

FYs 92-93

USAID/ECUADOR ACTION PLAN



FYs 92/93 ACTION PLAN

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FYs 92-93 USAID/ECUADOR ACTION PLAN

SECTION I

Relationship of the Country Strategy to Bureau Objectives

SECTION I - Relationship of the Country Strategy to Bureau Objectives

A. Review of the Current Policy Dialogue and Assessment of Progress Advancing Mission's Agenda

USAID/Ecuador's policy dialogue agenda was transformed significantly over the past year as a new Policy Dialogue Support project was put into place which deepened the Mission's understanding of the linkages between macro and sector level policies (especially those related to trade and investment, agriculture, housing and small enterprise development) and formulated a strategy that prioritizes key policy interventions and stresses a consensus-building approach to policy reform. This transformation includes disengaging from a wide array of macro and sector level policies in favor of a narrower sectoral focus tied to the Mission's strategic objectives. Our new agenda places importance on the structural reforms necessary to foster an aggressive pursuit of increased trade and investment supportive of President Bush's Enterprise for the Americas Initiative (EAI) and the Andean Trade Initiative. While prior year ESF agreements have targeted stabilization measures, the Mission now prefers to defer to the major IFIs in this area. In this year's Action Plan, policy dialogue activities in support of each strategic objective have been identified (see chart).

Over the past year, these activities have contributed to several notable achievements: the establishment of a maquila law and related regulations; a far-reaching national drug law; effective implementation of the new tax reform package; the establishment and application of improved technical standards and cost-recovery mechanisms for water and sanitation projects; and increased GOE budgetary support for child survival and health programs. A greater level of effort has been devoted to policy dialogue in all sectors of the Mission's program. The Non-Traditional Agricultural Export (NTAE) project is supporting the GOE sponsored multisector commissions on industrial transformation, labor reform, investment promotion, and financial sector reform. The Agriculture Sector Reorientation Project (ASRP) has promoted a series of seminars/debates on the results and policy implications of a recently completed Agriculture Sector Assessment and a study on the costs of state intervention in agricultural marketing. The Regional Housing and Urban Development Office has recently completed a comprehensive study on urban development. Finally, under the new Policy Dialogue Support project a major seminar will be held on issues related to liberalization of trade and industrial transformation to coincide with Ecuador's May deadline for deciding whether to join with other Andean Pact member states in accelerating the creation of a regional free trade zone.

During the Action Plan period, the Mission proposes to further reduce the number of policy reforms on its agenda, in order to maximize our impact on the key policies which could constrain achievement of our newly-defined strategic objectives (see Section I-B and C below). This process of consolidation has just begun with the CDIE/MSI "Strategic Planning Exercise". In coming months, by way of follow-up, the Mission will further refine its list of desired reforms under each of the strategic objectives. A calendar will be maintained in which, for each reform action, basic information will be collected by the USAID office or offices involved, the relevant public and private sector institutions to be involved, other donors pursuing the same reforms, and the time-frame for each activity. Mission discussions of progress in policy dialogue will take place on a quarterly basis.

USAID/Ecuador Policy Dialogue Agenda  
 By Strategic Objective

Improved Policy and Institutional Environment Leading to Increased Trade with Emphasis on Non-Traditional Exports	Improved Sectoral Policy and Technology Leading to Increased Farm Income on Small and Medium Farms	Increased Use, Effectiveness, and Sustainability of Family Planning and Maternal and Child Health Services	Strengthened Democratic Institutions with Greater Citizen Participation (Illustrative)	Sustainable Uses of Biological Resources in Selected Geographic Areas
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- eliminate discriminatory treatment of foreign enterprises
- reduce the role of state-owned enterprises
- permit use of debt-equity swaps to encourage foreign investors in export sectors
- reform labor legislation and modernize the financial system
- (elimination of interest rate controls)
- strengthen movement toward an outward-oriented growth strategy
- establish market-determined prices for milk, rice and sugar
- change ENAC's role from direct purchasing and selling of commodities to a more transparent and predictable role in price stabilization
- reform property registry laws and establish a cadastral law
- increase investment in science and technology and human resources
- autonomy for INIAP, the national ag. research agency
- increase percent of MOH regular budget devoted to family planning services
- design and implement decentralization policy within the MOH, with delegation of financial and administrative authority to the provinces
- use water and tariff systems that reflect real recurrent costs for operation and maintenance
- judicial system will institute a case-tracking system to permit prompt resolution of all matters brought before the court
- equal opportunity of all citizens to participate in the electoral process.
- enhance municipal governments' planning and financial management capabilities.
- creation of a Natural Resource Management Code that integrates currently conflicting legislation into a single, definitive instrument that provides clear regulations and guidelines, priorities and hierarchies in the sustainable development of resources
- decentralize the management of park conservation activities
- replace laws of colonization and of uncultivated land (tierras baldías) with a property regime that promotes sustainable forest conservation

B. Program Planning

This Action Plan was developed through a Strategic Planning Exercise that was recently conducted by USAID/Ecuador with CDIE/MSI assistance. The ultimate objective of this exercise is to reorient and focus USAID/Ecuador's management and evaluation of its portfolio towards a more clear emphasis on program performance and development impact. The following key results, which are reflected in this submission, were achieved by USAID/Ecuador during the Strategic Planning Exercise:

- (1) A clear understanding of and orientation towards a program level, as opposed to project level, conceptual framework.
- (2) The identification and development of five strategic objectives (described in Section I-C below) that: are fully consistent with the LAC Bureau objectives; focus USAID/Ecuador's program in areas where it can have a significant development impact despite reduced staff, OE and program resources; and, contribute to Mission efforts toward portfolio consolidation.
- (3) The identification of indicators that can best contribute to measurement of impact at the level of the strategic objectives.
- (4) The establishment of program outputs and their corresponding indicators for each of the five strategic objectives.
- (5) The identification of five cross-cutting issues (discussed under Section I-C below) that permeate USAID/Ecuador's portfolio and that are of sufficient relevance to our program to require consistent monitoring and evaluation.

It is evident that this new program framework requires the development of an adequate performance evaluation, monitoring and tracking system for collecting data and reporting on program performance on a periodic basis, and the Mission will work on developing such a system during the balance of FY 91.

C. Relationship of the CDSS and Policy Dialogue Agenda to the Bureau Objectives

This Action Plan reflects the results of USAID/Ecuador's attempts to consolidate its program and develop strategic objectives which will better focus Mission activities on the desired impact it hopes to achieve and more directly contribute to LAC objectives. The Mission's strategic

objectives, as described below, are consistent with the CDSS. However, they incorporate several important changes developed as a result of previous Action Plans, the Mission's recent reorganization and the Strategic Planning Exercise.

The overall goal of USAID/Ecuador's program is to promote the U.S. foreign policy objective of fostering stable, long-term political and economic development in Ecuador. Under this goal, the Mission will pursue two sub-goals which correspond to two of the LAC objectives.

- Support the achievement of broadly-based sustainable economic growth; and
- Support the evolution of stable, democratic societies.

In an effort to contribute meaningfully to LAC objectives, the Mission proposes to direct its relatively modest personnel and financial resources toward the achievement of five strategic objectives, each of which is national in scope and represents our sense of comparative advantage in supporting Ecuador's development process over the short to medium term. Our five new strategic objectives are presented in the following paragraphs along with a brief discussion of each one:

Strategic Objective No. 1:                    Improved Policy and  
Institutional Environment  
Leading to Increased Trade,  
with Emphasis on  
Non-traditional Exports

Linkage to LAC Objectives: This strategic objective supports LAC Bureau Objective I, "Support the achievement of broadly-based sustainable economic growth." It specifically supports two LAC Bureau Sub-Objectives: "encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification;" and "encourage a vigorous response by the private sector to a favorable policy environment."

Discussion: Increasing trade and investment appear as a strategic objective for the first time in this Action Plan, but it builds on the Mission's past work in non-traditional agricultural exports.

Ecuador's oil bonanza is gradually coming to an end. This realization has focused GOE and USAID attention to promote alternative sources of foreign exchange. Ecuador is also moving away from the past import substitution approach and towards a more outward oriented development strategy. We believe that relatively abundant natural and human

resources should enable Ecuador to compete favorably in international markets for the production of agricultural commodities, manufactures, and tourism.

Unfortunately, this potential is negated by multiple constraints to foreign and domestic investment in export sectors. These constraints are compounded by a policy and institutional environment that hinder efforts to increase trade and investment.

Ecuador has adopted in the past few years various measures to open the economy. For example, laws regulating the establishment of maquila operations and export processing zones were enacted in 1990. Laws regulating foreign investment are being rapidly changed and relaxed. The foreign exchange market has been liberalized, and official exchange rates are now nearly the same as market rate. The tariff reform law has reduced tariffs overall, streamlined the commodity classifications, and reduced administrative roadblocks.

The Enterprise for the Americas Initiative, together with renewed vigor of the Andean Trade Pact, offer new opportunities for Ecuador to expand its linkages with the international economy. USAID is well placed to promote and encourage Ecuador's path toward a more open market and society.

#### Program Activities

The Mission's Export Trade and Investment Office (ETIO) is currently implementing the Non-Traditional Agricultural Exports (NTAE) project, and is in the process of expanding this project to include non-agricultural exports, as well as designing a new Trade and Investment Sector Program. Both projects will emphasize the provision of technical assistance in production, processing and marketing to firms poised to start or expand exporting. In addition, the projects seek to encourage domestic and foreign investment by improving, through policy dialogue, the climate for investment in the export sector. ETIO is monitoring the entire policy framework surrounding trade and investment in Ecuador. Other projects which will contribute to the achievement of the strategic objective are the Agricultural Research, Extension and Education project (518-0068), the Agriculture Sector Reorientation Project (518-0051) and the Policy Dialogue Support Project (518-0089).

#### Performance Indicators

At the level of the strategic objective, there will be three performance indicators: 1) gross value of non-traditional exports, to be derived from the Department of Commerce and/or from the LAC/DPP trade database, 2) number

of new exported items in the non-traditional exports sector, and 3) amount of new foreign investment in exporting industries, both to be derived from the Central Bank of Ecuador.

Strategic Objective No. 2:            Improved Sectoral Policy and Technology Leading to Increased Farm Income on Small and Medium Farms From Selected Commodities

Linkages to LAC Objectives: This strategic objective also contributes to LAC Bureau Objective I in supporting the achievement of broadly-based sustainable economic growth. It specifically supports the LAC Bureau Sub-Objectives of encouraging a conducive policy environment and a vigorous private sector response, and of increasing the well-being of and economic opportunity for the historically disadvantaged.

Discussion: Agriculture remains the most important sector of Ecuador's economy and will become even more important as the country's oil resources are depleted in the coming 10-15 years. The agriculture sector also provides the largest source of income for the rural population. Through the promotion of a science-based agricultural system focused on increasing the productivity of selected commodities, the Mission will enable small and medium farmers to improve their incomes and thereby enhance the achievement of more broadly-based economic growth in Ecuador. Selected agricultural sector reforms will also be promoted under this strategic objective to create a climate that enhances investment in the agricultural sector. Changes in emphasis reflect a narrowing of the range of crops targeted for special attention; an increase in identifying and addressing key policy constraints; and an effort to promote greater linkage to export promotion.

Program Activities: The USAID will work toward the strategic objective through activities which promote policy reform and/or promote the adoption of a science-based agricultural system in Ecuador. Such a system would increase agricultural productivity by developing appropriate technology and disseminating it. Mission activities will focus on those commodities which are produced by farmers with small or medium operations. Better agricultural research and extension will be promoted by the Agricultural Research, Extension, and Education Project. The Land Titling Project, if successful, will lead to investment in better agricultural technology since farmers with more secure title to their land will have more incentive to invest. The Agricultural Sector Reorientation Project (518-0051) will promote reform of policies which adversely impact upon the agricultural sector. Finally,

the Policy Dialogue Support Project (518-0089) should lead to macroeconomic reforms which will benefit the agricultural sector.

Program Indicators: At the level of the strategic objective, the following indicators will be used to measure performance: 1) amount of gross farm income from selected commodities in constant dollars and 2) on a bi-annual basis, the net farm incomes of small and medium farmers from selected commodities. The first indicator will be measured through data which is already routinely collected by an Ecuadorian foundation, and the second will be based upon surveys of farmers.

Strategic Objective No. 3:            Increased Use, Effectiveness, and Sustainability of Family Planning and Maternal and Child Health Services

Linkages to LAC Objectives: This strategic objective also supports the LAC Bureau Objective I. It specifically contributes to the Sub-Objective of increased well-being and economic opportunity for the historically disadvantaged.

Discussion: Ecuador has made impressive progress in improving maternal and child health (MCH) and in making family planning available to its citizens, reflected in relatively low national infant mortality rates and high contraceptive prevalence. However, health and family planning statistics are uneven throughout the country with rates that are unacceptable in rural and marginal urban areas. Furthermore, the long-term sustainability of public and private services in family planning and MCH remains in question.

The Mission can make important contributions to consolidating the gains already made in these areas by working towards making public and private services more institutionally and financially sustainable once donor assistance is terminated. At the same time, its assistance will contribute to improved quality, effectiveness and efficiency of ongoing family planning and MCH service delivery programs, reflected in improved health and family planning indicators.

Program Activities: To achieve this strategic objective, the USAID will use a combination of policy dialogue, technical assistance and financial assistance. The recently developed Health and Family Planning Project (518-0084) contains policy dialogue elements geared toward encouraging the GOE to increase provision of family planning services in their facilities and to increase budget commitments for these services. The project will also provide technical and financial assistance to NGO's to

help them become financially sustainable. The Maternal and Child Survival and Health Project (518-0071) will contribute to the objective by emphasizing policy dialogue with and technical assistance to the Ministry of Health in the area of delivery of maternal and child health services. The Water and Sanitation for Health and Ecuadorian Development Project (518-0081) and the urban infrastructure component of the National Shelter Delivery System Program (518-HG-007) will contribute to the objective by increasing the number of people with access to clean water and sanitation facilities, changing hygiene behavior, and improving long-term sustainability of water and sanitation systems.

Performance Indicators: The indicators that will be used to measure achievement of this objective include: 1) the contraceptive prevalence rate (CPR); 2) the infant mortality rate (IMR) by gender; 3) the percent and number of water and sanitation systems operational in targeted provinces; 4) for selected family planning NGO's, the percentage of their recurrent costs that are self-generated; 5) percent of MOH regular budget devoted to MCH and family planning services in targeted provinces.

Strategic Objective No. 4:                    Strengthened Democratic  
Institutions with Greater  
Citizen Participation

Linkages to LAC Objectives: This strategic objective contributes to LAC Bureau Objective II, to support the evolution of stable democratic societies. It supports both of the related Sub-Objectives having to do with the improved operation and effectiveness of democratic institutions, and subsequent willingness of citizens to participate in and support these institutions.

Discussion: Democratic institutions are still quite fragile in Ecuador. A limited understanding exists on the part of the general citizenry as to their role and responsibilities in basic processes critical to democracy such as elections, the justice system, the Congress, and municipal government. Widespread ignorance about and even alienation from these institutions prevents the meaningful participation of most Ecuadorians in public policy formulation. This situation in turn weakens these institutions whose vitality and strength lies at the foundation of the nation's democracy.

Another threat that Ecuador faces is the potential of narcotics traffickers and narcotics consumption to corrupt democratic institutions. Also, an important element of democracy is leadership, and the Mission is attempting to reach the new generation of Ecuadorian leaders, especially those from historically disadvantaged groups, through both training and provision of textbooks.

USAID/Ecuador has already initiated activities in narcotics awareness training, specifically increasing awareness of the pernicious effects of consumption and trafficking on fragile democratic institutions, that relates to this Strategic Objective. The RTAC and the CLASP II projects, that will soon be in place, are program activities that will also serve this new objective.

USAID/Ecuador plans to identify key institutions in both the public and private sector that are most appropriate for AID assistance to increase their efficiency and outreach. This process of assessing the nature of the problem in key institutions where popular participation is minimal has already been initiated in the areas of the administration of justice (AOJ) and municipal government. Other areas, including support for free and fair elections and citizens rights education, are also being explored.

As a means of establishing a baseline for measuring progress in the attainment of the DI Strategic Objective, the USAID is also considering the feasibility of initiating an in-depth study of the knowledge, attitudes, and practices of the Ecuadorian citizenry with regard to their understanding of and participation in those institutions whose mandate is to promote democratic practices.

Program Activities: The Mission's on-going activities in narcotics awareness will contribute to the strategic objective by helping to prevent the corruption of democratic processes by narcotics traffickers and users. These activities include the Drug Information and Public Awareness (518-0064) and Fundacion Guayaquil (518-0064) projects. The Mission is currently planning to participate in the RTAC II project, which will contribute to the objective by providing texts in social sciences to university students (thus offering to them American perspectives on social problems) as well as texts in other areas (to generally enhance the quality of education of these future leaders). The CLASP II project will contribute to the objective by targeting Ecuadorian leaders from disadvantaged sectors of society, and providing them with the skills and education they need to strengthen their country, as well as with the U.S. perspective on democracy and free markets.

Program Indicators: It is not possible to identify indicators for the strategic objective at this point in time, since the democratic institutions upon which the Mission's activities will focus have not yet been selected. The Mission is currently assessing both the justice and narcotics areas, and is still designing its leadership training and textbook projects. Once the assessments are completed and it is clear which areas the Mission will focus on, indicators will be developed and supplied to LAC in a supplement to the Action Plan.

Strategic Objective No. 5:            Sustainable Uses of Biological Resources In Selected Geographic Areas

Linkages to LAC Objective: This strategic objective principally supports LAC Bureau Objective I, and specifically, the Sub-Objective encouraging preservation and sustainable use of the natural resource base.

Discussion: Ecuador's natural resource base is affected by serious environmental problems such as domestic and industrial pollution of water resources, irrational land use, and soil erosion, all of which are intimately linked with socio-economic development.

Ecuador is richly endowed with endemic species threatened by extinction. In response to growing evidence of this threat, the Mission will focus on protection of biological resources. In part this focus relates to concerns from the United States Congress and environmental groups regarding the conservation of biological diversity. The USAID's natural resources strategy is to address the causes of natural resource degradation and the constraints to conservation while focusing on the management of natural forests and biodiversity. In preparation of this strategy, the Mission took the unique opportunity to lead a group of donors, NGOs, and educational and scientific institutions in developing and implementing a collaborative program to involve rural populations in an emergency effort to save Ecuador's fragile natural resource base for future generations.

Program Activities: Most of the activities which will address this strategic objective will fall under the SUBIR project, which is still being designed. The strategy behind the SUBIR project involves combining conservation of resources in protected areas, solid implementation of environmental policies, training of GOE personnel, public awareness and better data gathering about natural resources.

Program Indicators

The performance indicators for this strategic objective are: 1) percent of hectares conserved out of total hectares included in selected national conservation units; and 2) percent of hectares under sustainable use out of total hectares included in selected non-protected areas. The data for both of these indicators will be developed under the Sustainable Use of Biological Resources (SUBIR - 518-0069) Project.

Given currently projected resource levels, the Mission believes that the strategic objectives we have established represent a deliberate effort to focus our priorities and permit us to

demonstrate meaningful impact on significant national problems. Accordingly, attention devoted in past Action Plans to basic education and urban growth management is being discontinued. The Mission's prior focus on employment and informal sector strengthening is being shifted toward support for small business development as it relates to our exports, trade and investment objective.

#### Cross Cutting Issues

In addition to the five strategic objectives discussed above, the Mission has identified five cross-cutting issues which are of sufficient importance to warrant inclusion in the Mission Action Plan, the designation of a single locus of oversight within the Mission, and the maintenance of a Mission-wide evaluation monitoring and tasking system. Only one of these issues, Policy Dialogue, is discussed in any depth in this document. The brief statements that follow are therefore intended only to introduce the other cross-cutting issues.

#### Sustainability:

USAID/Ecuador is concerned with the sustainability of organizations in both the public and private sectors which provide the benefits that have been promoted by USAID's development program. The range of problems faced when implementing a project in Ecuador, particularly in the public sector, is immense. An unfriendly bureaucratic environment featuring low morale, high turnover, resistance to decentralized management, and frequent changes in leadership and policy pose an extreme challenge to sustaining development benefits upon the departure of the USAID from the particular development scene.

A frank recognition of this problem has resulted in USAID/Ecuador undertaking a number of different important actions that attest to the seriousness with which the USAID approaches the sustainability issue. The study "A Cross-Sectoral Evaluation of Sustainability for USAID/Ecuador" that was submitted in September 1990 recommends actions that USAID is currently pursuing to build into each project intervention a sustainability dimension. The USAID recognizes the fact that building sustainability must be initiated in the project design stage and addressed throughout the entire period of project implementation.

#### Gender:

Stereotypical gender roles permeate the economic, social, and political structure of Ecuadorian society. Unless gender considerations are explicitly taken into account in USAID programs, programs will likely result in a distribution of benefits which is skewed in favor of men,

to the detriment of women and will in turn slow the development process. For example, neglect of gender issues in programs such as agricultural research and extension can result in the introduction of technology which is subsequently not adopted since gender roles dictate that certain work is done by members of each sex. USAID places high priority on increasing participation of women in the development process in Ecuador, especially in those sectors that USAID has selected in its Action Plan. A Women in Development Implementation Plan for 1991-92 has been drafted, and a WID Committee set up to prioritize and supervise action in coming years.

Donor Collaboration:

The lack of a formal structure for donor coordination in Ecuador has contributed to a much less-than-effective use of the scarce resources available to the country. The fact that information on other donor programs is infrequently shared makes coordination difficult and often results in overlapping activities or duplication and, in some cases, working at cross purposes.

Better donor coordination is especially needed to strengthen the project design process so that duplication is avoided and complementarity among donor programs enhanced. Ideally, opportunities for co-financing/parallel financing will emerge which will 'stretch' donor resources and increase their development impact. To effect greater donor coordination, the USAID intends to reopen contact with the UNDP and encourage them to sponsor high level coordinating meetings as well as technical level meetings on sector specific concerns. If these attempts fail as have similar ones in the past, USAID is prepared to assume responsibility for seeing that greater coordination does indeed occur. Under this scenario, senior Mission management as well as the technical office chiefs would each assume responsibility for organizing sessions to ensure that proper communication and information interchanges occur.

Training:

AID/W mandates continuous monitoring of participant training via an annual Mission Training Implementation Plan, the Participant Training Management System, Semi-Annual Reports, etc. At a national level, the USAID will be monitoring the quality of training received and its back-home use, particularly the application of returnees' skills and knowledge in strengthening their institutions and organizations, and in contributing to the USAID's project, program, and strategic objectives.

Information about participants will be used to improve future training through better selection of participants; evaluate projects and programs; and for participant follow-up activities. Gathering and applying participant training information is a responsibility to be shared at the Mission level by the General Development Office, the technical offices, USAID support offices, contractors, and national counterpart organizations.

FYs 92-93 USAID/ECUADOR ACTION PLAN

SECTION II

Mission Performance as it Relates to LAC Bureau Objectives

SECTION II - Mission Performance as it Relates to LAC Bureau Objectives

A. Narrative

This Section provides a summary of Mission program performance, by sector, during 1990 as it relates to LAC Objectives and Sub-Objectives. As AID/W is aware, the CDIE/MSI Strategic Planning Exercise helped the Mission to establish a new program framework which focuses on specific strategic objectives and indicators and directly links this program framework to LAC Bureau objectives. The 1990 performance described under paragraph 1. below relates the Mission's previous sectoral program structure to LAC objectives, bearing in mind that in future Action Plan submissions we will describe performance and impact in relation to the new strategic objectives and indicators presented in this year's Action Plan. In some cases these indicators correspond to readily available data which is reflected in Table III below. Where such data is either not available or is in the process of being more adequately defined (as for example in the strategic objectives dealing with natural resources and democratic initiatives) the Mission is presently developing these indicators and will submit them in a supplement to this Action Plan once they are finalized.

Following is a summary of progress achieved by USAID/Ecuador during the past year in relation to Bureau Objectives.

1. Progress in Relation to the LAC Objectives

- (a) LAC Bureau Objective: Broad-based, sustainable economic growth

LAC Bureau Sub-Objective: a) Conducive policy environment and vigorous private sector response; and b) Economic policies that promote investment, productive employment and export-led diversification

Trade and Investment Sector

With the announcement of President Bush's Enterprise for the Americas Initiative in June 1990 and the arrival of new Mission management in August 1990, USAID/Ecuador moved to make trade and investment a priority concern for the future. Despite suffering personnel cutbacks, the Mission has reorganized itself to permit the creation of a new, eight-person, Export, Trade and Investment Office (ETIO) and has made several significant budgeting decisions to permit the funding of a new FY 91 Trade and Investment Sector Program start-up, with \$10 million in DA to be provided in FYs 91-92 and the possibility of \$20 million in additional resources from NSD-18 ESF (see enclosed NPD).

The technical assistance contract under the redesigned Non-Traditional Agricultural Exports (NTAE) project initiated its activities in the Fall of 1990, directly leading to a sharp increase in support of trade and investment in this important subsector. According to Central Bank statistics for 1990, the non-traditional agricultural export sector generated income of over \$22 million, exceeding last year's Action Plan projection of \$16 million and nearly doubling the 1989 export earnings of \$11.6 million. Flowers are the largest contributor to the 1990 increase, followed by wood products, preserved fruit and juices, and processed agricultural products.

The NTAE-funded technical assistance has also directly contributed to significant advances in terms of both policy dialogue and institution-building. Through the National Businessmen's Association (ANDE) and the National Exporters' Federation (FEDEXPOR), NTAE project assistance was key in influencing the passage of new maquila legislation and regulations governing its implementation. FEDEXPOR has strengthened its organization by successfully addressing a number of serious audit findings, embarking on an aggressive new membership drive, and opening new offices in several secondary cities.

The scope of the NTAE project has recently been expanded to include a broader array of non-traditional agricultural commodities and a project amendment is being planned for June 1991 which will permit the Mission to immediately enter new areas such as investment promotion and customized export service delivery for maquila operations, free zone development and manufacturing export enterprises. This will avoid a loss of momentum waiting for the new Trade and Investment Sector Program to initiate its activities. The NTAE amendment also contemplates support for GOE administrative restructuring related to tariff reform and reduction in bureaucratic impediments to trade.

Through other activities, the Mission is addressing several of the principal policy constraints to economic reactivation and a more outward-oriented growth strategy. Under the Agricultural Sector Reorientation project, an agriculture sector assessment was published and its principal findings were the subject of a series of policy dialogue seminars highlighting the need for macroeconomic and sector policy reforms such as tariff, tax and labor code reform, a restructuring of the land tenancy system, and the need for autonomy for the national agricultural research institute. In addition, a cooperative agreement was signed with the Central American Business Administration Institute (INCAE) for implementation of a new Policy Dialogue Support project which will serve as the Mission's main vehicle for fostering constructive consensus-building among the business, labor and government sectors concerning the need for basic structural reforms, especially with respect to trade, labor and financial

sector reform, industrial transformation, and a reduced role for government in the economy.

- (b) LAC Bureau Objective: Broad-based, sustainable economic growth

LAC Bureau Sub-Objective: a) Conducive policy environment and vigorous private sector response; and b) Increased well-being and economic opportunity for the historically disadvantaged.

#### Agriculture and Rural Development

Through its agriculture program, the Mission continued to place priority over the past year on two areas which are essential for achievement of the LAC Bureau objectives identified above: improved policies and technology transfer. Through the Agricultural Sector Reorientation Project, analysis and policy dialogue were conducted on a range of important issues. The highlight was the completion of the Agricultural Sector Assessment -- a work more than two years in the making -- and a number of public seminars to discuss the findings and conclusions of the authors. The Assessment has received widespread praise from influential Ecuadorians for its quality, and many decision-makers in both the public and private sector have stated their support for its principal conclusions, especially on the need for improved economic policies and for increased investment in agricultural research, extension, and education. An AID-sponsored agricultural policy foundation played an important role in organizing and conducting the seminars, as well as in securing press coverage of the events. The assessment will be published in book form in Spanish in Ecuador. Prospects appear good for adoption of several of the study's recommendations.

Through the Research, Extension and Education (REE) Project, continued progress was achieved in developing an improved national agricultural research, extension, and education system. The private foundation responsible for implementing the project, FUNDAGRO, made notable gains in such areas as strengthening small farmer producer associations (e.g. by helping yuca producers to develop new products and markets), and attracting resources from other donors to be used for FUNDAGRO activities. FUNDAGRO also supported other organizations such as the national agricultural research institute INIAP, in carrying out priority research trials and demonstrations, and analyses intended to help INIAP strengthen itself institutionally. Yields of the priority commodities with which FUNDAGRO is working also increased over the past year. The monitoring and evaluation system to be initiated in connection with the Mission's Strategic Objective for agriculture will permit improved tracking of progress in technology transfer and impact on farm income.

Under the Land Titling Project, a promising technology for enabling rural land holders, many of them poor, to gain secure title to their parcels was tested successfully in two cantons of Ecuador. An evaluation conducted in late CY 1990 concluded that, provided the GOE establishes a permanent institutional structure and agrees to the much needed reforms in land registry and cadastral laws being pursued under the project, the titling and registration system developed should eventually be extended throughout the country. USAID will soon decide whether to provide support for an expanded effort.

- (c) LAC Bureau Objective: Broad-based, sustainable economic growth

LAC Bureau Sub-Objective: Increased well-being and economic opportunity for the historically disadvantaged

Family Planning and MCH Sector

Infant mortality has continued to decline and contraceptive use rates, which far exceeded Mission targets, are increasing faster than those in almost any other country in the region. Preliminary census data confirms recent USAID estimates that the annual population growth rate is less than 2.4%, much lower than the Government has been estimating. These substantial gains in the sector are related to a variety of factors. However, it should be clear that USAID, which is and has been the major donor in the sector, has played a major role in this success.

Major programmatic and policy accomplishments last year focussed on sustainability, the commercial sector, and decentralization. The Mission designed and developed a new population strategy and PID for a Health and Family Planning Project which includes an innovative approach to establishing self-sustaining programs. Mission assistance has led to a major policy breakthrough, with the Government substantially improving the prospects for long-term sustainability of child survival programs. This is based on increasing support for recurrent costs of child survival and health programs in the Ministry of Health (MOH), including the provision of counterpart funding for the procurement of vaccines and oral rehydration salts.

Another policy breakthrough has been the establishment by the Ecuadorian Development Bank (BEDE) of revised and improved technical standards and cost-recovery mechanisms for water and sanitation projects, and the adoption of such standards by the Municipality of Quito.

The chances of more sustainable health care programs have been increased by Mission assistance to the commercial sector with the initiation of two new programs: one with

the professional pharmaceutical organization, ASOPROFAR, to establish a system of commercial distribution of essential drugs to areas which had not previously been served, and secondly a new nationwide condom commercial marketing program that eventually plans to sell condoms throughout the country from over 10,000 outlets including small stores.

There have been notable gains in the MOH, which has strengthened decentralization policies, programs in child survival, and water supply and sanitation. The provincial offices are developing comprehensive annual plans for the first time and have been given increased authority for project implementation and monitoring.

(d) LAC Bureau Objective: Strengthening a more stable democracy

LAC Bureau Sub-Objective: a) Improved operation and effectiveness of democratic institutions

Democratic Initiatives

While this is a newly identified strategic objective for the Mission which still requires considerable refinement, several on-going and planned activities in addition to the new FY 92 project start (see enclosed NPD) are supporting greater pluralism in Ecuador. USAID/Ecuador is active in narcotics awareness training, leadership training and municipal development and plans to initiate a university textbook program under RTAC II later this fiscal year. A comprehensive survey of Ecuador's criminal justice situation is underway which covers the national courts, Attorney General's office and the legal defense system. The local currency equivalent of \$200,000 was also recently programmed with the Ministry of Finance to permit the funding of a variety of pilot efforts in "street law" and administration of justice which will serve as useful information for the design of the FY 92 project in this area.

Over the past year, the Mission amended and increased funding for its Drug Awareness and Information project with the "Our Youth" Foundation (Fundación Nuestros Jóvenes), signed a new agreement with the Guayaquil Foundation, and continued support for an ESF local currency activity with the Ministry of Education and Culture in order to increase awareness of and provide information and education about problems related to the illegal use of narcotics. The first phase of the "Our Youth" Foundation project was largely responsible for a major new drug law signed in September 1990. This law (a) establishes a ministerial-level drug council to develop and coordinate national drug policy; (b) establishes new controls on precursor chemicals and financial transactions to impede their diversion for the narcotics trade; and (c)

criminalizes illicit involvement with or cover up of drug activities, money-laundering and chemicals diversion. The second phase of this project will, among other activities, work to establish regulations and procedures for the effective implementation of this new drug legislation.

In order to enhance its support for leadership training, the Mission moved up the timing of the design and authorization of the CLASP II Program from FY 92 to FY 91.

In addition, USAID has set aside FY 91 funds to initiate its participation in the five-year regional university textbook program, now being redesigned by LAC.

- (e) LAC Bureau Objective: Broad-based, sustainable economic growth

LAC Bureau Sub-Objective: Natural resources base conserved and used sustainably

#### Natural Resources

A number of important advances were achieved over the past year in relation to the Bureau's natural resources objective.

Policy dialogue conducted through both public and private sector activities led to the signing of the Napo Accord in 1990, which committed both the public sector and NGO's to improve natural resources management and protect the environment. Based on this agreement, President Borja declared the 90's as the Environmental Decade.

Based on preliminary results of the AID-funded Coastal Resources Management Project, the GOE established the National Program on Coastal Resources Management. Activities under this project include the Special Area Management Zone mechanism to encourage local community and government participation in the management and sustainable uses of natural resources. The Program has requested funding from the IDB to continue activities once the AID-funded project ends. The proposal has been accepted in principle for funding through an IDB loan.

Through the EDUNAT III project, an increasing public awareness of environmental matters has developed. It is important to note the institutionalization of environmental education in the grammar- and high-school curricula. This has been achieved not through the EDUNAT activity but also through a commitment on the part of the Ministry of Education. We anticipate other activities in the near future, such as an industrial pollution component of the EDUNAT project. This has attracted the attention of the

United Nations Environmental Programme and of NGO's in other Latin America countries, which are interested in applying the methodology used in EDUNAT.

The PID for the new SUBIR project was prepared and included innovative aspects, such as the active participation of NGO's in park and protected areas' management or the decentralization of these activities. The SUBIR project will begin implementation next year and it is expected that the proposed mechanisms for implementation will show practical and useful results in the sustainable economic utilization of renewable biological resources.

## 2. Evaluation

Evaluation has played an important role in the management of USAID's program in the past and will figure even more prominently in the years ahead. Several major evaluations were undertaken this year and have focussed considerable attention on the various problems and accomplishments they revealed. For example, in the evaluation of the first phase of the Land Titling Project the pilot project's activities were highly commended for their initial success. At the same time however, the evaluation was clearly negative on the prospects for a successful next phase unless immediate agreement is reached with the GOE to resolve the significant organizational and bureaucratic problems involved in expanding the implementation of the land titling program to a national scale. As a direct result of this evaluation Mission management informed the GOE of its decision to cancel plans for the next phase of the project unless and until a new autonomous organization is created.

Similarly, a cross-cutting evaluation of the sustainability of mission funded activities led to greatly increased understanding within the Mission of the factors involved in sustainability and provided a better working definition of sustainability to be applied in future project design and re-design efforts. The design of the new Health and Family Planning Project will directly reflect the Mission's deepened appreciation for the need to structure project activities in ways that will lead to sustainable benefits. The new project incorporates innovative approaches to improving the public and private sector management of family planning programs and provides mechanisms for the private sector organizations to achieve financial sustainability which will extend beyond the life of the project.

The Mission also recently completed an extensive analysis of the small enterprise sector in Ecuador. The results of this study have not yet been fully analyzed but the preliminary conclusion is that USAID/Ecuador will

reconsider its approach to new activities in this area, postpone the initiation of new activities and/or incorporate small enterprise development in the new trade and investment initiative. During the next several months the Mission will also receive the results of the Administration of Justice Sector Assessment which will serve as a basis for the design of a program intervention in that area. A cross-cutting evaluation of the Mission's assistance to Agricultural Research, Extension and Education in Ecuador is about to get underway and the findings will play an important role in the future directions of the Agricultural Sector Reorientation and the Agriculture Research, Extension and Education projects. These and other recent evaluations continue to provide managers and counterparts at every level with information about the progress achieved and problems encountered in the Mission portfolio.

Thus, the Mission will continue to place heavy emphasis on using evaluations to monitor implementation at the project level as in the past. However, there will be increased attention paid in the future to impact evaluation and collecting and analyzing program level information. As a result of the Mission's recent Strategic Planning Exercise, and senior mission management's desire to be able to better demonstrate the overall results of our assistance program in Ecuador, the evaluation activities of the Mission will be strengthened.

A phase two of the CDIE/MSI Strategic Planning Exercise is planned for late summer which will involve 1) the refinement or development of monitoring and evaluation plans for each project, 2) the drafting of a new Mission Order on Evaluation to better focus the Mission's evaluation activities and assign specific duties and responsibilities to Mission staff, 3) the further development of program performance indicators and the creation of a Mission Program Performance Information System to tie together monitoring and evaluation at each level of mission activity and provide systematic feedback to technical offices and senior management on evaluation findings and results.

Some of these activities will undoubtedly be experimental as the methods and approaches to impact evaluation are not yet well developed or accepted in every sector, but the Mission feels a strong commitment to developing and maintaining an information system that can provide managers at all levels with the right kind of information at the right time for making key decisions and focusing on the results of our efforts.

**USAID/ECUADOR STRATEGIC OBJECTIVE #2**

**1. LAC BUREAU OBJECTIVE:**

Broad based sustainable economic growth.

**2. LAC BUREAU SUB-OBJECTIVES:**

- Increased well-being & economic opportunity for the economically disadvantaged.
- Conducive policy environment and vigorous private sector response.

**3. USAID/ECUADOR STRATEGIC OBJECTIVE:**

Improved sectoral policy and technology leading to increased farm income on small and medium farms from selected commodities.

**4. INDICATORS:**

	BASELINE (1990)	PERFORMANCE SINCE BASELINE. (\$ IMPROVEMENT)	1991 TARGETS	1992 TARGETS
<b>1. Annual Mean Gross Income per household in (US\$) from selected commodities. ***</b>				
Coffee	2792	< 2792	N/A *	N/A *
Dairy	230	< 230	N/A *	N/A *
Cassava	250	< 250	N/A *	N/A *
<b>2. Net Farm Income (US\$) from selected commodities.***</b>				
Coffee	N/A **	N/A **	N/A **	N/A **
Dairy	N/A **	N/A **	N/A **	N/A **
Cassava	N/A **	N/A **	N/A **	N/A **

\* Future projections will be available from FUNDAGRO in a short period of time.

\*\* Sample survey to be undertaken in 91-92 to be reported alternate years in action plan.

\*\*\* Source: Fundagro.

## II - USAID/ECUADOR PROGRAM PERFORMANCE INDICATORS

### DOR STRATEGIC OBJECTIVE #1

**OBJECTIVE:**

sustainable economic growth.

**SUB-OBJECTIVE(S):**

policy environment and vigorous private sector response.

**DR STRATEGIC OBJECTIVE:**

Policy and institutional environment leading to increase trade,  
 in non-traditional exports.

	BASELINE (1990)	PERFORMANCE SINCE BASELINE. (% IMPROVEMENT)	1991 TARGETS	1992 TARGETS
Value of non-traditional exports. (Million US Dollars) */**	311.1	< 311.1	329.7	349.5
Number of new exported items in the non-traditional sector.	69	< 69	75	85
Value of new foreign investment in exports (million US Dollars)***	40.0	< 40.0	48.0	56.0

\* Bank of Ecuador and USAID/E technical office.

\*\* Includes exports from the agricultural and  
 others.

\*\*\* These are still tentative and are in the process of being  
 confirmed and revised.

**USAID/ECUADOR STRATEGIC OBJECTIVE #3**

**A. LAC BUREAU OBJECTIVE:**

Broad based sustainable economic growth.

**B. LAC BUREAU SUB-OBJECTIVE(S):**

Increased well-being & economic opportunity for the historically disadvantaged.

**C. USAID/ECUADOR STRATEGIC OBJECTIVE:**

Increased use, effectiveness and sustainability of family planning and maternal and child health services.

INDICATORS:	BASELINE	PERFORMANCE SINCE BASELINE. (% IMPROVEMENT)	1991 TARGETS	1992 TARGETS
1. Contraceptive Prevalence Rate (CPR)	44 (1987)	53 (20%)	54	55
2. Infant Mortality Rate (IMR)	56 (1985)	45 (20%)	43	41
3. Percent of Recurrent Cost of Selected Family Planning NGOs that is Self-Generated*				
4. Number of Water Systems in Targeted Areas. ***	593 (1990)	593 (-)	676	778
5. Number of Constructed Systems Functioning.**/***	61% (1990)	61% (-)	66%	74%

\* EXCLUDING CONTRACEPTIVES

\*\* FUNCTIONING WITH LIMITED PROBLEMS OR BETTER

\*\*\* SOURCE: Instituto Ecuatoriano de Organizacion Social (IEOS).

**USAID/ECUADOR STRATEGIC OBJECTIVE #4**

**A. LAC BUREAU OBJECTIVE:**

Strengthened and more stable democracy.

**B. LAC BUREAU SUB-OBJECTIVE(S):**

- Improved operation and effectiveness of democratic institutions.
- Increased well-being & economic opportunity for the economically disadvantaged.

**C. USAID/ECUADOR STRATEGIC OBJECTIVE:**

Strengthened Democratic Institutions with greater citizen participation.

**D. INDICATORS:**

	BASELINE	PERFORMANCE SINCE BASELINE. (% IMPROVEMENT)	1991 TARGETS	1992 TARGETS
1. N/A*	N/A *	N/A *	N/A *	N/A *
2. N/A*	N/A *	N/A *	N/A *	N/A *

\* Indicators and baseline data for this strategic objective are not yet available.

**USAID/ECUADOR STRATEGIC OBJECTIVE #5**

**A. LAC BUREAU OBJECTIVE:**

Broad based sustainable economic growth.

**B. LAC BUREAU SUB-OBJECTIVE(S):**

Natural Resource Base Conserved and Used sustainably.

**C. USAID/ECUADOR STRATEGIC OBJECTIVE:**

Sustainable Use of Biological Resources in selected geographic areas.

**D. INDICATORS:**

	BASELINE	PERFORMANCE SINCE BASELINE. (% IMPROVEMENT)	1991 TARGETS	1992 TARGETS
1. Percent of hectares conserved out of total hectares included in selected national conservation units.	N/A*	N/A*	N/A*	N/A*
2. Percent of hectares included in selected non-protected areas under sustainable use.	N/A*	N/A*	N/A*	N/A*

\* Since this is a new Strategic Objective for the USAID, baseline data is not yet available . However, the USAID will soon begin to assemble data for projects already underway and will collect it as a matter of course for the interventions to begin under the SUBIR project.

### SECTION III - New Program Initiatives

#### A. Narrative

As stated under Section I - B and C above, the new strategic objectives that resulted from the Mission's Strategic Planning Exercise constitute a concerted effort to: 1) further portfolio consolidation efforts already underway; and 2) establish a conceptual framework that better focuses USAID/Ecuador's future activities in areas where they can have more impact and that are supportive of LAC Bureau Objectives and Sub-objectives.

Accordingly, the Mission intends to authorize only two new projects during the Action Plan period (FYs 92-93): Project 518-0105, Strengthening Democratic Institutions and Project 518-0106, Small Enterprise Export Linkages.

By so doing, USAID/Ecuador intends not only to enhance the development impact of limited program resources but also to maintain enough flexibility to be responsive to the new GOE administration taking office in August 1992, to the extent that resources permit and that potential initiatives from the new Government are fully consistent with our program objectives.

During FY 91, the Mission will start with several projects, most of them already reviewed and approved by AID/Washington in prior Action Plans, which are fully consistent with the Mission's strategic objectives as laid out in this submission and with LAC Bureau objectives. Following is a brief discussion, by Fiscal Year and by Strategic Objective, of new projects proposed by USAID/Ecuador.

#### FY 91 Projects

1. a. LAC Bureau Objective: Broad-Based, Sustainable Economic Growth.
- b. LAC Bureau Sub-Objectives: (1) Conducive Policy Environment and Vigorous Private Sector Response; and (2) Economic Policies that Promote Investment, Productive Employment, and Export-led Diversification.
- c. Mission Objective: Improved Policy and Institutional Environment Leading to Increased Trade with Emphasis on Non-Traditional Exports.
- d. Mission Projects:  
  
518-0094, Trade and Investment Program, new project not previously reviewed by AID/W (revised from PID submitted 11-90). NPD included below.

2. a. LAC Bureau Objective: Broad Based, Sustainable Economic Growth.
- b. LAC Bureau Sub-Objective: Increased Well-Being and Economic Opportunities for the Historically Disadvantaged.
- c. Mission Objective: Increased Use, Effectiveness and Sustainability of Family Planning and MOH Services
- d. Mission Project: 518-0084, Population and Family Planning II, PID already reviewed by AID/Washington.
3. a. LAC Bureau Objective: Strengthened and More Stable Democracy.
- b. LAC Bureau Sub-Objective: Improved Operation and Effectiveness of Democratic Institutions.
- c. Mission Objective: Strengthen Democratic Institutions with Greater Citizen Participation.
- d. Mission Projects:
  - (1) 518-0091, Ecuadorian Development Scholarship Program (CLASP II), already authorized.
  - (2) 518-0095, Regional Technical Aid Center Program, (RTAC) for which the Mission will buy-in to the existing regional project.
4. a. LAC Bureau Objective: Broad Based, Sustainable Economic Growth.
- b. LAC Bureau Sub-Objective: Natural Resource Base Conserved and Used Sustainably.
- c. Mission Objective: Sustainable Use of Biological Resources in Selected Geographic Areas.
- d. Mission Project: 518-0069, Sustainable Uses of Biological Resources, already reviewed by AID/Washington.

FY 92 Projects

3. a. LAC Bureau Objective: Strengthened and More Stable Democracy.
- b. LAC Bureau Sub-Objective: Improved Operation and Effectiveness of Democratic Institutions.
- c. Mission Objective: Strengthened Democratic Institutions with Greater Citizen Participation.

- d. Mission Project: 518-0105, Strengthening Democratic Institutions, new project for which an NPD is included below.

FY 93 Projects

- 4. a. LAC Bureau Objective: Broad Based, Sustainable Economic Growth.
- b. LAC Bureau Sub-Objective: (1) Conducive Policy Environment and Vigorous Private Sector Response; and (2) Economic Policies that Promote Investments, Productive Employment, and Export-led Diversification.
- c. Mission Objective: Improved Policy and Institutional Environment Leading to Increased Trade with Emphasis on Non-Traditional Exports.
- d. Mission Project: 518-0106, Small Enterprise Export Linkages, for which an NPD is included below.

As evidenced from the above summary of new project level activities in FYs 91, 92 and 93, the Mission is devoting principal effort to:

- a. starting and consolidating its new program thrust on structural reforms that are conducive to trade and investment;
- b. expanding its limited efforts in democratic initiatives through the initiation in FY 92 of a new project;
- c. continuing its commitment to population and family planning activities; and,
- d. starting a new program priority in the area of conservation of biological diversity.

The NPDs included below further describe Mission objectives and explain the linkages of Mission projects with LAC objectives.

B. New Project Descriptions

1. FY 91 New Project

LAC Bureau Objective/Sub-Objectives

- To support the achievement of broadly-based, sustainable economic growth.
  - Encourage economic policies that promote investment, productive employment, and export-led diversification.
  - Encourage vigorous response by the private sector to a favorable policy environment.

Project Title: Trade and Investment Sector Program

Project Number: 518-0094

Funding: (000) FY 91: \$4,751,000 (G-DA)  
LOP: \$10,000,000 (G-DA)  
\$20,000,000 (G-ESF)

Type of Funding: Agriculture, Rural Development and Nutrition (ARDN); Private Sector, Energy and the Environment (PSEE); and NSD-18 (ESF).

A. Consistency of Project with Mission Strategy

The proposed program is fully consistent with the Mission's approved FY 1990 - 1994 CDSS and reflects the Mission's desire to assist Ecuador in responding to the Enterprise for the Americas Initiative. This program supports USAID/Ecuador's CDSS goal of support for 'basic structural reforms leading to rapid and sustained economic growth' and the specific objective of 'strengthening private enterprise and promoting exports'. To ensure the necessary support for this objective, the Mission has recently undergone a reorganization, resulting in the creation of a new-eight-person Export, Trade and Investment office.

B. Relationship to A.I.D. and Other Donor Activities

The proposed program will be highly complementary of a number of current and planned AID and other donor activities. On-going AID-funded trade and investment activities include the Non-Traditional Agricultural Exports (NTAE), Policy Dialogue Support, and Agricultural Sector Reorientation projects as well as ESF-generated local currencies for medium and long-term credit under the NTAE project. These projects support the following activities: (a) technical assistance in agricultural technology, quality control, post-harvest management, information systems and marketing; and (b) policy dialogue and consensus-building in support of structural reforms related to the labor code, liberalization of the trade regime, the role of the state in the economy, and the financial sector. Under the Trade and Investment

Sector program, AID will expand the range of technical and investment promotion services to targeted firms other than those involved in non-traditional agriculture as well as initiate specific support to privatization initiatives.

The principal other donor programs which the Trade and Investment Sector program will complement are the IBRD's Trade Policy Reform and Financial Sector programs, which will deal with (1) structural reform of the tariff system, regulations governing quantitative restrictions on trade, and bureaucratic bottlenecks affecting trade; and (2) financial sector impediments to savings and investment, respectively. The proposed program will facilitate the implementation of the reforms adopted in compliance with the terms of these IBRD programs through: (a) the provision of technical assistance and training to GOE institutions charged with reducing bureaucratic red tape related to trade and investment; (b) conditioning the disbursement of ESF non-project assistance to the enactment of policy and/or regulatory reforms which support those reform measures targeted by the IBRD; and (c) working directly with the private sector to strengthen its capacity to take advantage of the improved policy environment and ease the industrial restructuring process inherent in the transition from an import substitution to an export-led growth strategy.

C. Relationship of Program to Overall A.I.D. Policy Objectives (including relationship to Mission's Policy Dialogue Agenda)

This program is directly supportive of the Agency's Mission Statement in that it will assist Ecuador to realize its national potential through the development of an open and democratic society and the dynamism of free markets and individual initiative. It is also consistent with the Agency's new Business and Development Partnership Initiative through its promotion of trade and investment.

The program is also consistent with the Mission's policy dialogue agenda. The program's non-project assistance component will add credibility to the Mission's policy recommendations and consensus-building activities directed towards a liberalization of the trade regime, elimination of the bureaucratic impediments to trade and investment, and a reduction of the state's role in economic activity. Similarly, the program's technical assistance and training components will support the country's industrial restructuring process and facilitate national businesses' competitiveness in international markets in this key transition phase toward a policy matrix which is more favorable for increased trade and investment.

D. Project Description

The goal of this \$30 million sector program is to support the achievement of broadly-based, sustainable economic growth. The program purpose is to facilitate Ecuador's transition towards an outward-oriented growth strategy through the adoption of

appropriate policies and administrative measures and the provision of export and investment promotion services.

The principal focus of the project will be on the provision of customized, targeted, intensive, high-quality services that reflect the best advice and knowledge available internationally in order to maximize the impact on new trade and investment by helping those firms best positioned to compete in international markets. As a secondary objective and as experience accumulates, the program will foster the development of a number of competing service suppliers - predominantly in the private sector, both foreign and local. Vigorous competition in services will then ensure that service suppliers respond to exporters' needs and that the country gradually develops a full array of local services.

The export and investment promotion services to be provided will be directed toward: (a) the development of new export ventures in the manufacturing sector; (b) industrial transformation to meet the challenges/opportunities represented by both the Andean Pact's accelerated movement toward a regional free trade zone and the tearing down of protective trade barriers to the international market place; (c) foreign investment promotion designed to take full advantage of Ecuador's new maquila and free zone legislation through joint ventures, subcontracting, production-sharing, licensing agreements as well as direct foreign investment; (d) studies and promotion activities for basic infrastructure and transportation investments related to trade and investment. Technical assistance and training will be provided in the following areas: product design and development; process technology; quality control; packaging and labeling; general management and cost control; marketing; contract negotiation/deal structuring; and the procedural aspects of exporting.

In addition to provision of firm-level trade and investment services, the program will also address key policy and administrative reform measures. Based on Ecuador's continued progress in carrying out an aggressive anti-narcotics program, it is expected that \$20 million in Economic Support Funds (ESF) will become available under NSD-18. Of these resources, \$10 million will be directed toward non-project assistance (NPA) in support of specific policy reform measures (to be further refined and prioritized during the program's intensive review), such as implementation of the third phase of tariff reform; accelerated removal of Andean regional trade barriers; the total elimination of quantitative trade restrictions; the adoption of an "open skies" agreement; the privatization of key state-run enterprises; and the creation of a "ventanilla unica" for the processing of trade regulations (e.g. import and export licenses). The remaining \$10 million will be used as 'projectized' assistance to finance technical assistance and training costs associated with the program. Part of these funds will finance assistance to the GOE in undertaking the administrative reforms necessary to facilitate new trade and investment.

Finally the program will support the GOE's privatization efforts through technical assistance for the establishment of an independent institutional framework to ensure that bureaucratic impediments are reduced; for developing financial and legal solutions for specific privatization interventions; and for identifying and helping to resolve interest group concerns which will be affected by privatization.

The direct beneficiaries will be those firms and employees which receive trade and investment services. Program technical assistance will be directed toward identifying in a systematic way the social impact of the investments to be promoted and developing appropriate guidelines or regulations which will minimize, for example, the potential for exploitation of maquila labor and an unfavorable balance of additional benefits/burdens for women. In assisting the GOE to adopt further price liberalization measures, mechanisms to spare low-income groups from adverse short-term impacts, or to compensate them for these effects will be examined for their appropriateness. While program services will be focussed on those firms best poised to effect new trade and investment ventures regardless of firm size, emphasis will be placed on assisting those business proposals which demonstrate linkages to small producers.

#### E. Planned Implementation Arrangements

The Program contemplates an agreement with the GOE for the NPA portion tied to specific policy reforms and a cooperative agreement with the National Businessmen's Association (ANDE) and the Exporters' Federation (FEDEXPOR) similar to the one which exists under the on-going NTAE project. Under the cooperative agreement, an institutional contract will be signed with a U.S. firm for the specialized expertise required for the technical assistance and training services to be provided.

#### F. Sustainability of Proposed Activities

Based on a recent CDIE/LAC study on AID Trade and Investment Programming, several realities affecting AID assistance strategy in this sector have been noted, i.e., expertise in U.S. markets and production technologies cannot be maintained by local institutions; and customized, targeted programs are not sustainable. The program will place a priority on developing a critical mass of export-oriented firms which, once the project ends, will maintain pressure for policies favoring exports and attract new investors through private contacts. Through the cooperative agreement with ANDE and FEDEXPOR, a secondary objective of the project will be to strengthen these institutions and improve their service orientation but without explicitly planning to develop a self-sustaining capacity to provide the full range of services to be provided under the program. As trade and investment experience accumulates, the program will foster the development of a number of competing services, predominantly in the private sector. The program will identify those services

which the country can realistically be expected to provide and those which will necessarily be accessed only from abroad.

G. Mission Management Role

The program will be administered by USAID/Ecuador's Exports, Trade and Investment Office which was created under the Mission's recent reorganization. The Mission's relationship to the local implementing institutions and the long-term contractor will be similar to that for the on-going NTAE project.

H. Potential Issues

It remains unclear whether Ecuador's progress under its anti-narcotics control program will receive USG recognition and support under NSD-18. In order to finalize the design of this program, it is important that funding availability and levels be determined as soon as possible. Absent NSD-18/ESF funding, the project will be designed on a more limited basis without NPA at the U.S. \$ 10.0 million level.

2. FY 92 New Project

LAC Bureau Objective/Sub-Objectives

To support the evolution of stable, democratic societies.

- To encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens and investors.

Project Title:           Strengthening Democratic Institutions (New Project)

Project Number:        518-0105

Funding (\$000):        FY 92: \$1,371,587 (G-DA)  
                          LOP:    \$5,000,000 (G-DA)

Type of Funding:       Private Sector, Energy and the Environment (PSEE); Education and Human Resources (EHR).

A. Consistency of Program with Mission Strategy

The proposed project is fully consistent with the Mission's approved FY 1990-1994 CDSS. While strengthening democratic institutions was not originally an objective of the CDSS, it has since been refined to include this area, and efforts to date have included anti-narcotics projects and an assessment of the judicial system in Ecuador. This assessment is particularly important since it will help to develop new activities with a clearer understanding of the nature problems within Ecuador's democratic institutions. At this point there is no doubt that democratic institutions in Ecuador are fragile and that there is a limited understanding on the part of most citizens about their roles and responsibilities in free elections, the justice system, the legislature, municipal and community governance and related democratic activities.

B. Relationship to A.I.D. and Other Donor Activities

While new, the goals and objectives of this project are closely related to USAID's and other donors' programs. The DI project will complement ongoing Mission activities in fiscal administration, leadership training, narcotics awareness and the impending Mission buy-in to the university textbook support program (RTAC II). Also, it will be designed keeping in mind the need for coordination with other donors' DI activities.

C. Relationship of Program to Overall AID Policy Objectives (including relationship to Mission's Policy Dialogue Agenda)

This project will directly respond to the Administrator's Democracy Initiative\* by strengthening institutions that

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\*State 093628, Mar. 24, 1991

support democratic values and practices. Democracy as a strategic goal will be embraced and fully incorporated into the Mission's policy dialogue with the GOE.

D. Project Description

The specific elements of USAID's first SDI project will be defined in time for an FY92 start-up. The basic plan is to strengthen established, promising but often fragile democratic institutions; to get more people constructively involved in the social, political and civic institutions of their country; and to help such institutions carry out their judicial, executive, electoral and possibly legislative functions, free from undue political influence, intimidation or corruption. Similar assistance will be considered for relevant private groups (business, labor, civic, NGO's, universities and foundations). At present, it is likely that some of the following activities will initially be included:

1. **Strengthening the Administration of Justice:** Working with the courts, bar associations and other legal groups, the Mission will follow-up the justice sector assessment now underway by providing training, material and technical assistance to improve criminal, civil and possibly corporate (investment) and labor codes, staff and procedures. Also, the Mission may support the improvement and expansion of a modest but successful "Street Law" program now underway at the Catholic University in Quito. (This would be in cooperation with Georgetown (NICEL), or another U.S. university).
2. **Supporting Free Elections:** Cooperate with CAPEL in responding to a GOE request for help in organizing and carrying out free, fair and effective national elections in 1992, especially through training of personnel.
3. **Strengthening the Legislature:** If support materializes from all major political parties, Congressional leadership remains sufficiently stable, and certain other essentially political circumstances are favorable, the project would provide funds for participation in LAC's Regional Legislative Development project for conferences, workshops and other assistance to Ecuador's national Congress.
4. **Strengthening Local Government:** A major problem to be addressed by this component would be the inability of municipalities to respond to citizen's expressed needs.

E. **Planned Implementation Arrangements:** The Mission will explore the feasibility of implementing the project through a Cooperative Agreement with a single Ecuadorian institution or consortium of institutions linked to U.S. technical assistance providers.

F. Sustainability of Proposed Activities

The public sector institutions that will receive assistance will continue to obtain their basic financing from the public budget of the Ecuadorian government. While project activities also will be implemented through selected private institutions, these will be established institutions that do not depend on USAID for their sustainability.

G. Mission's Management Role

The project will be administered by USAID's General Development Office (GDO).

H. Potential Issues

1. A relevant policy dialogue agenda must be carefully defined.
2. Coordination must be arranged with other donors' programs.
3. Political sensitivities and intercultural differences must be carefully addressed.
4. Feasibility studies, including baseline data collection and measurable indicators of success, are needed for each element of the project.

3. FY 93 New Project

LAC Bureau Objective/Sub-Objective

To support the achievement of broadly-based, sustainable economic growth

- Encourage economic policies that promote investment, productive employment, and export-led diversification
- Encourage vigorous response by the private sector to a favorable policy environment

Project Title: Small Enterprise Export Linkages

Project Number: 518-0106

Project Funding: (000) FY 93 \$1,100,000 (G-DA)  
LOP: \$4,000,000 (G-DA)

Type of Funding: Private Sector, Energy and the Environment(PSEE)

A. Consistency of Project with Mission Strategy

The proposed project is fully consistent with the Mission's approved FY 1990-1994 CDSS. It will support the objective of increasing trade with an emphasis on non-traditional exports. It will also address the problem of Ecuador's long-term economic situation, in which oil revenues will become rapidly depleted, thus making necessary the development of alternative industries which can bring in foreign exchange and create employment.

B. Relationship to Host Country and Other Donors

There are many GOE and NGO groups working with small and micro enterprises. The IDB is preparing a \$15 million project in the sector, for approval in the near future. Other donors include the World Bank, the Inter-American Foundation, the German government and the Konrad Adenaur Foundation. The World Food Program is also planning an activity in the area of small enterprise strengthening. The mission is keenly aware of the need to target its assistance to areas which other groups are not addressing. The potential of small enterprises to expand and to enter the export sector is such an area and could be realized with more specialized technical services than are currently the standard.

C. Conformity with Agency and Bureau Policies

This project will support the LAC Bureau Objective I: To support the achievement of broadly-based, sustainable economic growth.

D. Project Description

The purpose of the project is to strengthen the capability of public and private sector institutions to efficiently provide services to the small entrepreneur in order to generate permanent, productive employment. Principal activities under this project will include: (1) strengthening management and analytical capabilities, through the provision of technical resources, of those financial institutions which support small enterprises, especially those that produce for the export market; (2) assisting selected enterprise subsectors, through the provision of technical assistance, to expand their participation in the export market; and (3) policy dialogue designed to streamline Ecuadorian export procedures.

E. Mission Management

The project will be administered by USAID/Ecuador's Exports, Trade and Investment Office.

F. PID and PP Approval

The Mission should be delegated the authority to approve both the PID and PP.

H. Potential Issues

- (1) A pilot activity using ESF local currency is being managed by the Corporación Financiera Nacional (CFN). This activity will provide us with information about the demand for credit by the target groups, and the capability of credit institutions to meet the credit needs in an effective and efficient manner.
- (2) The recent SED Assessment performed by GEMINI discussed the institutional problems inherent in small credit programs in Ecuador. Will our limited funding be able to catalyze support for strengthening the credit system?

FYs 92-93 USAID/ECUADOR ACTION PLAN

SECTION IV

Resource Requirements

SECTION IV - Resource Requirements

A. Narrative

1. OE, Staff and Trust Funds Resource Requirements

USAID/Ecuador is cognizant of the fact that operating expense resources are becoming increasingly more scarce, and accordingly, has made a concerted effort to manage its operational budget as prudently as possible. The Mission is systematically moving towards consolidation of its portfolio and a reduction in the corresponding number of management units, in order to allow for a more concentrated effort on policy dialogue, implementation, and project design and evaluation. Non-discretionary expenditures have been held relatively constant in nominal terms since fiscal year 1987, despite rising costs, and discretionary procurement has been largely limited to investments in personnel and equipment which directly contribute to improved efficiency.

As part of our effort to hold down long-range costs and develop a more focused portfolio, the Mission has been steadily reducing staff size. At the end of FY 1989 the Mission was comprised of 144 employees, which was reduced to 137 by the end of FY 1990. We have now identified additional cuts which will bring us down to 127 employees by the end of the current fiscal year. This represents a real reduction of 12% over a three year period. However, these staff reductions have not yet been translated into operating expense savings, due to Ecuadorian labor laws which require severance payments which often total more than three times an individual's annual salary.

With respect to proposed operating expense funding levels, the Mission has taken a critical look at FY 1991, and we believe we could manage the year on \$2,105,000 dollars, together with our remaining Trust Fund balance, currently valued at approximately \$400,000. At this level, the Mission would have no Trust Funds available for forward funding or carry-over into the next fiscal year, would be required to forego all NXP procurement beyond a minimal \$35,000 required for essential, non-deferrable items, and would be forced to draw down expendable stocks almost completely by the end of September. However, it is essential that the Bureau understand that funding at this level would be impossible for the Mission in the out years, as it represents far less than our actual 12 month operating requirements. This FY 1991 level is only possible due to substantial forward funding of FSN PSC employees from Trust Funds at the end of FY 1990.

The Mission has actively attempted to reduce expenditures in recent years. We are still enjoying the benefits of a renegotiated office lease which saved more than one million

dollars over a five year period; savings were realized by converting 90 employees from a manpower contract to PSC status, despite increased workload; copy machines were purchased in lieu of a costly lease program, and; trust funds were invested in high-yielding certificates of deposit. In addition, as explained above, the Mission is also actively reducing staff, although savings will not be realized for a number of years due to the high cost of releasing employees. Actions of this nature have allowed the Mission to maintain operations at a relatively straight-line level of funding for several years. Nonetheless, the 2.5 million dollar level being proposed for FY 1991 will not be feasible beyond this year.

The Mission will require a minimum operating expense level of \$2,985,000 in FY 1992, and \$2,950,000 in FY 1993. Any lesser funding would require eliminating procurement of replacement NXP entirely, suspension of plans to reduce staff levels, severe restrictions on travel, termination of essential U.S. PSC staff, and could possibly inhibit our ability to meet salary increases for Ecuadorian employees.

The minimal Trust Funds currently held by the Mission will be depleted during FY 1991. Although the Mission is hopeful that additional ESF will be forthcoming in FY 1991 and beyond, without it the Mission would require dollar allowances as proposed in the preceding paragraph. As all Trust Funds have been utilized for FSN salaries and benefits, the Mission has not employed any reverse accommodation exchanges to date.

#### Staffing

As discussed above, recognizing the need to streamline the Mission's operations and AID/W's mandate to reduce staff, Mission Management conducted an intensive office by office review that will result in a net reduction of ten USDH and FSN staff by the end of this FY, and, we believe, lead to a more efficient use of staff resources. Similarly, the recent MSI/CDIE-facilitated Strategic Planning Exercise helped us to further consolidate the number of program objectives and project activities.

While the elimination of two USDH positions was mandated by AID/W, we took the initiative to effect further staff reductions. The staff cuts have been made only on the USAID bilateral program; regional offices and positions as RHUDO, the RLA, and RCO have thus far been unaffected. We simply cannot continue to make further reductions in program management resources that will affect our vulnerability at a time when our project management capability is being increasingly scrutinized. Any additional cuts would have serious consequences on our

ability to manage effectively the Ecuador development assistance program. If any additional reductions are mandated, they will also have to affect the regional staff.

2. DA, ESF, PL-480  
Development Assistance

While we believe the DA funding levels shown in the summary table (Table V) are adequate, they assume a constant annual funding level of \$15 million.

The Mission's ability to maintain a viable program will be seriously jeopardized if funding levels continue to decline at the 15% rate which occurred between FYs 90 and 91. The Mission has been able to embark on a major new Trade and Investment Sector program this year, despite funding cuts, due in part to the excellent mortgage situation that existed (less than 100% of the OYB) at the beginning of the year. A decision was also made to not go forward with the Radio Learning Project in FY 90 and the Employment and Informal Strengthening project was refocussed and postponed from a FY 91 start to FY 93, thus providing the Mission with additional programming flexibility.

With only one new start planned in each of the fiscal years covered by the Action Plan period, projected budget levels of \$15 million in FYs 92 and 93 will permit the Mission to maintain an acceptable mortgage level in FYs 92 and beyond despite being forced to carry a high mortgage at the end of FY 91 (approximately two and a half times the FY 91 OYB).

The portfolio consolidation process which has been in effect over the past several years will continue. In support of the Mission's efforts to be selective and focus fewer interventions but do them well, it is anticipated that of 12 projects to be terminated in FYs 91 and 92 only two will be followed-on with new projects (i.e., Population and Family Planning and Small Business Development). As part of the Strategic Planning Exercise which was recently begun, further consolidation of the portfolio is expected as each activity is more critically reviewed for relevance and direct impact on the Mission's strategic objectives. As program output indicators, baseline data, and performance monitoring and evaluation plans are developed, with follow-on assistance from CDIE/MSI, it is expected that the Mission will have completed this consolidation process in time for next year's Action Plan submission.

ESF Program

The Mission continues to believe that declining resource levels for Ecuador in general and the elimination of ESF in particular are not in overall U.S. interests. The cuts risk undermining our success in influencing Ecuadorian

policies and programs despite a relatively small amount of investment, and should be reconsidered. By continuing to be excluded from ESF programming, our position as an important player in policy dialogue is undermined.

By having a modest but meaningful amount of resources to offer Ecuador to help address the structural reforms necessary to achieve broad-based, self-sustaining growth, we secure a place at the table. When compared to other LAC countries, it is obvious that much of our influence comes not from the size of the carrot we offer, but from the quality of our advice, as well as the importance most Ecuadorians place on relations with the United States. We believe that this is an effective and sustainable approach to development assistance and sound bilateral relations, and that a modest annual investment is necessary to carry out this approach in a country of the size and location of Ecuador.

Coupled with its exclusion from ESF resources, Ecuador's strong track record on the antinarcotics front has gone largely unnoticed despite being specifically included along with other Andean countries for access of up to \$195 million in ESF under the NSD-18 Narcotics Control Program (Section 559 of the FY 91 Foreign Assistance Appropriations Act). The House Committee Report "has specifically inserted Ecuador as eligible for this funds as an incentive to that country to accelerate its efforts in the drug war." Embassy reporting on the GOE's antinarcotics efforts has consistently depicted strong performance and a solid commitment to cooperate with USG programs in this arena. We firmly believe that the allocation of NSD-18 resources to Ecuador is thoroughly justified. While Ecuador is not a significant drug producer, coca monitoring and eradication efforts continue to meet with success.

While we recognize the rationale for providing large amounts of NSD-18 funds to neighboring countries, we contend that the GOE's efforts to suppress the illicit narcotics trade has been steadfast. Ecuador's status as a relatively drug-free island in the region is due in large part to the GOE's effort. Ecuador should not be penalized as a victim of its own success. To acknowledge Ecuador's past efforts and encourage continued progress in the anti-narcotics area, we are requesting that LAC re-examine Ecuador's eligibility under NSD-18 and the possibility of providing ESF resources in FYs 91-94.

Specifically we request up to \$20 million annually as a cash grant (non-project assistance). If Congress permits, a part of the ESF could be used for a debt buy-back initiative. These resources would be linked to sustained narcotics performance and would also work as a powerful

incentive to support the GOE's measures to further liberalize the economy--support that is critical if Ecuador is to achieve reactivation. In addition, we are requesting \$20 million over a four-year period starting in in FY 91 to fund the Trade and Investment Sector program (see the enclosed NPD) in support of the President's Enterprise for the Americas Initiative.

#### Food Aid

In 1990 USAID contracted for a special study of the Food Aid Program in Ecuador. The study examined the experience with food aid donations and the question of justification for a continuing program. The researchers concluded that there exists sufficient justification for additional donations of feed grains such as soybean, since such donations can (a) help maintain and increase AID's policy dialogue efforts with the GOE; (b) save foreign exchange; (c) ensure stable feed grain supplies to permit continued growth of the shrimp and poultry industries; and, (d) stimulate expansion of U.S. commercial exports to Ecuador. The study authors projected a growing feedgrains deficit in the country over the next five years which will need to be met with some combinations of commercial and donated imports. The Mission believes that the study's conclusions are sound and foresees a continuing need for a food aid program, probably in the form of sorghum donations. The expected level of need is about 30,000 MT per year, or about \$3.5 million annually.

Local currency generated from sales of commodities under prior food aid donations are being used to complement DA resources in support of the Mission's program in agriculture and natural resources. The local currency currently finances activities in such areas as policy analysis and dialogue; agricultural research, extension, and education; land titling and registration; small-scale agroindustry, and natural resource/environmental management. Additional food aid will enable the Mission to continue and expand such activities, contributing at the same time to attainment of USAID's strategic objectives for agriculture and natural resources. Illustrative new activities include:

1. Provision of credit to stimulate growth of nontraditional agricultural exports.
2. Establishment of a private institute to coordinate implementation of a national land and registration programs.
3. Expansion of financial support to NGO's involved in agricultural and natural resource policy analysis and dialogue, agricultural technology transfer, and agricultural educations.

4. Support to various organizations, especially Ecuadorian NGO's involved in programs aimed at more sustainable use of renewable natural resources.

The Mission also intends to use a new food aid agreement to continue to encourage the GOE to adopt economic and institutional reforms needed to remove obstacles to sustainable and equitable economic growth. For example, one of the commitments made by the GOE under the FY91 food aid agreement is to make the public national agricultural research institute autonomous and to increase its budget. The enabling legislation is about to be presented to the Ecuadorian Congress for approval. Conditions to be attached to a new agreement will take into account the policy and institutional environment obtaining at the time the agreement is negotiated with the GOE, but will likely continue the Mission's emphasis on more freely functioning markets.

FYs 92-93 USAID/ECUADOR ACTION PLAN

SECTION III

New Program Initiatives



USE	LOCAL CURRENCY UTILIZATION (\$,000)			FOOD FOR PROGRESS PL 400 III	SIC 416	OTHER	TOTAL
	PL 400 I	PL 400 II	PL 400 III				
HIG BUDGET GEN							
HIG BUDGET SECTOR							
HIG CONTRIBUTION TO AID PROJECTS							
HIG CONTRIBUTION TO OTHER DONOR PROJ.							
HIG MANAGED L/C PROJ (GOVT. OR PRIVATE)	4,500	458		1,833		6,791	
AID PROGRAM TRUST FUND							
AID OE TRUST FUND	400						
SECTION 108							
OTHER							
TOTAL	4,900	458		1,833		7,191	
U. CHANNEL FOR ASSISTANCE *							
PUBLIC SECTOR	1,500	129		808		2,437	
PRIVATE SECTOR	3,000	329		1,025		4,354	
TOTAL	4,500	458		1,833		6,791	

\*Determined by organization primarily responsible for managing the local currency.

## LOCAL CURRENCY UTILIZATION

US\$	USF	FOOD FOR PROGRESS			TOTAL
		PI 400 I	PI 400 II	PI 416	
IG BUDGET GEN					
IG BUDGET SECTOR					
IG CONTRIBUTION TO AID PROJECTS					
IG CONTRIBUTION TO OTHER DONOR PROJ.					
IG MANAGED L/C PROJ (GOVT. OR PRIVATE)	2,300		2,000	1,259	5,559
AID PROGRAM TRUST FUND					
AID OE TRUST FUND					
SECTION 108					
OTHER					
TOTAL	2,300		2,000	1,259	5,559
U. CHANNEL FOR ASSISTANCE					
PUBLIC SECTOR	300		1,000	610	1,910
PRIVATE SECTOR	2,000		1,000	649	3,649
TOTAL	2,300		2,000	1,259	5,559

\*Determined by organization primarily responsible for managing the local currency.

LOCAL CURRENCY UTILIZATION  
(10000)FOOD FOR  
PROGRESS  
PROGRAM

USFS	USF	PLANNED	ACTUAL	SIC 416	OTHER	TOTAL
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HG BUDGET GEN

HG BUDGET SECTOR

HG CONTRIBUTION TO  
AID PROJECTSHG CONTRIBUTION TO  
OTHER DONOR PROJ.HG MANAGED L/C PROJ 1,500  
(GOVT. OR PRIVATE)

AID PROGRAM TRUST FUND

AID OE TRUST FUND

SECTION 100

OTHER

TOTAL

II. CHANNEL FOR  
ASSISTANCE \*

PUBLIC SECTOR

PRIVATE SECTOR

TOTAL

\*Determined by organization primarily responsible for managing the local currency.

C. TABLE V  
SUMMARY PROGRAM FUNDING TABLE  
Dollar Program by Functional Account

PROJECT TITLE AND NUMBER	G/L	FY 91	FY 92	FY 93
<b>DEVELOPMENT ASSISTANCE</b>				
<b>AGRICULTURE, RURAL DEV. &amp; NUTRITION</b>				
FD & S - 518-0000.01	G	169,000	252,461	252,461
NON-TRADITIONAL AG. EXPORTS - 518-0019	G	0	398,046	0
AG. SECTOR REORIENTATION - 518-0051	G	976,000	823,999	700,000
AG. RESEARCH AND EXTENSION & EDUC.- 518-0068	G	0	843,064	500,800
SUSTAINABLE USES FOR BIO. RESOUR. - 518-0069	G	1,500,000	2,000,000	2,000,000
TRADE & INVESTMENT PROGRAM - 518-0094	G	2,792,000	1,093,000	1,100,000
SUBTOTAL		5,437,000	5,410,570	4,553,261
(Loan)		0	0	0
(Grant)		5,437,000	5,410,570	4,553,261
<b>POPULATION PLANNING</b>				
FD & S - 518-0000.03	G	50,000	30,000	30,000
POPULATION AND FAMILY PLANNING II - 518-0084	G	1,656,000	2,470,000	2,470,000
SUBTOTAL		1,706,000	2,500,000	2,500,000
(Loan)		0	0	0
(Grant)		1,706,000	2,500,000	2,500,000
<b>HEALTH</b>				
FD & S - 518-0000.02	G	0	30,000	30,000
CHILD SURVIVAL - 518-0071	G	0	191,000	0
WATER AND SANITATION FOR HEA. ED. - 518-0081	G	613,000	648,169	789,000
SUBTOTAL		613,000	869,169	819,000
(Loan)		0	0	0
(Grant)		613,000	869,169	819,000
<b>CHILD SURVIVAL</b>				
CHILD SURVIVAL - 518-0071	G	2,411,000	2,000,000	1,609,879
SUBTOTAL		2,411,000	2,000,000	1,609,879
(Loan)		0	0	0
(Grant)		2,411,000	2,000,000	1,609,879
<b>AIDS</b>				
AIDS CONTROL PROGRAM - 518-0104	G	298,000	0	0
SUBTOTAL		298,000	0	0
(Loan)		0	0	0
(Grant)		298,000	0	0
<b>EDUCATION AND HUMAN RESOURCES</b>				
FD & S - 518-0000.04	G	110,000	149,999	150,152
TECHNICAL TRAINING OPG - 518-0044	G	66,000	0	0
NARCOTICS EDUCATION OPG - 518-0064	G	0	304,413	0
POLICY DIALOGUE SUPPORT - 518-0089	G	14,508	0	0
EQUADORIAN DEV. SCHOLARSHIP PROG. - 518-0091	G	622,492	700,000	1,100,000
ETAC PROGRAM - 518-0095	G	300,000	300,000	400,000
SUBTOTAL		1,113,000	1,454,412	1,650,152
(Loan)		0	0	0
(Grant)		1,113,000	1,454,412	1,650,152

PRIVATE SECTOR, ENERGY AND ENVIRONMENT				
RD & S - 518-0000.05	G	334,000	204,000	238,000
SPECIAL DEVELOPMENT ACTIVITIES - 518-0004	G	100,000	100,000	100,000
STRENGTHENING DEMOCRATIC INSTITUTIONS - 518-0105	G	0	1,371,587	1,143,970
SMALL ENT. EXPORT LINKAGES - 518-0106	G	0	0	1,100,000
POLICY DIALOGUE SUPPORT - 518-0039	G	0	335,000	0
TRADE & INVESTMENT PROGRAM - 518-0094	G	1,959,000	755,262	1,285,738
SUBTOTAL		2,393,000	2,765,849	3,867,708
(Loan)		0	0	0
(Grant)		2,393,000	2,765,849	3,867,708
TOTAL D.A.		13,971,000	15,000,000	15,000,000
(Loan)		0	0	0
(Grant)		13,971,000	15,000,000	15,000,000
ECONOMIC SUPPORT FUND				
SUBTOTAL ESF		20,000,000	20,000,000	20,000,000
(Loan)		0	0	0
(Grant)		20,000,000	20,000,000	20,000,000
P.L. 480, SEC. 416				
SUBTOTAL		3,500,000	4,500,000	4,500,000
(Loan)		0	0	0
(Grant)		3,500,000	4,500,000	4,500,000
PROGRAM TOTAL				
		37,471,000	39,500,000	39,500,000
(Loan)		0	0	0
(Grant)		37,471,000	39,500,000	39,500,000

FYs 92-93 USAID/ECUADOR ACTION PLAN

SECTION V

Mission and AID/Washington Initiated Issues

4

SECTION V - Mission and AID/Washington Initiated Issues

MISSION ISSUES:

--Will NSD-18 funds materialize in the amount requested, i.e. \$25 million annually over the fiscal year 1991-1994 period?

USAID project design and policy dialogue activities depend on the anticipated amount of funds made available on a timely basis. We have made our case that Ecuador should receive NSD-18 funding, as endorsed by Congress in the FY 91 appropriations legislation. The dilemma faced by the Mission is that we are designing a major program whose success depends, at least in part, on the availability of ESF funds. We need the firm support of all Washington agencies to assure the programming of NSD-18 funds for Ecuador.

--Can we assume the OE levels requested for FY 92 and beyond are acceptable?

As a corollary to the first issue, we have been drawing down funds from previous trust fund agreements to supplement our OE budget, especially for local salary and other expenses. In the absence of an ESF agreement and trust fund arrangements in this or the next fiscal years, the shortfall will have to be picked up by additional OE funds from AID/W. We have not requested a significant increase in the total amount of funds required to manage the Mission and our portfolio.

--How can we sustain quality management of the program if we are forced to make additional staff reductions?

New Mission management decided to accelerate a staff reduction exercise initiated by our predecessors to streamline our operations. The exercise has resulted in a net decline of ten positions this fiscal year. All of these cuts have been made in the management of our bilateral program and support services to bilateral and regional staff. We believe that quality attention to bilateral project, program and financial detail--the essence of good management--requires not only quality staff, but also staff size commensurate with project and program management responsibilities. Decisions on any additional staff reductions mandated by AID/W must include the regional offices and staff, including RHUDO, the RLA and RCO staff.

--When will LAC guidance on debt-swaps and non-project assistance be finalized?

The Mission is currently designing innovative programs that incorporate NPA in the family planning and trade and investment sectors. While we have benefitted from the experience of similar kinds of activities in other regions, and TDY design expertise, we are designing these innovative activities in a relative vacuum in the absence of clear guidance on NPA and debt-swap programming from LAC.

FYs 92-93 USAID/ECUADOR ACTION PLAN

ANNEXES

ANNEX A

Table I  
USAID/Ecuador Implementation Plan Towards Achievement of IAC  
Bureau Objectives

I. Support the Achievement of Broadly-Based, Sustainable  
Economic Growth.

1. GENERAL

- A. Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment and export-led economic diversification.
- Monitor progress of all policies affecting trade and investment in Ecuador (continual, Exports, Trade and Investment Office - ETIO).
- Hold investment policy seminars in Quito and Guayaquil (ETIO).
- Complete Project Paper for Trade and Investment Project (ETIO, June 1991).
- Authorize Trade and Investment Project (ETIO, September 1991).
- Publish a set of papers on trade and inflation and publish a paper on barriers to non-traditional exports (Agriculture and Natural Resources Office - ANRO- through cooperating organizations).
- B. Encourage a vigorous response by the private sector to a favorable policy environment.
- Arrange for 22 technical seminars in Guayaquil, Quito and Ambato (ETIO).
- Work with PROEXANT and FEDEXPOR (cooperating organizations) to promote export interest and to provide technical assistance in Machala, Manta, Cuenca, Guayaquil and Quito (ETIO).
- Develop a commercial mission to the European Economic Community to develop greater awareness of tariff exemptions for Ecuador (ETIO).
- Complete the project amendment to the Non-Traditional Agricultural Exports Project (ANRO, June, 1991).
- Plan and hold an Andean trade conference (patterned after CBI) (ETIO, November, 1991).
- Evaluate the recently-concluded Small Enterprise Development Project (518-0056); complete the end-of-project report; review, distribute and analyze the conclusions and recommendations of DAI's Ecuador Micro-Enterprise Sector Assessment;
- Arrange for meetings to consider possible additional USAID activities in the SED field (General Development Office - GDO in conjunction with ETIO).

C. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.

- Hold equity conference (August, 1991, ETIO).
- Implement new CLASP II project, with its emphasis on training for the socially or economically disadvantaged (GDO).

## 2. SECTOR-SPECIFIC POLICIES

A. Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification.

- PRSA (a cooperating organization) will prepare an "Agricultural Policy for the 1990's" paper, including specific recommendations on the major agenda points (ANRO).
- Analysis and alternatives to a direct state role in marketing will be further developed and recommendations made to the Minister of Agriculture and the Office of the President (ANRO).
- PRSA/DAP will further develop its system for commodity situation and analysis reporting to rationalize public sector decision-making with regard to prices and imports/exports (ANRO).
- PRSA will improve statistical reporting service to improve public sector decision-making (ANRO).
- Approve and initiate a new Family Planning and Health Project that focuses on sustainability, increased and more effective use of contraceptives, and strengthening population policies (Family Health Office - FHO - First quarter of FY92).
- Implementation of dual indexed lending mechanism by the Banco Ecuatoriano de Vivienda (BEV) (Regional Housing and Urban Development Office - RHUDO).
- Accelerate Mission dialogue with Ministry of Finance, Central Bank of Ecuador, Ecuadorian Housing Bank and S&L's to adopt decisions on the appropriate location of the Financial Fund for Housing (FFH) and implementation of broad policy decisions for the restructuring of the Ecuadorian Housing Finance System (RHUDO).
- Closely monitor and engage Monetary Board to fix appropriate market driven interest rates in the housing sector (RHUDO).

B. Encourage a vigorous response by the private sector to a favorable policy environment.

- Fully implement a condom commercial marketing program nationwide. (FHO, First Quarter of FY92).
- Complete scope of work, contracting and implement study of insurance alternatives to support viable housing lending operations. (RHUDO).

C. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.

- First discount of loan portfolio and access provided to 4 to 5 Credit Unions through the Financial Fund for Housing (FFH) (RHUDO).
- Complete contracting and implementation of the HG-007 Program Evaluation and Study of Alternatives for the FFH, including the possibility of BEV's management of the FFH (RHUDO).
- Complete contracting and implementation of study of other viable lending mechanisms proposed by the Central Bank of Ecuador (RHUDO).
- Submission of up to \$5 million in urban water and sanitation project investments by BEDE and private financial intermediaries to the Banco Central del Ecuador s (BCE) Financial Fund for Housing for discounting (RHUDO).
- Completion of the second phase of the WASH Technical Assistance Program to BEDE and municipal infrastructure agencies, focusing on financial management, project monitoring and evaluation, and operations and maintenance (RHUDO).
- Inclusion of two more cities in Financial Fund for Housing lending for urban infrastructure (RHUDO).
- Work with Medical Assistance Program (MAP) OPG to ensure that urban and rural clinics are fully self-sufficient when USAID assistance terminates in December, 1991 (FHO).
- Firmly establish operations and maintenance programs in two provinces for rural water supply and sanitation activities, including development of annual plans and manual operations, development of tariffs, procurement of equipment, training and software (FHO).
- Fully implement Child Survival and Health Project at the provincial level, including training, communications plan, establishment of information systems, and strengthening and expanding of key child survival interventions (FHO).
- Expansion of urban water and sanitation loan program to include two additional large cities (FHO).

D. Encourage Preservation and Sustainable Use of the Natural Resource Base.

- Sustainable Use of Biological Resources (SUBIR) Project developed, approved and implemented (ANRO).
- Natural resources policies analyzed and policies identified which impact upon the objective (ANRO).
- Develop natural resources baseline data surveys (ANRO).
- Develop management information systems to monitor SUBIR project activities (ANRO).
- Donor coordination committee operating in this area (ANRO).

Objective II: Support the evolution of stable, democratic societies.

A. Encourage the strengthening of competent, civilian government institutions that will merit the confidence of citizens and investors and political and military leaders.

- Arrange for and implement a comprehensive, cross-cutting assessment of narcotics activities in USAID's designated areas of prevention, awareness and education (GDO).
- Continue work on the Mission RTAC II project buy-in, and complete all local arrangements for a new national system to manage the import, distribution and sales of university text books on a phased-in basis (GDO).
- Design a new Democratic Initiatives project, to consist of elements such as assistance to 1992 free national elections, enhancing popular participation in local and municipal government; and strengthening the administration of justice (GDO).
- Completion of USAID/Ecuador municipal development strategy (RHUDO).
- Complete a comprehensive survey of Ecuador's criminal justice situation, including the national courts, Attorney General's office and the legal defense system (GDO).

ANNEX B. TABLE VI	
LIST OF USAID/ECUADOR PROJECTS BY LAC BUREAU OBJECTIVE AND SUB-OBJECTIVE	
LAC BUREAU OBJECTIVE:	SUPPORT THE ACHIEVEMENT OF BROADLY BASED, SUSTAINABLE ECONOMIC GROWTH
LAC BUREAU SUB-OBJECTIVE (S):	1. ECONOMIC POLICIES THAT PROMOTE INVESTMENT, PRODUCTIVE EMPLOYMENT AND EXPORT-LED ECONOMIC DIVERSIFICATION 2. ENCOURAGE A VIGOROUS RESPONSE BY THE PRIVATE SECTOR TO A FAVORABLE POLICY ENVIRONMENT
USAID/ECUADOR PROJECTS:	
A. ONGOING PROJECTS:	
518-0019	NON TRADITIONAL AGRICULTURAL EXPORTS
518-0042	FISCAL ADMINISTRATION DEVELOPMENT
518-0089	POLICY DIALOGUE SUPPORT
B. PROPOSED NEW PROJECTS:	
518-0094	TRADE AND INVESTMENT PROGRAM
518-0106	SMALL ENTERPRISE EXPORT LINKAGES
LAC BUREAU OBJECTIVE:	SUPPORT THE ACHIEVEMENT OF BROADLY BASED, SUSTAINABLE ECONOMIC GROWTH
LAC BUREAU SUB-OBJECTIVE (S):	1. ENCOURAGE A VIGOROUS RESPONSE BY THE PRIVATE SECTOR TO A FAVORABLE POLICY ENVIRONMENT 2. INCREASED WELL-BEING AND ECONOMIC OPPORTUNITY FOR THE HISTORICALLY DISADVANTAGED
USAID/ECUADOR PROJECTS:	
A. ONGOING PROJECTS:	
518-0023	FORESTRY SECTOR DEVELOPMENT
518-0051	AGRICULTURAL SECTOR REOR.
518-0057	SMALL FARMER SUPPORT SERVICES OPG
518-0059	LAND TITLING,
518-0068	AGRICULTURAL RESEARCH, EXTENSION AND EDUCATION
518-0082	AGRICULTURAL EDUCATION II - OPG
B. PROPOSED NEW PROJECTS:	NONE
LAC BUREAU OBJECTIVE:	SUPPORT THE ACHIEVEMENT OF BROADLY BASED, SUSTAINABLE ECONOMIC GROWTH
LAC BUREAU SUB-OBJECTIVE (S):	INCREASED WELL-BEING AND ECONOMIC OPPORTUNITY FOR THE HISTORICALLY DISADVANTAGED
USAID/ECUADOR PROJECTS:	
A. ONGOING PROJECTS:	
518-0026	POPULATION AND FAMILY PLANNING
518-0060	PRIVATE SECTOR HEALTH OPG
518-0071	CHILD SURVIVAL
518-0081	WATER AND SANITATION FOR HEALTH EDUCATION
518-0093	DRUGSTORE PROGRAM
B. PROPOSED NEW PROJECTS:	
518-0084	POPULATION AND FAMILY PLANNING II

LAC BUREAU OBJECTIVE:

SUPPORT THE ACHIEVEMENT OF BROADLY BASED, SUSTAINABLE ECONOMIC GROWTH

LAC BUREAU SUB-OBJECTIVE (S):

1. IMPROVED OPERATION AND EFFECTIVENESS OF DEMOCRATIC INSTITUTIONS
2. INCREASED WELL-BEING AND ECONOMIC OPPORTUNITY FOR THE HISTORICALLY DISADVANTAGED

USAID/ECUADOR PROJECTS:

A. ONGOING PROJECTS:

518-0064 NARCOTICS EDUCATION OPG

518-0067 ANDEAN PEACE SCHOLARSHIP PROGRAM

518-0083 NARCOTICS AWARENESS IN THE GUAYAQUIL INFORMAL SECTOR

B. PROPOSED NEW PROJECTS:

518-0091 ECUADORIAN DEVELOPMENT SCHOLARSHIP PROGRAM (CLASP II)

518-0095 REGIONAL TECHNICAL AIDS CENTER PROGRAM (RTAC)

518-0105 STRENGTHENING DEMOCRATIC INSTITUTIONS

LAC BUREAU OBJECTIVE:

SUPPORT THE ACHIEVEMENT OF BROADLY BASED, SUSTAINABLE ECONOMIC GROWTH

LAC BUREAU SUB-OBJECTIVE (S):

NATURAL RESOURCES BASE CONSERVED AND USED SUSTAINABLY

USAID/ECUADOR PROJECTS:

A. ONGOING PROJECTS:

518-0023 FORESTRY SECTOR DEVELOPMENT

518-0079 ENVIRONMENTAL EDUCATION III - OPG

518-0092 CARE DEBT-EQUITY SWAP

B. PROPOSED NEW PROJECTS:

518-0069 SUSTAINABLE USES FOR BIOLOGICAL RESOURCES

TARGETS OF OPPORTUNITY

OUTSIDE THE STRATEGIC OBJECTIVE FRAMEWORK

PROJECT NUMBER AND TITLE

518-0049 MALARIA CONTROL PROGRAM

518-0044 TECHNICAL TRAINING OPG

518-0004 SPECIAL DEVELOPMENT ACTIVITY AUTHORITY

518-0056 SMALL BUSINESS DEVELOPMENT

518-0076 SHELTER SECTOR TECHNICAL ASSISTANCE

ANNEX C

Mission's Response to AID/W's Country Performance and Ranking  
Country Performance Indicator Analysis for Ecuador.

The Mission has carefully reviewed the macro-economic indicators for Ecuador, as contained in State 018212 and would like to present updated data and assessments for LAC review. We believe this additional information reflects positively upon Ecuador's performance on the major LAC economic indicators and, when factored in, should improve Ecuador's overall ranking among LAC countries.

Corrective price increases for a variety of products, which were as high as 150 percent in some cases, and the indexation via monthly adjustments of oil derivatives prices, electricity rates and the FX rate created an inflationary impulse which has partly explained the lack of further success in reducing inflation from the 50 percent level. The agreed upon target with the IMF for the annual inflation rate at the end of 1990 had been the range of 25 to 30 percent. In retrospect, this target turned out to be overly optimistic, as corrective inflation was higher than expected, and the GOE became over-confident with the stabilization achievements obtained during 1989 when the end of period inflation rate dropped from the peak of 99 percent in March 1989 to 54 percent in December 1989. The annualized inflation rate in December 1989 was even lower at 33 percent. As a result, the GOE increased public spending prior to the May mid-term 1990 elections and the GOE did not meet quarterly targets (March and June) for net domestic asset targets under the IMF Stand-by agreement. However, the GOE was in compliance with a number of other targets: the net international reserves target of US\$ 100 million dollars was quadrupled to US\$ 400 million dollars; the public sector and the current account deficit targets were surpassed as the first became a small surplus of 0.3 percent and the second went down to about 2 percent of GDP instead of the IMF target of 4.2 percent of GDP; the major lending and certificate of deposit savings rates became positive in real terms; and targets on net domestic assets during the second half of 1990 were also met. Despite strong labor pressure for higher wages, the GOE's wage policy was also prudent as wages were increased by 98 percent during August 1988 to December 1990 compared to an accumulated inflation rate of 150 percent during the same period. Central Bank losses (the quasi-fiscal deficit) and consequent monetary emission are the strongest factor fighting fireling inflation.

As a result, it is the Mission's view that despite non-compliance with a few IMF stand-by targets, the GOE is making sincere and serious efforts to reform the Ecuadorian economy and to put it on the path of sustained growth and development.

1. Macroeconomic reform program (State 018212 paragraph C.1.F)

Despite non-compliance with IMF stand-by targets for Net Domestic Assets during two quarters of the 18-month program which expired in February 1991, the GOE's fiscal, balance of payments, and net international reserves results outperformed IMF targets. In fact, a waiver for noncompliance of these two quarters was not presented to the IMF Executive Board mainly because of a lack of familiarity with these procedures by new management at the Central Bank. Moreover, on a parallel track the GOE has been making major progress, albeit at a gradualistic pace, toward structural reform in the financial, tax, trade and foreign investment sectors.

The "Emergency Economic Program" adopted by the GOE in 1988 resulted in a reduction of the deficit of the non-financial public sector from 13.8 percent of GDP in August 1988 to 5.1 percent of GDP at the end of 1988. The IMF Stand-by target for a deficit of 3.4 percent of GDP at the end of 1989 was not only met but the actual deficit turned out to be 2.2 percent of GDP. The IMF deficit target of 1.8 percent of GDP at the end of 1990 was surpassed and a small surplus of 0.3 percent of GDP was generated. Except for the pre-mid-term election period during the first half of 1990, when slippages took place, the GOE maintained a tight and prudent fiscal stance. In fact when the GOE realized that negative fiscal consequences were being generated, a presidential decree which required an across-the-board cut of 10 percent on budgetary outlays of the public sector was issued on August 3, 1990. Noteworthy in this respect is that this decree was put into effect despite the sharp increase in petroleum prices which resulted from the outbreak of the war in the Middle East in July. Moreover, the GOE acted prudently by not spending the revenue windfall generated by the oil price increase. Instead they created a stabilization fund which was put aside for debt reduction and other high-priority purposes.

Comprehensive tax reform to streamline taxation procedures and tax collections which started in 1989 was continued into 1990. The 1990 tax package included: a) replacement of a variety of indirect taxes with a unified 10 percent value-added tax and new excise taxes; personal income tax brackets were reduced to five; standardization of tax treatment was introduced as the maximum personal income tax rate was reduced from 61 percent to 25 percent, and local and foreign corporations were taxed with a maximum 25 percent rate each; foreign companies deciding not to re-invest in Ecuador and repatriate their profits had their tax rate reduced from 49 to 36 percent; marginal tax rates were reduced; many tax preferences were eliminated; earmarking, except for the military, Petroecuador and universities were sharply reduced; and municipalities and local governments were required to design viable projects for funding from the Ecuadorian Development Bank (BEDE) instead of depending on the central government budgetary outlays. A tax collection system

was established where commercial banks collected taxes for the government. As the banks competed for these tax payments because they obtained extremely low cost short term funds, their advertisements reminded everyone to pay their taxes.

2. Domestic Financing of Deficit (State 018212 paragraph C.2.F)

Tight fiscal policy was assisted by monetary policy as domestic financing of the non-financial public sector deficit was decreased from 2 percent of GDP in 1988 to -2.9 percent of GDP in 1989, and to -3.5 percent of GDP in 1990. The gap during this year was primarily covered by external financing, the accumulation of arrears to international commercial banks, and losses to the Central Bank which increased by 0.7 percent of GDP during 1990. Net domestic asset growth at the Central Bank was reduced substantially from 52 percent at the end of 1987 to 40 percent in 1988, and to 18 percent in 1989. The large increase in net international reserves during 1990 was offset by a decrease of 5.4 percent in net domestic assets of the Central Bank. The increase in liabilities to the private sector of 44 percent was below the inflation rate of 50 percent.

Financial system reform involved major steps towards: decreasing private financial system dependence on the Central Bank and strengthening commercial banks' capital and reserve ratios, increasing the quality of their portfolios, improving their risk policy towards their exposure, and reducing the relative importance of preferential credit lines to priority sectors and in the rate of subsidy on such credits. The dependence on Central Bank credit by the private sector was reduced substantially from about 50 percent of banking system credit to the private sector in 1988 to about 25 percent in 1989. This reduction was almost completed during 1990, as the Central Bank basically suspended credit to the private sector during the year. Except for intermediation funded by borrowings from the Central Bank or international institutions, ceilings on interest rates were eliminated for all other financial transactions.

As inflation decreased from the annual rate of 99 percent in March 1989 to 50 percent as of December 1990, and commercial banks increased their savings and certificates of deposits rates, interest rates became more market determined, and most rates became positive in real terms. In particular, certificates of deposits which offered positive interest rates to savers and are strictly market determined, became the main source of funding for the financial system. Moreover, the Central Bank followed suite as it modified its mark-up formula between borrowing and lending rates by including certificates of deposits. The capital structure of private financial institutions was strengthened and modern systems of credit risk analysis were implemented by the Superintendency of Banks.

Since August 1988, the Central Bank continued to reduce its preferential credit lines and increased its annual rediscount rate from the 11 to 18 percent range to the 38 to 43 percent range at the end of 1990. Rediscount rates for internationally funded loans for large-scale industry were increased from the annual rate of 35 percent in 1988 to market determined levels which were positive in real terms at the end of 1990. During the same period the Central Bank broadened the range of monetary policy instruments as open market operations were initiated with stabilization bonds issued by the Central Bank.

3. Exchange Rate (State 018212 paragraph C.3.F)

Since 1988, exchange rate and trade policy has been guided by a clear GOE strategy to keep the sucre/dollar foreign exchange rate competitive for Ecuador's exports. The initial 56 percent devaluation of the sucre in August 1988, the establishment of a crawling weekly peg system and step-wise small adjustments on a quarterly basis resulted in a stable real effective exchange rate since the third quarter of 1988 through September 1990. Moreover, the differential between the official intervention rate and the free-market exchange rate which was reduced from 110 percent in July 1988 to an average of less than 7 percent during 1990, has resulted in an exchange rate almost equivalent to the free market. A floating exchange regime was not adopted by the GOE because of widespread opposition which was caused by gross mismanagement in the previous government. Despite poor progress towards completion of external debt negotiations on both sides, the GOE has kept to its promise to service 30 percent of the interest on the external debt owed to banks. The GOE has been paying about US\$ 140 to US\$ 160 million dollars per year to commercial banks.

4. Business Regulatory Environment (State 018212 paragraph C.4.)

(A) The Constitution and Civil Code gives equal rights to all Ecuadorian citizens and prohibits monopolies in the private sector. In practice, private sector participation in strategic areas has been limited, as state enterprises have partial monopolies in the following services: air and land transportation, communications, drinking water, etc.

Due to political or strategic reasons, the military forces have also participated in private sector activities, and compete with the private sector. However, the GOE has started a privatization process in order to improve the investment climate by divesting more than 30 firms belonging to the State Industrial Bank, the CFN (Corporacion Financiera Nacional) and the agricultural development bank (Banco Nacional de Fomento). The GOE has also begun privatization of the largest military owned enterprise (Ecuatoriana Airlines) and announced that

Section 220 of the Andean Accord on Foreign Investment would be repealed. The foreign investment code was in fact eliminated on March 25, 1991.

(B) The GOE adheres to international standards for protection of intellectual property rights. Besides its international agreements, the GOE has laws that regulate copyrights, designs, inventions, formulas, etc.

(C) Foreign investors are generally subject to the same treatment as nationals. There are a few differences: foreign investments must be qualified as acceptable by the Ministry of Industries, Commerce, Fisheries and Integration.

The Labor Code and the Foreign Regulations Law limits hiring of foreigners to 20%. However, experts are exempt from this limit and can be hired for a period of time, and a foreign investor who has obtained a commercial visa can work in his enterprise as an administrator.

Foreign investors (persons or corporations) are allowed to own property and have the right to protection. The exceptions which are included in the Constitution, the Foreigners Regulation Law and the National Security Law, are that no foreigner is allowed to directly or indirectly own rights over fixed assets, industries, agricultural fields, in any areas closer than 50 kilometers from borders and coasts unless he has been granted authorization from the Armed Forces.

Taxes on direct foreign investments were reduced significantly during 1989 and were applied the same maximum 25 percent tax rate as domestic corporations. Foreign companies deciding not to re-invest in Ecuador and repatriate their profits had their tax rate reduced from 49 to 36 percent.

(D) A new corporation with licensing approvals can be created in about 60 working days. Some sectors require an initial capital of about US\$ 20,000, while the petroleum sector requires a higher capital requirement. Affiliates of foreign companies are also subject to the minimum capital requirements, and they are no longer bound to the Andean Foreign Investment Code number 220 which was recently repealed. Legal costs also vary but are inexpensive compared to US standards.

(E) Clearing customs for imports and exports (both inside and outside free trade zones) depends on the product and the people managing the import/export process, but 30 days could be considered the standard lead time.

(F) Ecuador continues to be a signatory of OPIC and is signatory of the MIGA (Multilateral Investments Guarantee Agency) under an investment insurance scheme managed by the World Bank. The Bilateral Trade agreement between Ecuador and

the USG was signed on July 23, 1990. These agreements have worked well but they also depend on the leadership of management.

(G) There are no restrictions on the free flow of capital and the repatriation of profits. Profit remittances can be made through the free foreign exchange market which has remained open for over 27 years. The amounts are related to the areas of investment, i.e. 30% is applicable in general for all companies; 40% is applied to companies that export over 80% of their production; and 100% to companies dealing with tourism and mining. The exception is applied to the oil sector. However, the GOE is in the process of approving a regulation that will allow remittances of 100% over net revenues.

The GOE does require that external foreign credit contracted by Ecuadorians must be authorized and registered at the Central Bank and that they include a schedule of payments.

When a foreigner wants to compensate credit with investment, he must apply for authorization and credit registration at the Central Bank and obtain authorization from the Ministry of Industries, Commerce, Integration, and Fisheries (MICIP).

(H) According to law, labor unions should never be influenced, controlled or financed by outside interest groups. However, it is well known that they receive funding from national and foreign political groups, foundations, etc. but they have never admitted that they receive this type of aid. Labor leaders are members of different political groups and represent a spectrum of foreign ideas.

(I) Property rights of both men and women are clearly and fairly protected. During August 1989, a law reforming the Civil Code was enacted establishing equal rights for both men and women. The new law presented a number of problems in commercial areas as women received overprotection. A revised regulation was soon passed to allow greater freedom of commercial activities. Legal disputes are to be conducted in a fair, transparent manner but unfortunately justice is slow and often flawed.

(J) It is important to highlight the fact that currently, Ecuador is in the middle of a liberalization process for foreign investment, labor laws (Maquila, free trade zones), and internal and external trade in accordance with the policy of regional free trade.

5. Trade Regime (State 018212 paragraph C.5.F) Trade reform included a number of fundamental measures designed to open up the economy: the internationally accepted GATT nomenclature for trade was adopted; the dispersion of tariff rates were reduced in two steps from a range of 290 to 90 percent to a range of 35 to 5 percent; the 30 percent customs surcharge and prior

import deposits were eliminated; import prohibitions on 600 import items which included capital goods and a wide variety of agricultural foods were lifted; and prior license requirements on 550 import items were also eliminated, and preferential import and tax schemes for import substitution industrial firms were terminated. Moreover, the GOE signed a Bilateral Trade Treaty with the USG on July 23, 1990.

6. Market Pricing (State 018212 paragraph C.6.)

Against the backdrop of these stabilization and structural adjustment efforts, output responded weakly during 1989 and 1990 as real GDP growth was 0.2 percent and 1.2 percent respectively. (The IMF target for real GDP growth in 1990 had been 3.5 percent.) The agricultural sector maintained its high growth rates of over 7 percent as domestic prices controls were abolished and the foreign exchange rate gave positive signals to producers. In fact, contrary to having a long way to go as stated in the LAC performance review, substantial progress has been made as the number of products subject to price controls was reduced from 22 in August 1988 to 3 (rice, sorghum, and palm oil) by the end of 1990. There are only 8 products subject to administered prices (palm butter, vegetable oils, cigarettes, beer, soda pop, iron, cement and tires), but this system is in fact quite flexible as it is based on an understanding about prudent price increases between the relevant Ministry and the producer, and simply requires a prior notification by the producer to the Ministry of Finance. More importantly, domestic oil derivatives prices were increased on a monthly basis from June 1989 to September 1990 when pressure from congress resulted in termination of these increases. A 15 percent increase in January 1991 made up for the increases during the missing months.

7. Reftel paragraph B.7. Elementary School Enrollment:

The Mission has no recent elementary or school enrollment figures. We recommend using the IBRD figures.

8. Reftel paragraph B.8. Infant Vaccination Rates:

The social service health indicator of immunization is an Agency, Bureau, and Mission priority and it is relatively easy to monitor. However, if the end goal of our child survival assistance is mortality reduction, then immunization coverage is not the most valid indicator. In Ecuador immunizable diseases are only the fifth most important cause of child mortality. Diarrhea, respiratory infections, neonatal mortality, and nutrition are all greater contributors to mortality. Thus, we could have substantial success supporting programs increasing immunization coverage with little effect on mortality reduction. Perhaps, a more appropriate indicator is the infant mortality rate; however this is more difficult to measure.

9. Reftel paragraph B.9. Contraceptive Prevalence:

The use of contraceptive prevalence rate (CPR) as the indicator for success in population is easily measurable and commonly accepted. However, it does not say anything about use effectiveness and provides equal weight to a user of sterilization and the rhythm method. Perhaps, a more valid measure of success is the CPR for modern methods only.

The CPR measure, used for Ecuador by LAC Bureau, is much too low. Last year's National Health and Demographic Survey indicated that the CPR was 53 percent.

10. Reftel paragraph B.10. Environmental Management Questionnaire:

- (A) Has the Government established effective coastal zone management laws and programs that promote the sustainable development of this environmentally sensitive and economically important area?

"4" The GOE has adopted the AID Coastal Resources Management Project as a model for its national policy, is actively participating in implementation of Coastal Management, and is establishing policies for sustainable use of coastal resources. Additionally, the GOE is successfully seeking funding from other donors (IDB, UN) for continuation of the Project after termination of AID funding.

- (B) Are there forest management laws and programs that ensure sustainable use/production of forest resources and socio-economic benefits for local communities (e.g. extractive reserves)?

"1" Other than local agroforestry activities of donor agencies (AID, FAO/Holland, Germany, CARE) and the GOE Forestry Secretariat, there are no distinct laws or programs to direct benefits of forest management to local communities.

- (C) Does the Government address agrochemical use problems? are pesticides subsidized? Is there a government or private quality assurance program in place to ensure that pesticide-residue limits are not exceeded on agricultural exports?

"0" The national laws and regulations regarding import and use of pesticides are rational (follow EPA and WHO regulations), but there is no implementation of these regulations, and no monitoring of residues except by individual exporter organizations or occasionally by environmental groups.

- (D) Does the Government have incentives for sustainable agricultural practices? Is land use planning used as a tool to guide agricultural development? Are there appropriate incentives (e.g., property taxes, water user fees, etc.) to promote intensive, rather than extensive use of prime agricultural land?

"2" Incentives exist for some of the more important crops (e.g., bananas, rice), but disincentives exist due to lack of land title security, water pricing, and forestry policies.

- (E) Are environmental health issues being addressed by policies and programs that control water and air pollution and that promote sanitation and sewerage systems? Are environmental monitoring programs (e.g. water quality monitoring) in place? Are water and sanitation programs linked to health and hygiene education? Is solid waste efficiently collected and disposed of in approved landfills?

"2" Potable water programs are generally linked to health and hygiene education, but implementation is weak. Most wastewater is discharged to rivers without treatment. There is almost no effective oversight of industrial discharges to sewers, landfills, or the atmosphere. Encouraging local initiatives have recently appeared, such as Quito's establishment of an ambitious urban environmental management program and the proposal for privatization of Guayaquil's municipal solid waste services.

- (F) Are there programs/policies for watershed management, and are environmental assessments done to prevent watershed degradation? Are recommendations from such assessments effectively implemented?

"1" Environmental assessments, and watershed management, are only done when required by donor agencies as conditions for funding; actual implementation of EA recommendations primarily depend on donor oversight. Some attempts are being made to develop a national environmental code, and there is an environmental office in the Ministry of Energy and Mines (mostly ineffective).

- (G) Are there environmental education programs and are they provided for all education levels?

"4" The USAID-funded program with Fundacion Natura has been successful in placing environmental education in the national curricula for grades 1-12. The city of Quito has also implemented a pro-environment program that has reached a large segment of the population.

(H) Has the Government established areas for parks and for the conservation of the country's biological diversity?

"4" A significant percentage of the national area is in established parks, preserves or other conservation units. Management and protection are inadequate in most areas, but is improving through the assistance of AID, other donors, and local and international environmental groups and other NGOs.

(I) Is there a national environmental policy or conservation strategy? Does the public, including both men and women, participate in environment and natural resource management and planning activities? Are NGOs encouraged to be involved in environmental issues?

"3" Some attempts are being made to develop a national environmental code, but until this is in place and its details are clear, we hesitate to score higher. The other two questions merit positive responses, and would support a higher score.

(J) Are there policies and programs to encourage efficient energy use (e.g., energy prices are not subsidized, private production is encouraged)?

"0" Energy prices (petroleum products) are subsidized and all petroleum and other mineral resources production is national government only. There are no activities encouraging energy efficiency.

TOTAL SCORE ON ENVIRONMENTAL MANAGEMENT: 5.25