degree Training - A truly effective university level agricultural teaching program requires faculty members with quality, advanced degree training. Since there are no advanced degree programs in the agricultural disciplines in Ecuador, all such training must be done abroad. Thus, under this component of the program, some 30-40 scholarships will be used for graduate level study in the U.S. The majority will be for master's level programs with a few at the doctoral level.

f. Financial Plan:

Functional Account: ARDN

(U.S. $000)

Funding:		FY 87	LOP
	Loan	--	--
	Grant	1,000	3,000
	Total	1,000	3,000

a. Project No. and Title: 518-0060 Nutrition Education Project

b. The Problem: One third of the Ecuadorean population does not get enough to eat, and estimates indicate that 40 percent of the under-five population is undernourished. As a result, productivity, health, and life expectancy suffer. Infant mortality rate ranges between 60 and 120 per 1,000 live births. Most of A.I.D.'s development assistance either affects health or food consumption or relies upon nutritional well-being to achieve development objectives. Adequate nutrition therefore, must be viewed not only as an objective but also as a means of development. This project will improve the nutritional well-being of the rural poor, focusing on the most vulnerable at-risk population groups, (i.e., pregnant and lactating women and 0-5 year olds).

c. Relationship to A.I.D. Policy Objectives: The project relates directly to A.I.D.'s nutrition policy of maximizing the nutritional impact of A.I.D.'s economic assistance through the implementation of agricultural and health sector nutrition programs as well as through direct nutrition projects.

d. Relationship to the Approved Mission Strategy: The project directly supports and is consistent with Mission policy objectives of: (a) achieving gains in meeting basic health/nutrition needs, and (2) increasing public sector effectiveness by the support of activities in the agriculture and health sectors.

e. Project Components: The project comprises three principal components: (a) Integration of nutriton education into the delivery of Primary Health Care and Agriculture extension services for families. Rural poor mothers will be taught skills such as how to monitor the growth of their infants, oral rehydration, immunization, breast-feeding, good weaning practices, and sanitation. Social marketing, mass media, and other educational methodologies will be utilized. (b) Education of vulnerable groups to consume more nutritious, locally produced foods while phasing out the existing dependence on donated food commodities. (c) Integration of nutrition into teacher training curricula and vocational and university schools of agriculture.

The project will be implemented by the Ministry of Health (MOH) initially in the three provinces of Cotopaxi, Chimborazo and Manabí where documented nutriton problems are among the most severe in Ecuador. The MOH my enter into sub-agreements with the Ministries of Agriculture and Education to implement the project activities.

Complementary private sector activities with PVOs such as Meals for Millions, Save the Children, CARE, Catholic Relief Services/Pastoral Social and others to strengthen and extend the outreach of project activities in additional provinces, i.e., Esmeraldas, Guayas, Azuay and provinces in the Oriente.

f. Financial Plan

Functional Account: Health

(U.S.$ 000)

Funding:	FY-87	LOP
Loan	--	--
Grant	1,500	2,100
TOTAL	1,500	2,100

C. MISSION EVALUATION PLAN

1. Introduction

As reflected in the Mission's approved strategy, USAID's development assistance in Ecuador concentrates in the following programmatic objectives:

a) To improve private sector production and productivity, and hence jobs and increases in Ecuador's major comparative advantage sectors, particularly those that are agro-related;

b) To achieve progress in meeting basic human needs (jobs, health and family planning services, shelter, nutritiion); and

c) To reorient the public sector so it can become a more efficient performer in selected areas such as revenue collection, low income housing, policy support to the productive sectors of the economy, and provision of low cost services to vulnerable groups in rural and urban areas.

USAID's project portfolio reflects the above program objectives and strategy. Projects in Nontraditional Agricultural Exports, Cacao Rehabilitation, Small Business Development, Graduate Management and Skills Training, and Capital Markets, among others, are directed towards increased private sector production and productivity. Projects in Integrated Rural Development, Health Delivery System, Population and Family Planning, Housing, and Nutrition Education are designed to better meet basic human needs of marginal groups. Finally projects in Agricultural Reorientation, Fiscal Administration, Training for Development, Housing, Health, etc. are contributing to improve institutional capacities of the public sector in selected areas.

2. The Evaluation Plan

During FYs 86 and 87 USAID proposes to carry out a total of 17 evaluations (11 formative evaluations and six 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 the institution building, technology transfer, and policy change processes that must take place in the public and private sectors if Ecuador is to achieve its structural adjustment goals. In sum, our Evaluation Plan will look into the attainment of specific goals and benchmarks in increased private sector production and productivity; in meeting the needs of vulnerable groups; and in improved public sector performance. Accordingly, terms of reference for specific project level evaluations will be tailored around the progress benchmarks established in Sections II. A and B above.

More specifically, the Mission intends to use evaluations as follows:

a) Formative Evaluations. These evaluations will:

-- Judge projects against their own internal objectives, i.e.: Are project activities being implemented as planned? Are project inputs (funds, technical assistance, equipment, training, etc.) being delivered on schedule? Are project outputs and project purpose being met as originally conceived?

The answers to these questions will be used to make changes and expedite implementation procedures, and to adjust the project design or take management decisions, as needed and

-- Measure project impact in addressing the three elements of the Mission strategy in the areas of private sector development, basic human needs, and reorientation of the public sector.

b) Summative (Impact) Evaluations. These evaluations will:

-- Test the development hypotheses that were establishd by the Host Country and USAID in key development activities that will be completed such as the Integrated Rural Development Model, the Health Delivery Systems Model, Population and Family Planning, etc.

-- Provide the basis for expanding projects, based on performance and need in a specific development areas, e.g. Nontraditional Agricultural Exports, Population and Family Planning, etc.

TABLE VII LIST OF PLANNED EVALUATIONS
FY 1987 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE 518 - ECUADOR

Project List (Project No. & Title)		Last Eval Completed (Mo./Yr.)	FY 1986 Start (Qtr)	FY 1986 To AID/W (Qtr)	FY 1987 Start (Qtr)	FY 1987 To AID/W (Qtr)	Reasons/Issues	Funding Source ($000)		USAID Person Days	Collateral AID Assistance
0022 and HG 005	Integrated Shelter and Urban Development (Solanda)-SD	NA	1*	2*	NA	NA	PACD: 9/86. The evaluation will: (1) review the use of the grant funds to determine their impact on Solanda and on the overall policy and program development of the institution involved; and (2) determine progress in four stages of construction of Solanda, the selection process and the social support programs carried out by the BEV/JNV/FMJ, Municipio de Quito.	PD&S	20	20	PRE/HUD RHUDO/LA 20 person days
0026	Cooperative Agreement (IPPF/WHR)-PN	12/82	1	2	NA	NA	PACD: 12/85. Impact evaluation of Cooperative Agreement to measure project impact and accomplishments of project objectives and determine need and facilities of extending and expanding the project.	Proj. Funds	30	10	LAC/DR/POP 10 person days
0026-2	(Ministry of Defense Subproject)-PN	2/83	2*	3*	NA	NA	PACD: 6/86. Final evaluation to measure achievement of project objectives.	Proj. Funds	30	10	LAC/DR/POP Five person days.

Mission Evaluation Officer: Patricio Maldonado, Program Officer (15% annual time devoted to evaluation work)
* Indicates that the current estimate for FY 1986 is different from the FY 1986 Evaluation Plan in the FY-86 ABS.

TABLE VII LIST OF PLANNED EVALUATIONS
FY 1987 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE 518 - ECUADOR

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1986 Start (Qtr)	FY 1986 To AID/W (Qtr)	FY 1987 Start (Qtr)	FY 1987 To AID/W (Qtr)	Reasons/Issues	Funding Source ($000)		USAID Person Days	Collateral AID Assistance
0026-3 Social Security-PN	NA	1*	2*	NA	NA	PACD: 6/86. Mid-term formative evaluation to measure progress in institutionalization of FP services within the "Campesino" Social Security Program.	Proj. Funds	25	15	LAC/DR/POP Five person days.
0032 Rural Technology Transfer System (Title XII)-ARDN	8/84	2	3	NA	NA	PACD: 9/87 Assess progress of project, as recently reprogrammed, and recommend changes as needed.	Proj. Funds	25	30	Two person weeks of BIFAD assistance. Four person weeks IQC contractors.
HG-006 - SD	NA	2	3	NA	NA	To measure program progress in terms of institutional ability to implement.	Proj. Funds	8	10	PRE/HUD RHUDO/LA 10 person days
0018 Fundación 4-F Rural Youth Development-OPG ARDN	NA	3	4	NA	NA	PACD: 9/87. To determine whether further assistance is needed and nature of that assistance beyond 9/87.	Proj. Funds	6	20	None
0038 Vocational Education Development (BSFG) OPG (2nd)-EH	NA	3	4	NA	NA	PACD: 9/85. To conduct a final evaluation to measure impact on beneficiaries and viability of competency based curriculum approach to technical skills training.	Proj. Funds	20	40	None

TABLE VII LIST OF PLANNED EVALUATIONS
FY 1987 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE 518 - ECUADOR

	Project List (Project No & Title)	Last Eval Completed (Mo./Yr.)	FY 1986 Start (Qtr)	FY 1986 To AID/W (Qtr)	FY 1987 Start (Qtr)	FY 1987 To AID/W (Qtr)	Reasons/Issues	Funding Source ($000)		USAID Person Days	Collateral AID Assistance
0043	Environmental Education (OPG) Fundacion Natura (2nd.)-EH	NA	3	4			PACD: 12/87. To study and determine the efficiency of the institutional vehicle (Ministry of Education) for the formal environmental education part of the project.	Proj.	15	30	LAC/DR 10 person days
0045	Special Education Resource Centers National Institute for the Child and Family (INNFA) OPG-SD	NA	3	4	NA	NA	PACD: 3/85. The evaluation will focus on INNFA's ability to institutionalize a functioning resource center for the handicapped.	PD&S	5	7	None
0019	Non Traditional Agricultural Exports	NA	4	NA	NA	1	PACD: 9/87. To conduct a formative evaluation in order to measure impact of the project in diversifying Ag. exports from Ecuador and determine need for expanding and/or redirecting the project.	PD&S and Proj. Funds	20	15	None
0015	Integrated Rural Health Delivery System - HE	6/84	4*	NA*	NA	1	PACD: 9/86. An end of project evaluation to measure achievements of overall project objectives, particularly the development of a viable low cost health delivery system.	PD&S and Proj. Funds	25	10	Consultant recruitment, LAC/DR/HN

TABLE VII LIST OF PLANNED EVALUATIONS
FY 1987 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE 518 - ECUADOR

	Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1986 Start (Qtr)	FY 1986 To AID/W (Qtr)	FY 1987 Start (Qtr)	FY 1987 To AID/W (Qtr)	Reasons/Issues	Funding Source	($000)	USAID Person Days	Collateral AID Assistance
0017	Training for Development-EH	NA	4	NA	NA	1	PACD: 12/86. Project has only recently begun to be implemented. Evaluation will focus on the effectiveness of the National Training System established by this Project.	Proj. Funds	25	10	None
0033	Strengthening Community Organizations (OPG) ARDN	NA	4	NA	NA	1	PACD: 5/86. Assess progress of project objectives.	Proj. Funds	5	3PM	None
0012	Integrated Rural Development (AG.)-ARDN	9/84	NA	NA	1	2	PACD: 12/86 Final evaluation to document lessons learned as result of implementation of the IRD model.	Proj.	45	30	AID/W TDY ST/RA person for 15 days.
0046	Emergency Rehabilitation Disaster Relief	11/84	NA*	NA*	2	3	PACD: 13/86. The project provides assistance for rehabilitation, repair, and reconstruction of economic and social infrastructure damaged by floods in 1983. It is a high profile project for which accomplishments and problems should be clearly documented.	PD&S	15	30	IQC 15 person days

TABLE VII LIST OF PLANNED EVALUATIONS
FY 1987 ANNUAL BUDGET SUBMISSION
COUNTRY/OFFICE 518 - ECUADOR

Project List (Project No. & Title)	Last Eval Completed (Mo./Yr.)	FY 1986 Start (Qtr)	FY 1986 To AID/W (Qtr)	FY 1987 Start (Qtr)	FY 1987 To AID/W (Qtr)	Reasons/Issues	Funding Source	($000)	USAID Person Days	Collateral AID Assistance
PL-480, Title II (CRS)	6/83	NA*	NA*	1	2	Evaluate progress on implementing FY 85-89 CRS Operational Plan, which is aimed at making PL-480 a more development oriented program.	OPG and FFP/FVA	20	3PM	AID/W; FFP/FVA; IPM

D. GRAY AMENDMENT CONSIDERATIONS

The Mission has taken an aggressive approach towards meeting and surpassing the 10 percent goal for target businesses. Already in this fiscal year, several contracts have been signed or are in the final stages with SBA-designated 8-A firms for a total amount of US$ 2.1 million. Although this exceeds the established percentage, we expect even more contracts with the target groups before the end of the fiscal year.

To assist in meeting the objectives of the Gray Amendment in future years the Mission intends to establish a minimum requirement for major institutional contracts that 10 percent of subcontracts be awarded to target businesses.

E. MISSION MANAGEMENT PLAN

As the Mission's portfolio is expanding at a rapid pace with even greater growth expected in the near future, Mission management has completed a review of staffing and systems requirements. The staffing for the Mission is at a minimum level and with an expanding program cannot continue to operate effectively at a reduced level. To insure maximum efficiency of Mission staff, all offices are reviewing their existing organization and assessing its appropriateness for the future program. Many offices have already initiated reorganizations to meet future needs within the existing staff resources.

Of particular importance, the Controller's Office is undergoing a reorganization to provide increased services and meet the increased demands of a growing Mission, especially with regard to project financial accounting. The steps established envision the following progression:

1) Restructuring of functional relationships and responsibilities.

2) Training.

3) Introduction of advanced systems including the use of MACS Data Sheets.

4) Introduction of MACS (expected for the third or fourth quarter of FY-86). The Mission proposes to initiate the MACS with the purchase of a VS). The Mission feels that it has an excellent opportunity in the interin to use good systems management policy to anticipate its increasing needs and plan for an automation system that is designed to efficiently deal with a large volume of project data. This system would provide up-to-date, accurate, and informative reports which are essential in good project management and implementation and would minimize crisis

management, that is so often associated with weak information systems.

With the expected increase in efficiency to be provided by the MACS and other systems available on the VS, the Mission projects only minimal increases in overall staffing and no additional office space requirements.

To meet the needs of increased project design and presentation requirements, as well as, growing project implementation demands, the funds provided for International Discretionary Travel must be increased to the minimum level requested in the proposed budgets for FYs 85, 86 and 87.

All the other Mission procurement is planned to maintain office operations at the same level and meet prudent property replacement cycles. However, with severe constraints placed on the Mission O.E. budget through the low US$1.9 million level, almost all NXP procurement for FY-85 will have to be suspended (as can be seen in the attached budget working with the level established by LAC/CONT).

In an effort to economize in all areas of the O.E. budget, the Mission has made an intense effort to transfer as many PSCs as possible to Project Funds when justified. Also, in new project design the Mission intends to make greater use of institutional contracts that have minimum Mission logistical support requirements.

FY-85 LEVEL OF 1.9 MILLION AS ESTABLISHED BY LAC/CONT

EXPENSE CATEGORIES	FUNCTION CODE	OBJECT CLASS	FY-85	FY-86	FY-87	WORK PAPER
U.S. Direct Hire	U100		1,161,228	1,198,105	1,360,670	
U.S. CITIZENS BASIC PAY	U101	110	780,216	812,109	852,712	A
PT/TEMP U.S. BASIC PAY	U102	112	13,346	14,013	14,714	B
DIFFERENTIAL PAY	U103	116	117,032	121,816	127,907	C
OTHER AID/W FUNDED CODE 11	U104	119	-0-	-0-	-0-	-
OTHER MISSION FUNDED CODE 11	U105	119	-0-	-0-	-0-	-
EDUCATION ALLOWANCES	U106	126	45,500	44,000	50,600	D
RETIREMENT-U.S. Direct Hire	U107	120	55,549	57,829	60,720	E
LIVING ALLOWANCES	U108	128	-0-	-0-	-0-	-
OTHER AID/W FUNDED CODE712	U109	129	15,871	16,522	17,349	G
OTHER MISSION FUNDED CODE 12	U110	129	14,344	19,216	42,768	F
POST ASSIGNMENT-TRAVEL	U111	212	5,100	8,600	16,500	H
POST ASSIGNMENT-FREIGHT	U112	22	12,600	28,000	77,500	I
HOME LEAVE-TRAVEL	U113	212	46,200	9,000	40,600	J
HOME LEAVE-FREIGHT	U114	22	20,000	6,800	19,200	K
EDUCATION TRAVEL	U115	215	7,500	11,200	12,600	L
R and R TRAVEL	U116	215	7,200	34,000	11,000	M
OTHER CODE 215 TRAVEL	U117	215	20,770	15,000	16,500	N
FOREIGN NATIONAL DIRECT HIRE	U200		186,511	225,156	264,188	-
BASIC PAY	U201	114	142,117	170,540	204,648	O
OVERTIME, HOLIDAY PAY	U202	115	3,380	5,000	6,000	P
ALL OTHER CODE 11-FN	U203	119	37,014	44,616	53,540	Q
ALL OTHER CODE 12-FN	U204	129	-0-	-0-	-0-	-
BENEFITS FORMER FN PERSONNEL	U205	13	4,000	5,000	-0-	R
CONTRACT PERSONNEL	U300		550,808	539,344	617,631	-
PASA TECHNICIANS	U301	258	-0-	-0-	-0-	-
U.S. PSC-SALARY/BENEFITS	U302	113	145,000	68,300	71,700	S
ALL OTHER U.S. PSC COSTS	U303	255	-0-	-0-	-0-	-
F.N. PSC-SALARY/BENEFITS	U304	113	80,000	76,400	81,500	S
ALL OTHER F.N. PSC COSTS	U305	255	-0-	-0-	-0-	-
MANPOWER CONTRACTS	U306	259	256,320	321,682	387,821	T
JOC COSTS PAID BY AID/W	U307	113	69,488	72,962	76,610	U
HOUSING	U400		183,285	268,324	284,205	
RESIDENTIAL RENT	U401	235	-0-	-0-	-0-	-
RESIDENTIAL UTILITIES	U402	235	5,000	6,000	7,000	V
MAINTENANCE AND RENOVATION	U403	259	3,000	4,000	4,500	V
QUARTERS ALLOWANCES	U404	127	163,885	171,224	179,785	W
RESIDENTIAL FURNITURE/EQUIP.	U405	311	-0-	50,800	53,300	X
TRANS./FREIGHT-CODE 311	U406	22	-0-	22,000	23,100	X
SECURITY GUARD SERVICES	U407	254	8,200	11,100	13,320	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

PENSE CATEGORIES	FUNCTION CODE	OBJECT CLASS	FY-85	FY-86	FY-87	WORK PAPER
FICE OPERATIONS	U500		904,670	1,182,824	1,375,853	
FICE RENT	U501	234	304,236	352,224	404,503	Y+Y(cont.)
FICE UTILITIES	U502	234	15,000	16,800	18,800	Z
ILDING MAINT./RENOVATION	U503	259	12,000	18,000	7,000	AA
FICE FURNITURE/EQUIPMENT	U504	310	13,835	14,300	14,800	AB
HICLES	U505	312	16,000	35,000	73,000	AC
HER EQUIPMENT	U506	319	-0-	57,000	70,000	AD
ANSPORTATION/FREIGHT	U507	22	7,699	25,850	38,750	AE
T/EQUIP/VEHICLE R./MAINT.	U508	259	48,100	58,700	74,500	AF
MMUNICATIONS	U509	230	49,800	59,000	62,200	AG
CURITY GUARD SERVICES	U510	254	48,000	68,000	75,000	AH
INTING	U511	24	40,000	50,000	53,000	AI
G/II OPERATIONAL TRAVEL	U512	210	-0-	-0-	-0-	-
TE VISITS-MISSION PERSSONNEL	U513	210	70,000	105,000	130,000	AJ
E VISITS-AID/W PERSONNEL	U514	210	14,000	24,000	24,000	AJ
FORMATION MEETING	U515	210	2,000	3,000	3,000	AJ
AINING ATTENDANCE	U516	210	8,000	10,000	10,000	AJ
NFERENCE ATTENDANCE	U517	210	5,000	6,000	6,000	AJ
HER OPERATIONAL TRAVEL	U518	210	1,000	2,000	2,000	AJ
PPLIES AND MATERIALS	U519	26	132,000	145,000	160,000	AJ
S	U520	257	35,000	38,000	41,000	AK
NSULTING SVCS.-CONTRACTS	U521	259	-0-	-0-	-0	-
T./PROF.SVCS.-CONTRACTS	U522	259	10,000	15,000	20,000	AL
EC. STUDIES/ANALYSES CONT.	U523	259	-0-	-0-	-0-	-
L OTHER CODE 25	U524	259	73,000	80,000	88,000	AM
TAL O.E. BUDGET			2,986,502	3,413,753	3,902,547	
SHINGTON			1,051,502	1,095,251	1,150,012	
AS			35,000	38,000	41,000	
SSION			1,900,000	2,280,502	2,711,535	

MINIMUM FY-85 LEVEL OF 2.17 MILLION AS REQUIRED BY MISSION

EXPENSE CATEGORIES	FUNCTION CODE	OBJECT CLASS	FY-85	FY-86	FY-87	WORK PAPER
U.S. Direct Hire	U100		1,161,228	1,198,105	1,360,670	
U.S. CITIZENS BASIC PAY	U101	110	780,216	812,109	852,712	A
PT/TEMP U.S. BASIC PAY	U102	112	13,346	14,013	14,714	B
DIFFERENTIAL PAY	U103	116	117,032	121,816	127,907	C
OTHER AID/W FUNDED CODE 11	U104	119	-0-	-0-	-0-	-
OTHER MISSION FUNDED CODE 11	U105	119	-0-	-0-	-0-	-
EDUCATION ALLOWANCES	U106	126	45,500	44,000	50,600	D
RETIREMENT-U.S. Direct Hire	U107	120	55,549	57,829	60,720	E
LIVING ALLOWANCES	U108	128	-0-	-0-	-0-	-
OTHER AID/W FUNDED CODE712	U109	129	15,871	16,522	17,349	G
OTHER MISSION FUNDED CODE 12	U110	129	14,344	19,216	42,768	F
POST ASSIGNMENT-TRAVEL	U111	212	5,100	8,600	16,500	H
POST ASSIGNMENT-FREIGHT	U112	22	12,600	28,000	77,500	I
HOME LEAVE-TRAVEL	U113	212	46,200	9,000	40,600	J
HOME LEAVE-FREIGHT	U114	22	20,000	6,800	19,200	K
EDUCATION TRAVEL	U115	215	7,500	11,200	12,600	L
R and R TRAVEL	U116	215	7,200	34,000	11,000	M
OTHER CODE 215 TRAVEL	U117	215	20,770	15,000	16,500	N
FOREIGN NATIONAL DIRECT HIRE	U200		186,511	225,156	264,188	-
BASIC PAY	U201	114	142,117	170,540	204,648	O
OVERTIME, HOLIDAY PAY	U202	115	3,380	5,000	6,000	P
ALL OTHER CODE 11-FN	U203	119	37,014	44,616	53,540	Q
ALL OTHER CODE 12-FN	U204	129	-0-	-0-	-0-	-
BENEFITS FORMER FN PERSONNEL	U205	13	4,000	5,000	-0-	R
CONTRACT PERSONNEL	U300		550,808	539,344	617,631	-
PASA TECHNICIANS	U301	258	-0-	-0-	-0-	-
U.S. PSC-SALARY/BENEFITS	U302	113	145,000	68,300	71,700	S
ALL OTHER U.S. PSC COSTS	U303	255	-0-	-0-	-0-	-
F.N. PSC-SALARY/BENEFITS	U304	113	80,000	76,400	81,500	S
ALL OTHER F.N. PSC COSTS	U305	255	-0-	-0-	-0-	-
MANPOWER CONTRACTS	U306	259	256,320	321,682	387,821	T
JCC COSTS PAID BY AID/W	U307	113	69,488	72,962	76,610	U
HOUSING	U400		252,590	268,324	284,205	
RESIDENTIAL RENT	U401	235	-0-	-0-	-0-	-
RESIDENTIAL UTILITIES	U402	235	5,000	6,000	7,000	V
MAINTENANCE AND RENOVATION	U403	259	3,000	4,000	4,500	V
QUARTERS ALLOWANCES	U404	127	163,885	171,224	179,785	W
RESIDENTIAL FURNITURE/EQUIP.	U405	311	48,385	50,800	53,300	X
TRANS./FREIGHT-CODE 311	U406	22	20,920	22,000	23,100	X
SECURITY GUARD SERVICES	U407	254	8,200	11,100	13,320	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

ENSE CATEGORIES	FUNCTION CODE	OBJECT CLASS	FY-85	FY-86	FY-87	WORK PAPER
ICE OPERATIONS	U500		1,106,221	1,182,824	1,375,853	
'ICE RENT	U501	234	304,236	352,224	404,503	Y+Y(cont.)
'ICE UTILITIES	U502	234	15,000	16,800	18,800	Z
LDING MAINT./RENOVATION	U503	259	12,000	18,000	7,000	AA
'ICE FURNITURE/EQUIPMENT	U504	310	13,835	14,300	14,800	AB
HICLES	U505	312	30,000	35,000	73,000	AC
IER EQUIPMENT	U506	319	164,000	57,000	70,000	AD
ANSPORTATION/FREIGHT	U507	22	31,250	25,850	38,750	AE
RN/EQUIP/VEHICLE R./MAINT.	U508	259	48,100	58,700	74,500	AF
ANICATIONS	U509	230	49,800	59,000	62,200	AG
CURITY GUARD SERVICES	U510	254	48,000	68,000	75,000	AH
INTING	U511	24	40,000	50,000	53,000	AI
G/II OPERATIONAL TRAVEL	U512	210	-0-	-0-	-0-	-
TE VISITS-MISSION PERSSONNEL	U513	210	70,000	105,000	130,000	AJ
TE VISITS-AID/W PERSONNEL	U514	210	14,000	24,000	24,000	AJ
FORMATION MEETING	U515	210	2,000	3,000	3,000	AJ
AINING ATTENDANCE	U516	210	8,000	10,000	10,000	AJ
NFERENCE ATTENDANCE	U517	210	5,000	6,000	6,000	AJ
HER OPERATIONAL TRAVEL	U518	210	1,000	2,000	2,000	AJ
PPLIES AND MATERIALS	U519	26	132,000	145,000	160,000	AJ
AS	U520	257	35,000	38,000	41,000	AK
NSULTING SVCS.-CONTRACTS	U521	259	-0-	-0-	-0	-
ST./PROF.SVCS.-CONTRACTS	U522	259	10,000	15,000	20,000	AL
EC. STUDIES/ANALYSES CONT.	U523	259	-0-	-0-	-0-	-
L OTHER CODE 25	U524	259	73,000	80,000	88,000	AM
TAL O.E. BUDGET			3,257,358	3,413,753	3,902,547	
ASHINGTON			1,051,502	1,095,251	1,150,012	
AAS			35,000	38,000	41,000	
ISSION			2,170,856	2,280,502	2,711,535	

JOSEPH DORSEY
Contract 518-U000-C-00-4061-00
Administrative Assistant

STATEMENT OF DUTIES

The Contractor will perform the following Major Duties and Responsibilities:

1. Assist the Executive Officer in planning and directing the management functions of the Mission. Provides administrative assistance for the staff of the functional offices and activities within the Executive Office when required.

2. Review technical assistance requirements for Mission projects and logistical needs for Mission contract employee and recommends required action to the Executive Officer.

3. Monitors, plan and directs the Public Access Control System for the USAID Office space through supervision of the Contracted Security Guard Service under the general guidance of the Executive Officer.

4. Inspects all USAID privately leased housing prior to final commitment by the employee and with the advice of the Embassy Security Officer makes recommendations for improving domestic security. Follows up with USAID/EXO/WAREHOUSE to provide locks and alarms as appropriate.

5. Maintains office space plans in a current status, designs and drafts future modifications in accordance with space standards established by the USG, to meet anticipated space requirements.

6. Overseas the daily operation of the USAID Motor Pool. This involves monitoring the system of schedules usage, maintenance systems and ensuring proper reports are submitted.

7. Acts as the Accident Investigation Officer and Property disposal Officer and ensures that any case involving damage to non expendable property is properly adjudicated. The Survey Board should be called to serve when necessary.

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8. Investigates claims against the USG for loss by U.S. direct hire employees due to shipment or theft and submit fully documented cases as required.

9. Monitors and assists in the maintenance, testing and use of USAID radio system.

10. Assist the Executive Officer in coordination of all disaster preparedness and relief functions of the Mission. Helps maintain a good working relationship with Ecuadorean National Civil Defense personnel. Assists in developing appropriate projects in cooperation with Civil Defense.

11. The Contractor helps to establish the best possible relationships with host-government agencies and the business community as well as with other U.S. Government agencies operating in Ecuador.

Joseph Dorsey
Administrative Assistant

HOPE GOODWIN
Contract 518-U000-C-00-4117-00
Project Accountant/Voucher Examiner

STATEMENT OF DUTIES

a. Project Accounting Ledgers.- Establish and maintain project accounting ledgers for loan and grant financed projects. Ledgers will be maintained in accordance with AID's standard accounting procedures.

b. Project Advance Ledgers.- Establish and maintain ledgers for advances to projects under the incumbent's responsibilities.

c. Financial Status Report.- Prepare periodic financial status reports for assigned projects, and provide financial data as required to the Chief Accountant for consolidation into periodic reports prepared and submitted to AID/W.

d. Project Accruals.- Coordinate with Project Officers to determine project accrued expenditures on a quarterly basis.

e. Voucher Examination.- Examines vouchers received in the Controller's Office to verify that:
   1) Valid Obligation exist.
   2) Supporting Documentation is attached and is complete
   3) Administrative approval, when required, is affixed to voucher
   4) Advances, if any, are taken into account.
   5) All other AID and Treasury requirements are fulfilled.

f. Schedule Processing.- Prepare disbursement schedules, SF 1166, in accordance with U.S. Treasury requirements for signature of Authorized Certifying Officer. After schedule is certified, forward to U.S. Disbursing Officer in Washington, D.C.

g. Training Function.- In coordination with the Controller and Chief Accountant, the Project Accountant/Voucher Examiner will help train FSN staff in project accounting and voucher processing functions.

GREGORY GOEWEY
Contract 518-U000-S-00-2036-00
Engineering Advisor

STATEMENT OF DUTIES

The principal duties involve the monitoring and expediting of the irrigation component of the IRD Agriculture Project. In carrying out this responsibility, the Contractor will work closely with SEDRI and INERHI in assuring that technically and administratively sound procedures are followed for the construction of A.I.D. financed irrigation facilities under the project. Other construction activities under the IRD program include access roads and bridges, rural health facilities, and community center. In addition, the Contractor will assist USAID's Alternative Energy Sources Project Manager with technical monitoring of mini-hydroelectric demonstrations and other construction activities.

The contractor will develop a project monitoring system that assures compliance with A.I.D. principles, guidelines, and regulations governing construction. The Contractor will report directly to the USAID Chief Finance Officer and will prepare written quarterly reports on construction monitoring activities.

The Contractor may also be called in from time to time to participate and advise in the development of new USAID projects. Such participation may require engineering opinions on construction components and other technical elements of the project, including the preparation of detailed cost estimates.

AUDREY WIGHT
Contract 518-U000-C-00-4027-00
Nutrition Advisor

STATEMENT OF DUTIES

The Contractor will perform the following duties:

a. Monitor USAID's PL-480, Title II Program to insure compliance with A.I.D. regulations and volag operational plans and AER's;

b. Assist in the design and management of A.I.D. grants to volags to improve the quality of existing Title II projects and facilitate their self-sufficiency and eventual phase--out;

c. Manage an A.I.D. funded evaluation of the Ministry of Health's Supplementary Feeding program and work with the Ministry as appropriate to improve that program;

d. Work with the National Development Council (CONADE) to implement a National Nutrition Survey and to develop a National Nutrition Policy;

e. Assist appropriate GOE officials in the design of A.I.D. funded nutrition interventions based on the survey, policy noted above;

f. Encourage the integration of nutrition concerns into agricultural training programs; design and manage an A.I.D. funded project in this area;

g. Advise the Chief of USAID's Health Division on matters pertaining to the nutritional situation in Ecuador and USAID's possible response to that situation;

h. Assist the Chief of the Health Division in matters relating to the overall operation of that Division, eg. editing/-drafting/review of reports, cables, proposals, letters, project implementation documents, etc., both in English and Spanish.

i. Assume responsibility for whatever other health or nutrition related activities the Chief of the Health Division may assign, consistent with the above.

PATRICIA BEAUSOLEIL
Contract 518-U000-C-00-4059-00
Professional Librarian

STATEMENT OF DUTIES

The Contractor will perform librarian duties at USAID Information Center as follows:

1. Assist Mission staff in keeping an up-to-date collection of printed reference materials and audio visual materials to supplement Mission project implementation needs, maintaining personnel informed on new titles, studies, reports, as well as establishing, and maintaining a circulation control system.

2. Carry out cataloging and classification policies and information acquisiton procedures. Process added copies and new editions, and recatalog and reclassify books. Update existing codes for cataloging and classification to ensure access to information.

3. Collate new materials, adding ownership marks, attaching book plates, pockets, and data slips, typing book cards, added entries on card sets, attaching labels to books and media materials, attaching book covers to books when applicable.

4. Deselect outdated materials, following proper disposal procedures. Obtain a core list of books and journals for technical library and modify it to the library needs. Increase journal holdings for current needs of information center users.

5. Compile date and make routine reports of loan desk and inter-library loan activities.

6. Prepare orders for library materials.

7. Take inventories periodically.

8. Conduct bibliographical searches.

9. May perform audio visual services operating equipment, including video equipment, playback equipment.

10. As the information center will expand its outreach activities in the future, the Contractor will be expected to train, supervise, and evaluate the performance of a future library assistant.

PATRICIO MALDONADO
Contract 518-U000-C-00-3033-00
Program Advisor

STATEMENT OF DUTIES

Representative Duties:

Under the supervision of the Mission Director, the Contractor will:

1. Serve as the principal advisor on the coordinated, balanced planning and development of the AID/GOE development program. This duty entails:

   - Study and analysis of Ecuador's developmental status and potential;

   - Knowledge of the interrelated roles of the various program components in the development process;

   - Knowledge of U.S. Govenment, Agency and Mission regulations and procedures; and

   - Understanding of U.S. objectives in Ecuador.

2. As a senior advisor, play a key role in the study and analysis of:

   - The program implications of the economic, social, and political aspects of Ecuador; and

   - Program proposals, on the basis of their relevance to needs and objectives; their fiasibility from the standpoint of their likelihood of success, availability of resources, and capacity and will of the Government (GOE) to assume commitments for continuing support; their expected benefit in relation to estimated costs; and conformance with goals and budget.

3. Draft budget submissions and congressional presentation for submission to and approval of AID/Washington. Work closely with technicians and other senior staff members in the preparation of program proposals. Following program approval and determination of budgetary levels, assists in the negotiation with the GOE of Project Agreements and implementation orders.

4. Interpret the intent and meaning of applicable U.S. legislation, Agency and Mission program planning procedures and requirements, and work with technical division personnel, both in their planning and program proposals and projections and in the preparation and begotiation of Project Agreements and implementation orders.

5. Establish and maintain a system of recording current implementation status of all program activities.

6. Is responsible for program adjustments as necessary by changing conditions and needs, and amends program documentation accordingly.

7. Coordinate the planning and implementation of the Mission evaluation process, including annual project evaluations, spacial project evaluations and program-wide evaluations. This task includes the analyses of the results and accomplishments of program activities for their effectiveness, efficiency and significance.

8. Coordinate the preparation and submission of statisticals, analytica, and narrative reports as required by the Agency, the Embassy and the Mission.

9. Coordinate discussions with other U.S. Government and voluntary agencies in the country for formulation of policies, objectives, and priorities.

10. Maintain close liaison with other foreign donor agencies for coordination purposes.

PATRICIO MALDONADO
Program Advisor

GONZALO CALDERON
Contract 518-U000-C-00-3014-00
Contracts Specialist

STATEMENT OF DUTIES

1. Administration of USAID Contracts

a. Verifies appropriate forms
b. Prepare correspondence related to Contracts.
c. Responds to any question Contractors might have with regard to the terms of the contracts.
d. Assists Contractors with any logistical problems related with the contracts.
e. Responds to internal Mission questions regarding the terms of the Contracts
f. Maintains appropriate liaison with the Regional Contracting Officer in Panama and the Contract Officer in AID/Washington.
g. Recommends procurement alternatives and types of contracts, e.g., fixed price, fixed rate or cost reimbursement, to best achieve Mission objectives.

h. Supervises Mission staff in the Contract Services Office, and provides guidance and training on contract procedures and policies.

i. Advices Mission Officers on contract matters. Works with the Executive Officer, the Legal Advisor, the Controller and other appropriate officers in establishing procedures and/or revising existing procedures for assuring compliance with AID contracting policies, regulations, and legal requirements.

j. Reviews Project Agreements and Project Officers concerning their responsibilities in the administration of AID contracts, and assists them in resolving contractual problems.

k. Keeps current on local contracting laws, practices, and procedures and their adaptability to USAID procurement requirements.

l. In addition to the Scope of Work specified above, the Contractor also serves as the Deputy to the Executive Officer and includes:

- General logistical and administrative support
- Preparation and administration of the Mission Operating Expenses Budget
- Advises on country local laws, decrees and practices that might have an effect in the Mission administrative operation, in cases especially related to customs, labor, leases, etc.,
- Commodity procurement,
- Property management,
- Other ad hoc assignments made by the Executive Officer.

GONZALO CALDERON
Contracts Specialist

FEDERICO SAPORITI
Contract 518-U000-C-00-3087-00
Finance Project Specialist

STATEMENT OF DUTIES

The basic function of the Contractor will be:

1. Design, Planning and Initial Project Development

2. Actively participates in the assessment and evaluation of proposed projects.

3. Participates in the identification of projects for which AID financing may be requested.

4. Develops and maintains contacts and close liaison with senior members of government.

5. Provides administrative advice and assistance on AID's project development procedures in the preparation of the formal projects proposals to host country counterparts and AID project officers.

6. Develops and sustains contacts with key Ecuadorean private and public entities which are concerned with Project Implementation, maintain and awareness of important socio/-political happenings.

7. Coordinates with Mission Management, project officers, project teams members and borrowers/grantees.

8. Visitation to project sites to evaluate performance achievements and compliance to objectives; informs Mission management on important or significant issues and recommends on alternatives actions.

9. Satisfaction of Mission project review requirements on assigned projects and provides relevant documentation and information here necessary for adequate Project Implementation.

CESAR JARAMILLO
Contract 518-U000-C-00-4049-00
Agricultural Project Specialist

STATEMENT OF DUTIES

1. Act as the assistant to the Project Officer responsible for the A&RDO's institutional development projects (IRD, NRTS, 4-F Foundation, Appropriate Technology for Rural Women).

2. Evaluate the training and agricultural extension activities of the A&RDO projects.

3. Act as the A&RDO project coordinator in the area of participant training.

4. Assist in the organization and conduct of project and non--project short courses related to the office's agriculture and rural development program.

5. Advise on the development of audio-visual programs for Mission and/or project related use as required.

6. Carry out those duties within his area of expertise as specifically assigned to him by the A&RDO for Institutional Development.

ANNEX I

ECONOMIC ANALYSES

A. Framework

Oil was discovered in Ecuador in 1967, and by 1971 Ecuador was a net petroleum exporter. In 1973, world oil prices quadrupled, and they continued to increase throughout the 1970s. This sparked a ten year period of rapid growth in the Ecuadorean economy. During the 1970's real GDP grew at almost eight percent annually; the value of exports rose from $400 million in 1970 to $1.1 billion in 1980 (1975 prices); real output of the manufacturing sector increased one hundred and fifty percent. Per capita incomes increased, and large increases in public expenditures in certain social areas resulted in longer life expectancy, decreased overall and infant mortality rates, and increased school enrollments.

This impressive increase in income also had serious negative effects. These, as well as other factors, caused the economic recession into which Ecuador entered in late 1982.

1. Public Finances and Expenditures. The structural roots of the current crisis can be traced to the GOE's expansionary fiscal policies begun in 1973. Petroleum revenues were largely regarded and treated as windfall gains by the public sector which received and spent these funds rapidly. Subsequently, in the early 1980's, as the costs of large public sector investment projects and plans outstripped the capacity of petroleum exports to finance with existing cash flow, the GOE resorted to heavy external borrowing. The results of these large public spending programs fed by petroleum earnings and external borrowing were threefold:

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

b) A petroleum-financed public sector surplus equal to three percent of GDP in 1973 was converted into a deficit of two percent of GDP by 1975 and 8 percent of GDP in 1982, the latter financed by heavy foreign borrowing.

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

The negative effects of these policies became obvious by the 1982-1983 period. Interest payments alone on the external

public debt had risen from 1.3 percent of GDP in 1973 to 4.1 percent in 1982. The world financial crisis of 1982 and the foreign commercial banks' unwillingness to continue large lending programs to Ecuador precipitated an already impending disaster.

Cut off from external sources, the GOE's main quest became one of financing the deficit. Local financing was difficult since no institution was set up to market the public debt and since interest rates had been kept artificially low. By 1983 the GOE had resorted to inflationary finance through the Central Bank to cover its deficit. Inflation surged from sixteen percent in 1982 to forty four percent in 1983. Determined efforts by the GOE reduced this to a better, but still unacceptable, twenty five percent in 1984.

Ecuador must continue to revise and restructure its fiscal sector. It cannot afford to repeat the expansionary policies and deficit financing schemes of the past. At least for the medium term its international debt is so large that a return to external borrowing would be extremely risky - even if the international banks were willing to increase their lending. The course chosen by the current administration calls for a restructuring of public sector financing (increased domestic resource mobilization) and spending reductions through which a budget surplus is projected.

2. The External Sector. Oil also affected Ecuador's exchange rate, allowing it to appreciate in real terms without causing financing problems. This made imports cheaper for Ecuadorean industrialists and consumers, but it also meant that Ecuadorean non-oil exports suffered. With the important exception of shrimp, non-oil exports grew very slowly in volume after 1974. Like the public sector, the external sector would also have encountered problems after 1980, had it not been for recourse to large external borrowings. The nation's current account deficit in the balance of payments during 1981-82 exceeded US$1 billion each year, over ten percent of GDP.

3. Domestic Financial System. Monetary policies paralleled both exchange rate and fiscal policies. Ecuador's financial system was able to expand credit rapidly in nominal and real terms, assisted by Central Bank credit expansion. Ecuador's financial institutions became dependent on the Central Bank for resources; by 1983, three-fifths of the resources of the financieras, and over a third of the banks', came from the Central Bank. The Central Bank was able to expand credit rapidly because the public sector often overborrowed and deposited the excess funds in it. The open economy, with a fixed exchange rate, relieved what otherwise would have been inflationary pressures by increasing the supply of goods to the economy through imports. Copious external borrowing provided

the needed foreign exchange. What Ecuador did not pay in inflation, it now has to pay in debt services. Low interest rates--indeed, negative in real terms--led to a decline of relative financial savings. Thus, financial institutions, like the public and external sectors, became dependent on petroleum (through the Central Bank) and ultimately on external borrowings through guarantees. They too, encountered severe problems when, in 1982, the petroleum receipts stagnated and Ecuador's access to external funds was curtailed.

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

In 1983, however, the economic situation received another serious blow when severe flooding in the coastal areas wiped out agricultural production and severely damaged and destroyed physical infrastructure. This fueled inflation and led to a decline of 3.3 percent in real GDP. In addition, because of an additional fourteen percent decline in petroleum prices, the terms of trade continued their sharp downward trend.

In spite of these reverses, the fiscal austerity and other measures implemented the previous year did begin to pay off. The overall public sector deficit was reduced to about one percent of GDP in 1983, as compared to 7-8 percent in 1982. The external sector also noted some improvement as the disequilibrium in the balance of payments current account was reduced to about one percent of GDP from almost twelve percent in 1982. As a result, the overall balance of payments deficit was reduced to $50 million as compared to $420 million in 1982.

However, the process of economic stabilization is still incomplete. In 1984 exports of unprocessed cocoa were the only ones that increased in volume. Bananas, coffee, and fish and seafood exports fell. For 1985, a reasonable recovery from the effects of the 1983 floods and the more attractive exchange rate may lead to volume increases in most of the important non-petroleum exports.

Officially reported, but preliminary end-of-year data for 1984 showed an overall increase in GDP of about 2.2 percent which translated into a per capita income decrease of 0.7 percent. 1984 economic performance indicators will be available in April, 1985. Current, but unofficial, estimates from the Central Bank indicate

that overall GDP may have increased by slightly more than 2.2 percent (2.3 percent-2.5 percent). For 1985, the GOE and the IMF predict overall GDP growth of 2.5 percent, assuming that inflation can be held to a maximum of twenty percent. Inflation in 1984 averaged twenty five percent over the 12 month period. If the 1984 GDP figure is accurate, and if estmates are close to correct for the 1985 calendar year, it will mean that the Ecuadorean economy will have experienced four consecutive years of negative per capita GDP growth (1982-1985).

B. Balance of Payments.

March 14, 1985 data from the Central Bank of Ecuador indicate that Ecuador suffered an overall balance of payments deficit of $40 million in 1984, resulting from a $209 million current account deficit offset by a $169 million gain in the capital account. In addition, $20 million were added to international reserves. The total of $60 million was financed by a corresponding increase in arrearages, thereby allowing arrearages at the end of 1984 to rise to a new total of $260 million. The Government of Ecuador projects an overall balance of payments equilibrium by the end of 1985. This, however, is based on a series of important assumptions, as follows:

1. Petroleum exports: Original GOE calculations estimated total production of 98.2 million barrels of which 65.4 million would have been exported at an average price per barrel of US$27.00. It has since become clear that the US$27 bbl. price has not held. While the average price for January-February was US$25.00, U.S. Embassy economists believe that a yearly average of US$26.00 per barrel will hold. In order to meet its original income projections from the sale of exports, Ecuador would have to increase its exports to 67.8 million barrels to maintain the equilibrium scenario, (this is believed to be technically feasible).

2. Interest rates. The IMF equilibrium scenario assumes that the 1984 debt rescheduling will be signed, and that interest payments on $4.3 billion of Ecuador's external debt will be rescheduled at the present LIBOR rate of 9.5/10 percent.

Sensitivity analysis by the IBRD shows that if petroleum export prices were to increase at an annual average rate of one percent over 1986-1990 instead of the three percent assumed by the GOE, Ecuador would be facing financing gaps on the order of 0.5 percent of GDP over 1986-1989. Similarly, if the LIBOR interest rate and the U.S. prime rate were to increase during 1986 to twelve percent and 13.5 percent, respectively, and were to remain at those levels through 1990, the balance of payments would register

financing gaps on the order of one percent of GDP over 1986-1988, and nearly two percent in 1990. The compounded effect of lower oil prices and higher interest rates would bring the financing gap to nearly two percent of GDP over 1986-1989.

3. Non-oil exports. To achieve BOP equilibrium, the GOE assumed a reasonable twelve percent increase in the value of non-oil exports, except coffee. While most of these export products will achieve increases, up-dated estimates of banana production and exports indicate that banana exports will total two million metric tons less than projected, which translates into $30 million less in export income than anticipated in assuming equilibrium.

4. 1985 International Donor Expenditures were assumed to increase by ten percent in the calculations of BOP equilibrium. The IBRD and IDB are the major actors in this forum. Informal conversations between A.I.D., IBRD, and IBD officials indicate that neither the IBRD nor the IDB are projecting such an increase. A.I.D. will meet the Central Bank's target, but not in quantities sufficient to offset lack of increase in IBRD and IDB disbursements.

5. 1984 End of Year Estimates vs. Actual Performance. Computations upon which 1985 performance targets are based were made in December 1984, prior to receipt of final performance data. However, several important variations have occurred which will have a negative effect on achievement of BOP equilibrium in 1985:

a) Interest payments exceeded projections by $25 million.

b) Arrears on international debt payments totalled $260 million at the end of 1984. While $200 million will be paid early in 1985 with new credit from the commercial banks (negotiated as part of the rescheduling package), $60 million owed to non-banks will represent an unanticipated drain on international reserves in 1985.

c) Central government debt liabilities will increase by an unanticipated $295 million when the Central Bank assumes an outstanding CEPE debt which will be repaid over a five year period, assuming it can be rescheduled.

C. Fiscal Gap Analysis

Fiscal performance in Ecuador weakened considerably in the early 1980s. Slowing economic growth, growing external debt, and increasing inflation were exacerbated by natural disasters and inadequate demand management. Starting in 1982 a concerted effort was made to tighten monetary and fiscal policies. The programs of

domestic austerity and restrictive money supply growth moved the public sector deficit from seven percent of GDP in 1982 to near equilibrium in both 1983 and 1984.

Significant fuel price increases in 1982 and again in December 1984 are favorably effecting government revenues. Likewise, reinforced tax policies and reduced subsidies will enhance public sector revenues in 1985. A surplus of 2.9 percent of GDP is expected in public sector operations in 1985 (see Table No. 3).

The government intends to maintain current expenditures at twenty two percent of GDP while permitting capital expenditures to grow only slightly in 1985. At the same time, the basis for projected surpluses is driven predominantly by the anticipated increase in oil revenues.

USAID believes that it is possible for Ecuador to maintain fiscal equilibrium or small surpluses as long as current policies of public austerity and reduction of subsidies are maintained. However, three main factors may intervene in this delicate equation. Two components of the revenue side are vulnerable: 1) petroleum revenues to the central government could fall if world oil prices soften further, and 2) anticipated tax revenues may not rise as rapidly as expected. On the expenditure side it is possible that rapidly expanding credit could push up inflation, interest rates, and the debt service costs both internally and externally.

D. Summary.

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

Table 1: Ecuador: Balance of Payments Projections

	1984	1985	1986	1987	1988	1989	1990
	(In millions of U.S. dollars)						
Current account	-212	-210	-162	-116	-57	12	43
Exports, f.o.b.	2,491	2,713	2,888	3,074	3,273	3,484	3,709
Petroleum	(1,794)	(1,904)	(2,018)	(2,139)	(2,268)	(2,404)	(2,548)
Other	(697)	(809)	(870)	(935)	(1,005)	(1,080)	(1,161)
Imports, f.o.b.	-1,580	-1,750	-1,890	-2,029	-2,179	-2,339	-2,512
Interest payments	-801	-808	-807	-797	-775	-746	-741
Services, credit	370	410	478	549	628	716	798
Other services, debit	-712	-795	-856	-943	-1,038	-1,142	-1,256
Transfers	20	20	25	30	35	40	45
Capital account	121	74	164	137	120	123	-179
Direct investment	50	75	100	120	140	160	180
Drawings 1/	343	297	359	405	433	452	475
Amortization 2/	-239	-338	-295	-388	-453	-489	-834
Other	-33	40	--	--	--	--	--
Change in net international reserves (overall balance)	-91	-136	2	21	63	134	-136
Net official international reserves (increase -)	60	41	-2	-21	-63	-134	--
Arrears (decrease -)	31	-41	--	--	--	--	--
Financing gap	--	136	--	--	--	--	136
	(In percent of GDP)						
Current account deficit (-)/GDP	-2.3	-2.0	-1.5	-1.0	-0.4	0.1	0.3

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ In 1984 it includes interest rescheduled under the 1983 Paris Club. Starting 1986, it includes disbursements from nonbanks only.

2/ In 1984 it excludes amortization rescheduled under the 1983 Paris Club.

Table 2: Ecuador: Sectoral Origin of GDP

(In millions of sucres at 1975 prices)

	1980	1981	1982	Prel. 1983	Prel. 1984	Proj. 1985
GDP at market prices	147,622	154,331	156,467	151,369	154,699	158,566
Agriculture and livestock	21,198	22,399	22,839	19,432	21,112	23,012
Petroleum and mining	15,070	15,780	15,172	16,446	17,910	19,172
Manufacturing	26,807	28,181	29,467	27,812	25,587	26,098
Construction	6,906	7,005	6,954	5,883	5,589	5,617
Commerce	24,789	25,832	25,891	25,632	26,453	26,797
Transport and communications	10,038	10,517	11,030	11,030	11,602	11,575
Electricity, gas, and water	1,115	1,242	1,385	1,530	1,686	1,744
Real estate	6,530	6,747	6,936	6,700	6,961	6,977
Public administration	13,709	14,203	14,552	14,581	14,727	14,905
Other	21,460	22,425	22,241	22,323	23,072	22,669

Sources: Central Bank of Ecuador; and Fund staff estimates.

Table 3: Ecuador: Central Government Operations (Concluded)

	1983	Prel. 1984	Proj. 1985
	(In percent of GDP)		
Total revenue	11.8	14.6	18.7
Petroleum revenue	5.3	6.8	10.9
Nonpetroleum revenue	6.5	7.8	7.8
Income tax	1.3	1.4	1.4
Property tax	0.1	--	--
Taxes on goods and services	2.4	2.8	2.6
General sales tax	(1.3)	(1.5)	(1.4)
Selective excise taxes	(1.1)	(1.3)	(1.2)
Taxes on international trade	2.3	2.8	3.3
Import duties	(2.1)	(2.5)	(3.1)
Export duties	(--)	(--)	(--)
Exchange profits tax	(0.1)	(0.2)	(0.2)
Other taxes	0.2	0.2	0.2
CATs and IERAC (-)	-0.1	--	--
Nontax revenue	-0.2	0.3	0.2
Transfers	0.1	0.3	0.1
Total expenditure	14.8	15.2	15.8
Current expenditure	12.3	12.9	12.9
Wages and salaries	2.9	2.7	2.6
Purchases of goods and services	0.5	0.5	0.5
Interest payments	2.5	3.2	3.9
On external debt	(2.2)	(2.7)	(--)
On domestic debt	(0.4)	(0.5)	(--)
Current transfers	5.1	5.1	4.7
Other current expenditures	1.2	1.4	1.2
Capital expenditure	2.5	2.3	2.9
Fixed capital formation	1.0	1.3	1.7
Capital transfers	1.3	1.0	1.2
Other capital expenditures	0.2	--	--
Overall surplus or deficit (-)	-3.0	-0.6	2.9
Financing	3.0	0.6	-2.9
External financing (net)	-0.4	-0.4	-0.6
Disbursement	(--)	(--)	(--)
Amortization	(-0.4)	(-0.4)	(-0.6)
Domestic financing (net)	3.4	1.0	-2.3
Central Bank	(2.5)	(0.7)	(-2.5)
Bonds	(0.9)	(0.3)	(0.1)

Sources: Ministry of Finance; Central Bank of Ecuador; and Fund staff estimates.

Table 4: Ecuador: Medium-Term External Debt

	1982	1983	Projected 1984	1985	1986	1987	1988	1989	1990
			(In millions of U.S. dollars)						
Debt outstanding	6,186	6,920	7,240	7,614	7,693	7,619	7,473	7,381	7,116
Of which: IMF	--	209	244	324	339	249	123	68	28
Debt service	2,652	2,939	2,076	2,190	2,019	2,080	1,998	1,973	1,575
Principal paid	1,330	232	175	338	295	388	453	489	834
Of which: banks	(...)	(9)	(75)	(60)	(--)	(65)	(177)	(275)	(626)
IMF	(--)	(--)	(--)	(--)	(5)	(90)	(126)	(55)	(40)
Principal renegotiated	555	2,014	1,036	1,044	917	894	769	737	--
Of which: banks	(555)	(1,948)	(994)	(1,044)	(917)	(894)	(769)	(737)	(--)
Interest paid	767	673	758	808	807	797	775	746	741
Of which: banks	(...)	(576)	(633)	(616)	(593)	(586)	(566)	(532)	(511)
IMF	(--)	(3)	(13)	(25)	(30)	(28)	(19)	(11)	(7)
Interest renegotiated	--	20	16	--	...	...	...	...	...
Of which: banks	(--)	(--)	(--)	(--)	(...)	(...)	(...)	(...)	(...)
Arrears	--	--	91	--	--	--	--	--	--
Principal	(--)	(--)	(64)	(--)	(--)	(--)	(--)	(--)	(--)
Interest	(--)	(--)	(27)	(--)	(--)	(--)	(--)	(--)	(--)
			(In percent)						
Memorandum items									
Debt/GDP									
Including IMF	60	73	77	74	69	64	58	54	48
Excluding IMF	60	71	74	70	66	62	57	53	48
Debt service/exports of goods and services									
Before relief	97	109	73	70	60	57	51	47	35
After relief	77	34	36	37	33	33	31	29	...
Interest payments/exports of goods and services									
Before relief	28	26	28	26	24	22	20	18	16
After relief	28	25	27	26	...	...	...	...	...

Sources: Central Bank of Ecuador; and Fund staff estimates.

1/ Consistent with the medium-term balance of payments projection.
2/ Registered public and private debt of all maturities.
3/ Excludes debt service payments falling due over the period June 1984-December 1985 which are pending rescheduling with Paris Club creditors.
4/ GDP in sucres through 1984 was converted into U.S. dollars using the exchange rates implied by the 1971 purchasing power parity. Thereafter, GDP in U.S. dollars is assumed to grow at 7.5 percent per annum in nominal terms.
5/ From 1984 onwards it excludes debt relief that might be obtained under the aegis of the Paris Club.

Table 5: ECUADOR - DOMESTIC PRICES OF PETROLEUM DERIVATIVES, 1971-1983

Petroleum Products	Unit	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Gasoline	S./U.S.Gal.	4.46	4.48	4.42	4.51	4.53	4.54	4.58	4.61	4.61	4.76	13.46	18.74	29.79
Turbo	S./U.S.Gal.	5.34	5.34	5.34	5.34	5.34	5.34	5.34	5.34	5.34	5.34	20.27	22.00	24.26
Kerex	S./U.S.Gal.	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35	5.72	6.00	7.88
Diesel	S./U.S.Gal.	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55	3.55	7.54	11.00	14.00
Residual	S./U.S.Gal.	2.21	2.21	2.21	2.21	2.21	2.21	2.21	2.21	2.21	2.21	6.49	7.00	8.88
LPG	S./U.S.Gal.	12.27	12.27	12.27	12.27	12.27	12.27	12.27	12.27	12.27	12.27	12.27	20.45	n.a.
Crude (current)	US$/barrel	2.40	2.37	4.06	14.46	11.23	12.06	13.91	13.90	23.99	34.71	34.29	32.41	27.74
DEFLATED BY CPI (1975=100)		59.2	63.6	71.3	87.5	100.0	110.2	124.5	140.8	155.0	174.8	200.6	230.0	340.6
Gasoline	S./U.S.Gal.	7.53	7.04	6.20	5.15	4.53	4.12	3.68	3.27	2.97	2.72	6.95	8.15	8.75
Turbo	S./U.S.Gal.	9.02	8.40	7.49	6.10	5.34	4.85	4.29	3.79	3.45	3.05	10.10	9.57	7.12
Kerex	S./U.S.Gal.	5.66	5.27	4.70	3.83	3.35	3.04	2.69	2.38	2.16	1.92	2.85	2.61	2.31
Diesel	S./U.S.Gal.	6.00	5.58	4.93	4.06	3.55	3.22	2.85	2.52	2.29	2.03	3.76	4.78	4.11
Residual	S./U.S.Gal.	3.73	3.47	3.10	2.53	2.21	2.01	1.78	1.57	1.43	1.26	3.24	3.04	2.61
LPG	S./U.S.Gal.	20.73	19.29	17.21	14.02	12.27	11.13	9.86	8.71	7.92	7.02	6.12	8.89	n.a.
Dom.Price/Int.Price	US$/barrel	2.52	2.56	1.49	0.42	0.54	0.50	0.44	0.44	0.25	0.17	0.46	0.52	0.60

Note: "n.a." stands for not available.

Source: Central Bank of Ecuador.

D.E.

8 APR 1985

MEMORANDUM

TO: AA/LAC, Victor Rivera
DAA/LAC, Marshall Brown

FROM: LAC/DP, John Oleson

SUBJECT: Review of Ecuador's FY 1986/1987 Action Plan

You have been sent a copy of the subject Action Plan previously. The review of the Action Plan will be on April 9, at 2:00 p.m. in the LAC Conference Room, 2248 NS. Following are the issues we suggest be discussed at the Review:

Summary

The economy of Ecuador is rapidly recovering from the El Nino disturbances and is slowly adjusting to the effects of the world economic recession. These changes are occurring under a new center-right administration which has promised very progressive reforms to enhance productivity through individual initiative. USAID/Ecuador is trying to design a program which will exploit these propitious circumstances. The Action Plan presents an ambitious program, but important issues of program focus, appropriate uses for ESF, PL 480, pipeline, and institutional development should be addressed.

PART I: MAIN ISSUES

1. Program Focus. The Action Plan states that the program is to focus on three basic elements (increase private sector production and productivity, principally agriculture and related agro-industrial and service sectors; meet basic human needs with particular emphasis on health, nutrition, and shelter; and reorient the public sector to make it more efficient and supportive of the private sector). The Action Plan then lists 18 goals and 85 specific benchmarks. The number of these goals suggests the diverse nature of the proposed program. The problem of diversity is made greater by a lack of prioritization among the goals. Diversity in the program is further suggested by the fact that while the first strategy objective is to increase agricultural production and productivity, the Plan proposes new projects which do not seem directly to support this objective. This apparent lack of

focus in the proposed program is a source of particular concern given the large number of new project starts proposed, staffing limitations, and the relatively low pipeline liquidation rate (see Pipeline Issue below).

-- Should the Action Plan be revised to narrow the focus and concentration of the proposed program? Could new project proposals in FY 86 and FY 87 be limited to agricultural and related production, and health and nutrition, for example?

-- Should the number of goals be reduced and prioritized? Could fewer sectoral benchmarks (other than the numerous project outputs now reflected in the Action Plan) be established to provide a measure of overall program progress over a specified time frame (current benchmarks give no indication of when within the two-year period they might be achieved)?

-- Could the Mission not provide a specific policy agenda to be achieved with the proposed program over the next two years and indicate how the program will be leveraged to achieve those policy goals?

-- How does the Mission's proposed program mesh with the plans of other donors?

-- How directly do the proposed projects Technical Skills Training, Strengthening Agricultural Universities, Capital Markets Development, Cacao Rehabilitation, and Coffee Leaf Rust Control contribute to the goal of raising production and productivity and what would be AID's comparative advantage in these activities?

2. ESF. The Mission has proposed an ESF Economic Stabilization program (518-0058) of $25 million in FY 1986, and $25 million in FY 1987. The CP level for ESF in FY 1986 is $15 million. This would be Ecuador's first ESF program. The Action Plan is not clear on what use will be made of the dollars or local currency, or how the dollars and the local currency will contribute to the program strategy. The proposed levels of ESF are small in relation to the Ecuadorian economy and export earnings, and would add less than 1% to Ecuador's import capacity. ESF would therefore not play a signficant gap-filling role as it does in Central America. The Action Plan implies that the ESF would instead be conditioned upon economic policy reforms concerning subsidies and interest rates, but the specific reforms to be achieved are not documented.

-- What is the Mission's justification for requesting $25 million in FY 86, instead of the $15 million CP level? What is the rationale for $25 million in FY 87? What specific reforms or other results would the ESF achieve in FY 86 and FY 87?

-- If the likely impact of the ESF on the overall economic situation is small, would there be greater leverage and impact from projectizing the ESF?

-- If the ESF is to be provided as program assistance, will the Mission have the necessary economic expertise to manage this program?

-- The Mission plans for obligation of the FY 86 ESF in December 1985. PPC has requested that the PAAD be reviewed in AID/W. Is there a need for a "concepts paper" before authorizing the Mission to proceed with a PAAD?

-- Should we ask the Mission to negotiate and establish an ESF Trust Fund to supplement its FY 86 and FY 87 OE budgets? If so, in what amounts?

3. PL 480. The Action Plan proposes PL 480 Title I funding of $25 million each year in FY 86 and FY 87 but is silent on how the PL 480 assistance would contribute to the strategy, how generated local currencies would be used, and what reforms would be sought as conditions. There is no Title I program proposed for Ecuador in the FY 86 CP.

-- What could be achieved through the proposed PL 480 assistance that could not be achieved through a CCC credit program?

- How would local currency generations be used?

-- What reforms would be sought?

4. Pipeline. When judged by the overall portfolio liquidation rate, USAID/Ecuador appears to be making solid progress in project implementation. However, obligations and disbursements for DA projects (excluding disaster relief) show a first quarter FY 85 disbursement total of only $3.2 million. This is a portfolio liquidation rate of about 14% on an annualized basis--significantly lower than last year's 19% figure. While subsequent quarterly totals are expected to show better results, it is possible that the previous steady progress in increasing expenditure rates may have halted. Nevertheless, the Mission continues to place major emphasis on development of new, relatively small projects. Two new projects have been

started so far in FY 85, and the Mission plans to begin three more this year, five in FY 86, and two in FY 87. This will increase the number of active projects from 29 at present to about 35 by FY 87. The Mission is also experiencing slow implementation of the HG authority. Although no new HG authority is planned in FY 86, there will be a $50 million HG pipeline by the end of FY 85. With a USDH staff of 13, of which eight are project officers, and a high level of effort on new project development, it is hard to see how acceptable implementation progress can be maintained.

-- Even if the proposed diversity of the Mission's program is accepted, should the Mission slow down the pace of new project development (e.g. by limiting itself to a maximum of two new projects a year), and pay more attention to implementation? Should we encourage the Mission to reduce mortgage, and provide more forward funding for a smaller number of projects?

-- The Mission has dropped its plans for an FY 86 technical assistance project (Municipal Development, 513-0057) which was included in the FY 86 CP. What alternative provision has the Mission made to assure that the GOE will use HG funds effectively?

5. Institutional Development. Many of the new projects call for creating or expanding institutions, but the efficiency or cost/benefit of these approaches are not discussed. The action plan proposes, for example, to create a new Council for Scientific Education, Research and Extension, and expand the functions of an independent foundation to carry out agricultural sector policy analysis. A number of other institutions would expand their activities, and would undoubtedly require additional staff: extension services for coffee and cacao; agricultural education institutions; and a market information system for agricultural exporters. Our experience has shown that single-commodity extension services are inefficient, and that high-level academic training is probably not a priority factor in improving technology diffusion and increasing production.

-- Has the Mission considered other ways of improving agricultural technology diffusion?

-- Can the expanded functions of the institutions be maintained? Will the institutions be hindered by a scarcity of the human resources needed?

PART II: SPECIAL CONCERNS

1. Gray Amendment. The Action Plan does not discuss how the Mission will assure that small and minority firms are given the maximum practical consideration for subcontracting opportunities under direct and host-country contracts.

-- How can these concerns be addressed?

2. Evaluations. Ecuador plans 17 evaluations over the next two fiscal years (14 in FY 1986 and 3 in FY 1987). The Mission's evaluation plan relates primarily to project progress and impact.

-- Is 17 a realistic number given the expected Mission staff levels? Could these evaluations be more evenly spread over the two fiscal years?

-- How does the evaluation plan relate to the Action Plan goals and benchmarks? How will the Mission determine if these goals and benchmarks have been achieved?

3. WID. Under the PVO strategy section of the Action Plan, the participation of women in the development process is mentioned as an activity in which PVOs have a comparative advantage. However, Agency policy is that we integrate women into all of our projects as action agents and beneficiaries.

-- How can the Action Plan be modified to carry out more fully the Agency WID policy?

4. PVOs. The Action Plan states that PVOs will be more fully integrated into the program, thereby enhancing their development impact, and that PVO projects will be extended into new sectors. However, the program strategy does not mention specific PVOs or give any indication of how these objectives will be attained. The Action Plan does mention "joint ventures" between U.S. PVOs and local PVOs, but does not discuss or give examples of projects that Ecuador envisions financing on a "joint" basis over the next two years.

-- How does the USAID envision that PVO impact can be strengthened?

-- Is there evidence that "joint ventures" are more successful or feasible than support for a local or U.S. PVO?

5. Narcotics Programs. The Mission is planning a Narcotics Awareness project in FY 85, but has not proposed any follow-on projects in FY 86 or FY 87. The Mission should develop a long-term narcotics strategy in coordination with USIS and INM.

-- Does the Mission foresee any problems in developing long-term plans or a program strategy for narcotics education activities?

PART III: OPERATING EXPENSE BUDGET/PERSONNEL

1. Operating Expense Budget. The Mission Management Plan (Section E) indicates the Mission's interest in procuring VS hardware ($200,000) in FY 1985 to bring on-line the MAC System. We understand that the Mission intends to reorganize and increase staff in the Controller's office and perform extensive training for its relatively inexperienced group of accountants. The LAC Controller has recommended that the Mission complete its staffing reorganization and training before proceeding with the hardware procurement.

The Mission currently has one Agricultural Economist (Dale Collier) who is JCC-funded under OE. But OE funding for JCCs is being terminated in FY 85. Does Mission propose a replacement for Collier and, if so, how would the replacement be funded?

2. Personnel. The Action Plan states that "The staffing for the Mission is at a minimum level and with an expanding program cannot continue to operate effectively at a reduced level". The Mission has not indicated, however, what additional staff are needed or what revised level is being proposed. A USDH and FNDH proposed staffing plan was not included as requested in the Bureau's guidance cable.

Attachments:
FY 85-86 Program Summary

LAC/DP:ASchoepfer:0231J:st:4/8/85

FY 1985 ACTION PLAN

518- ECUADOR

D. Summary Program Funding Chart

			(U.S.$000) FY-86	FY-87
1.	Development Assistance			
	a. Agriculture, Rural Development and Nutrition	Total	13300	11600
		Grants	6700	6600
		Loans	6600	5000
	b. Population	Total	800	1050
		Grants	800	1050
		Loans	--	--
	c. Health	Total	2950	3950
		Grants	1150	2450
		Loans	1800	1500
	d. Education	Total	3900	3050
		Grants	3900	3050
		Loans	--	--
	e. Selected Development Problems	Total	5500	7100
		Grants	3500	5100
		Loans	2000	2000
	D.A. Accounts	Total	26450	26750
		Grants	16050	18250
		Loans	10400	8500
2.	Economic Support Fund (ESF) Loans		25000	25000
3.	PL-480 Title I		25000	25000
4.	PL-480 Title II		800	800

PROPOSED FUNDING BY PROJECT AND ACCOUNT

FYs 86 AND 87

($000)

Project Title	L/G	O/N	Proj. Number	LOP Funding	FY-86 Funding	FY-87 Funding
Agriculture, Rural Development and Nutrition						
PD and S	G	O	518-0005	--	600	700
Non Traditional Agricultural Exports	G	O	518-0019	4400	600	500
	L	O	518-0019	8000	--	1000
Rural Technology Transfer System	G	O	518-0032	5300	600	1000
Agricultural Sector Reorientation Program	G	O	518-0051	6800	1500	1000
	L	O	518-0051	2000	600	--
Cacao Rehabilitation Project	G	N	518-0053	2500	1000	1000
	L	N	518-0053	7500	2500	1500
Coffee Leaf Rust Control Project	G	N	518-0054	2000	1000	500
	L	N	518-0054	8000	2000	1500
Strengthening Agricultural Universities	G	N	518-0057	3000	--	1000
Land Titling Project	G	O	518-0059	2500	1000	500
	L	O	518-0059	7500	1500	1000
Proposed OPGs	G	O	518-9999	--	400	400
TOTAL FOR ACCOUNT					13300	11600
GRANTS					6700	6600
LOANS					6600	5000
Population						
PD and S	G	O	518-0013	--	50	50
Population and Family Planning	G	O	518-0026	10000	750	1000
TOTAL FOR ACCOUNT GRANT					800	1050
Health						
PD and S	G	O	518-0009	--	250	150
Malaria Control Program	G	O	518-0049	2500	500	500
	L	O	518-0049	7500	1800	1500
Nutrition Education Project	G	N	518-0060	2100	--	1500
Proposed OPGs	G	O	518-9999	--	400	300
TOTAL FOR ACCOUNT					2950	3950
GRANTS					1150	2450
LOANS					1800	1500

1/ Loan/Grant
2/ Ongoing/New

Project Title	L/G	O/N	Proj. Number	LOP Funding	FY-86 Funding	FY-87 Funding
Education and Human Resources						
PD and S	G	O	518-0016	--	230	250
Training for Development	G	O	518-0017	1300	370	--
Graduate Management Training	G	O	518-0035	7000	2000	1500
Technical Skills Development	G	N	518-0055	3500	1000	1000
Proposed OPGs	G	O	518-9999	--	300	300
TOTAL FOR ACCOUNT					3900	3050
GRANTS					3900	3050
LOANS					--	--
Selected Development Activities						
Special Development Activities	G	O	518-0004	--	100	100
PD and S	G	O	518-0011	--	600	600
Fiscal Administration	G	O	518-0042	4800	500	1000
Development	L	O	518-0042	2000	1000	--
Macro Economic Policy Analysis	G	O	518-0050	1300	400	--
Small Business Development	G	N	518-0056	3200	1000	1500
Capital Markets Development	G	N	518-0061	2000	500	1500
Project	L	N	518-0061	4000	1000	2000
Proposed OPGs	G	O	518-9999	--	400	400
TOTAL FOR ACCOUNT					5500	7100
GRANTS					3500	5100
LOANS					2000	2000
COUNTRY TOTAL					26450	26750
GRANTS					16050	18250
LOANS					10400	8500

1/ Loan/Grant
2/ Ongoing/New

MISSION ACTION PLAN
FYs 1986 and 1987
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SECTION II
FYs 86/87 PROGRAM AND POLICY STRATEGY

A. PROGRAM STRATEGY

Consistent with the Program Strategy outlined under Section I-B above, the Mission has identified three major programmatic objectives to be addressed under this Action Plan as follows.

1. Production and Productivity in the Private Sector. The objective is to increase private sector production and productivity in comparative advantage sectors in which there is the greatest potential for employment generation.

2. Basic Human Needs Sector. Objective is to increase and expand access to resources, infrastructure, and related services, through model low cost delivery systems in health, population, rural development, housing and nutrition to vulnerable groups throughout the country.

3. Reorientation of the Public Sector. The objective is to reorient selected GOE ministries and agencies to become more effective and efficient in important fiscal management, administrative, and programmatic areas and to establish a sound policy environment in support of the productive sectors of the economy, within the context of the market-oriented private sector approach adopted by Ecuador.

To carry out these program objectives, along with the GOE and other donors, the Mission has established, in order of priority, the following goals and benchmarks for the period covered by the Action Plan:

1. Production and Productivity in the Private Sector

Goals

Goal No. 1
To increase the production and productivity of small and medium-size enterprises in agriculture and small industry and in related service industries.

Benchmarks:

Agriculture and Agribusiness

-- Increase the rate of reforestation to 10,000 hectares/year.

-- Stimulate investment in agriculture by increasing land tenure security on 15,000 farms.

-- Provide credit to 2,800 small farm families in the Quimiag-Penipe, Salcedo and Jipijapa Integrated Rural Development (IRD) areas.

-- Provide protection from flooding to 85,000 hectares of farm lands in the province of Guayas.

Small Business

-- Extend to the formal financial sector low cost, financially viable credit mechanisms which provide new loans at the rate of 2,000 per month to small business.

-- Introduce new legal regimes for artisans and small industries which reduce distortions caused by licensing and registration procedures.

Goal No. 2:

To increase the growth performance of the nontraditional agricultural export sector by 10 percent per year while maintaining market shares in traditional export markets.

Benchmarks:

-- Stimulate cacao production and exports by rehabilitating old cacao plantations covering up to 30,000 hectares.

-- Maintain levels of coffee exports by initiating coffee leaf rust control activities on 5,000 coffee farms.

-- Install an external market information and service system within the Federation of Exporters.

-- Develop and implement export markets development plans.

Goal No. 3:

To strengthen and expand the capabilities of the private sector to improve internal and external efficiency.

Benchmarks

-- Establish six advisory committees from producer commodity groups to work formally with Ministry of Agriculture (MAG) programs.

-- Establish a high level Agricultural Science Education, Research, and Extension Council to review agricultural education, research, and extension, identify major constraints, and develop recommendations.

-- Establish an independent foundation capable of conducting agricultural sector policy analysis.

-- Increase the membership and capacity of private sector organizations to improve supply of services to members.

-- Establish a commercial skills training program in Guayaquil and complete a full-year cycle with 2,000 individuals trained.

-- Establish and initiate operations of a graduate business management school.

-- Improve the quality and expand technical skills training to small and medium-size enterprise workers.

Goal No. 4:

To raise the level of domestic financial savings and increase foreign investment in comparative advantage sectors (agriculture, agribusiness).

Benchmarks:

-- Identify and implement policy options and institutional constraints to domestic capital markets.

-- Initiate institutional improvements in domestic capital markets in order to increase domestic savings.

-- Develop and apply a readjustment mechanism for public and private sector medium and long term mortgage and short term home improvement lending.

-- Identify bottlenecks and initiate reforms within the GOE related to the foreign investment authorizing process.

2. Basic Human Needs Sector

Goals

Goal No. 1:

To reduce incidence of immunopreventable diseases (polio, measles, and BCG); to reduce infant mortality from diarrheal diseases by 50 percent; to reduce malaria morbidity and mortality; and to develop mechanisms to improve the provision of low cost health and nutrition services to 150,000 people in three IRD areas.

Benchmarks:

-- Establish national immunization and ORT programs in all Ministry of Health (MOH) delivery units achieving a ten fold increase in the number of DRS packets distributed.

-- Implement mass media, social marketing program for ORT using messages developed with community inputs.

-- Develop and implement nationwide a stratified, multifaceted malaria control methodology.

-- Reduce annual malaria parasite incidence to 1.6 cases/1000 and P. Falciparum to less than 10 percent of all cases (improvement over current situation of API of 10/1000 and P. Falciparum of about 25 percent).

-- Expansion of rural potable water and sanitation activities to 100 new communities, benefiting approximately 50,000 people.

-- Fully establish priority PHC activities, including health promotion, MCH feeding, and water and sanitation in three IRD areas.

-- Institutionalize nutrition education related to growth monitoring, nutrition surveillance, breast feeding, and weaning practices in several areas of the country.

Goal No. 2:

-- Install rural water supply and sanitation model systems complete with self-financing and community maintenance activities in 60 communities in six provinces.

Goal No. 2:

To expand access to, and improve the quality of, family planning (FP) services in Ecuador thereby increasing contraceptive use among at-risk women from 43 percent to 45 percent.

Benchmarks:

-- Increase the number of FP service units from 198 to 260 in Campesino Social Security; from 38 to 45 in the Armed Forces; and from 23 to 50 in Social Security preventive medicine.

-- Initiate a Social Marketing of Contraceptives program in the private sector, with 1700 distribution outlets (50 percent of total pharmacies) in operation.

-- Expand a community based contraceptive distribution program in rural areas, to 970 distribution posts.

-- Expand service units under the natural Family Planning program through the Ecuadorean Church to six units in Cuenca and Guayaquil.

-- Enroll 70,000 new users in public and private FP programs.

Goal No. 3:

To expand the supply of and access to low-cost shelter solutions by at least 100 percent.

Benchmarks:

-- Complete 22,315 shelter solutions, 11,500 home improvement loans, and 10,815 new construction solutions.

-- Develop a strategy to progressively introduce improved, regional building materials into housing programs.

Goal No. 4:

To develop infrastructure, mechanisms, and outreach capabilities to better respond to natural disaster situations in the future.