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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

ECUADOR

PROJECT PAPER

TRADE AND INVESTMENT

AID/LAC/P-673

PROJECT NUMBER: 518-0094

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE
 A = Add
 C = Change
 D = Delete

Amendment Number _____

DOCUMENT CODE
3

2. COUNTRY/ENTITY
 Ecuador

3. PROJECT NUMBER
 518-0094

4. BUREAU/OFFICE
 LAC

5. PROJECT TITLE (maximum 40 characters)
 Trade and Investment

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
 09 30 97

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B' below, enter 1, 2, 3, or 4)
 A. Initial FY 91 B. Quarter 4 C. Final FY 94

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 91			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1,188	861	2,049	7,205	2,795	10,000
(Grant)	(1,188)	(861)	(2,049)	(7,205)	(2,795)	(10,000)
(Loan)	()	()	()	()	()	()
Other 1.						
U.S. 2.						
Host Country		310	310		3,778	3,778
Other Donor(s)						
TOTALS	1,188	1,171	2,359	7,205	6,573	13,778

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ARDN	730	150		-		4,000		4,000	
(2) PSEE	730	830		-		6,000		6,000	
(3)									
(4)									
TOTALS						10,000		10,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BF	BSW	BL
B. Amount	1,000	1,000	1,000

13. PROJECT PURPOSE (maximum 480 characters)

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.

14. SCHEDULED EVALUATIONS

Interim MM YY Final MM YY
 08 93 08 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

I certify that the Methods of Payment and Audit Plan are in compliance with the AID Payment Verification Policy.

[Signature]
 Richard Goughnour
 Mission Controller

17. APPROVED BY
 Signature: *[Signature]*
 Title: Charles E. Costello
 Director USAID/Ecuador

Date Signed MM DD YY
 08 29 97

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
 MM DD YY

PROJECT AUTHORIZATION

Name of Country: Ecuador
Name of Project: Trade and Investment Project
Number of Project: 518-0094

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Trade and Investment Project for Ecuador, encompassing a grant to the International Executive Service Corps (IESC), a grant to the Ecuadorian Federation of Exporters (FEDEXPOR), and a grant to the newly established Fundacion Ecuador involving planned obligations not to exceed ten million United States Dollars (U.S.\$10,000,000) in grant funds over a six-year period from date of authorization, subject to the availability of funds in accordance with the AID OYB/Allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of project is approximately six years, from the date of initial obligation to September 30, 1997.

2. The project ("Project") consists of technical and financial support to develop Ecuador's capacity to promote export and investment expansion and, in the course of the Project, to provide selected, direct export and investment assistance services.

3. The Cooperative Agreements, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with AID regulations and Delegations of Authority, shall be subject to the following terms and conditions, together with such other terms and conditions as AID may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Except as A.I.D. may otherwise agree in writing,
(1) commodities or services financed by A.I.D. under the Project shall have their source and origin in the United States or, to the extent permissible under A.I.D.'s "Buy America" policy, the Cooperating Country; and
(2) ocean shipping under the project shall be financed only on flag vessels of the United States.

Local Cost Financing (LCF) is authorized as necessary to carry out Project objectives. Under Handbook 1, Supplement B, no special waivers are required to authorize local cost financing (LCF) under Handbook 13

instruments, including the Cooperative Agreement planned for implementation of the Project, as long as current AID LCF guidelines are followed.

b. Covenants

(1) FEDEXPOR, and the International Contractor working with FEDEXPOR, will submit to AID for approval annual implementation plans and budgets for project-financed activities;

(2) IESC and FEDEXPOR will coordinate their provision of technical assistance in Ecuador, as well as with other relevant institutions involved in export or investment promotion activities in Ecuador.

(3) Prior to any disbursement, under the Agreement to finance any technical assistance, FEDEXPOR shall furnish, in form and substance satisfactory to AID, scopes of work for such technical assistance.

(4) Prior to any disbursement or release of funds to Fundacion Ecuador for its implementation responsibilities for trade and investment promotion, the foundation shall furnish plans, operational procedures, and funding plans to AID for its approval.



Charles E. Costello
Mission Director
USAID/Ecuador

Date

5/29/91

Clearances:

PPD:PGoddard P. Goddard
PPD:PMaldonado Maldonado
ETIO:RPeters Peters
RCO:JDunlap Dunlap
RLA:SAllen (in draft)
CONT:RGoughnour 15
REA:HClark (in draft) H. Clark
D/DIR:HRKramer Kramer

Trade and Investment Project (518-0094)

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- J. Privatization Study (HIID - Bulk files)
- K. Financial Tables and Graphs
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- M. IESC Proposal for Investment Component (Bulk files)
- N. FEDEXPOR Proposal for Export Component (Bulk files)

A C R O N Y M S

ANDE	National Businessmen's Association
ASRP	Agriculture Sector Reorientation Project
BCE	Central Bank of Ecuador
BNF	National Development Bank
CAER	Consulting Assistance on Economic Reform
CDSS	Country Development Strategy Statement
CENDES	Center for Industrial Development
CFN	National Finance Corporation
DAI	Development Alternatives Inc.
EAI	Enterprise for the Americas Initiative
EOPS	End of Project Status
ETIO	Exports, Trade and Investment Office
FEDEXPOR	Ecuadorian Exporters Federation
FUNDAGRO	Foundation for Agricultural Development
FX	Foreign Exchange
GDP	Gross Domestic Product
GOE	Government of Ecuador
HC	Host Country
HIID	Harvard Institute for International Development
IBRD	International Bank of Reconstruction and Development (World Bank)
IDB	Interamerican Development Bank
IDEA	Agricultural Policy Institute
IEP	Investment and Export Promotion
IESC	International Executive Services Corps
IETEL	Ecuadorian Telecommunications Institute
ILDIS	Latin American Social Research Institute
IMF	International Monetary Fund
INCAE	Central American Institute of Business Administration
IPC	S&T Bureau's Implementing Policy Change Project
IRR	Internal Rate of Return
LAC	Latin American and Caribbean Bureau
LC	Local Currency
MAG	Ministry of Agriculture
MICIP	Ministry of Industry
NTAE	Non-Traditional Agricultural Exports Project
PACD	Project Assistance Completion Date
PIE/CINDE	Costa Rican Investment and Development
PROEXANT	Promotion of Non-Traditional Agricultural Exports
PSC	Personal Services Contract
RFP	Request for Proposals
SIP	Sector Investment Promotion
T&I	Trade and Investment Project
TIS	Trade and Investment Services
VE	Volunteer Executive

I. Summary and Recommendations

In terms of economic liberalization, Ecuador is a country of contradictions and competing political currents. The Administration's Enterprise for the America's Initiative has been enthusiastically received in Ecuador, with the GOE interested in transforming expanded ties with the U.S. into a solution to Ecuador's continuing two-year old recession. The Borja Government has also made significant progress in adopting economic reform measures -- including tariff reductions; passing maquila, free trade zone, and mining legislation; introducing legislation on capital markets and labor reform; and issuing new favorable foreign investment regulations.

Although the environment is improving, the economy is still encumbered by high inflation, an inefficient manufacturing sector, multiple exchange rates, and persistent current account deficits. The private sector is also highly fractionalized and resistant to reform that affects its access to subsidized credit, tariff protection and other privileges.

USAID/Ecuador is cautiously optimistic that attitudes are changing and that serious structural reform is possible over the medium term -- as a result both of economic liberalization in the international arena and as a response to the prolonged stagnation of the Ecuadorian economy.

As a result of economic liberalization and decreased ability to depend on oil exports, Ecuador must turn to non-oil sources of foreign exchange earnings to provide for its imports and to service its international debt. In contrast to several smaller Latin countries such as Costa Rica and the Dominican Republic, Ecuador's total exports have shown a slight downward trend in nominal terms, from \$2.5 billion in 1980 to \$2.4 billion in 1989.

Ecuador, however, possesses opportunities for future export growth, primarily in agricultural and agro-industrial products, but also to a lesser extent with industrial products. Fruits and vegetables have good export growth potential, as do such non-traditional products such as cut flowers. Since 1985, flower exports have increased over 27-fold, from about \$500,000 to over \$13.6 million in 1990. In 1991, flower exports are expected to reach \$30 million. Existing analyses also show high growth potential for the shrimp, fishing and mining sectors.

To tap this export potential, Ecuador must follow-through on reforms already initiated and consolidate these towards a consistent, outward-oriented growth strategy. The IBRD's \$100 million loan for trade policy reform is expected to play a significant role in this process. Ecuador must also overcome labor and financial rigidities, institutional and infrastructure weaknesses, and considerable bureaucratic red tape.

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This Trade and Investment project is a six-year, \$10 million project which will support Ecuador's evolution toward greater reliance on exported-oriented growth. The project goal is to support the achievement of broad-based, sustainable economic development. The project purpose is to provide quality export and investment services and support the institutional development of a viable Ecuadorian trade and investment organization.

The project will consist of three components: (1) export promotion; (2) investment promotion; and (3) institutional development and strengthening/policy dialogue.

One principal focus of the project will be to provide customized, targeted, high-quality services to maximize the impact on new trade and investment by helping those firms best positioned to compete in international markets.

The other principal focus of the project will be to support the development of a viable private sector umbrella organization in Ecuador to promote trade and investment and to support policy actions to enhance the competitiveness and modernization of Ecuador's economy. While a variety of trade institutions exist in Ecuador, none is judged to have wide enough (non-interest group) perspective or sufficient experience to be able to implement the Project effectively.

The Project contemplates a two-phased approach. In the first stage, it will begin providing quality export and investment services under grants to FEDEXPOR and the International Executive Services Corps (IESC), while channeling assistance for the creation of a new, permanent organization, Fundacion Ecuador. Phase II will begin once the Fundacion has been established and USAID has judged it ready to assume responsibility for the project (via a Cooperative Agreement) and to take on a broader role in promoting trade and investment for the Ecuadorian private sector. It is estimated that Phase II may be able to begin approximately one year after project authorization. Once established, it is anticipated that the new Fundacion will assume a major role in promoting continued policy reform on trade and investment issues with the GOE.

USAID will contribute \$10.0 million in Development Assistance funds and, taking advantage of the debt swap mechanism, the Ecuadorian private sector will contribute the local currency equivalent of \$2.278 million and the Government of Ecuador \$1.5 million.

It is recommended that this Project Paper be approved, authorizing \$10.0 million in DA grant funds for the Ecuador Trade and Investment Project.

II. Background and Rationale

A. Background

1. The Macroeconomic Context: In contrast to several smaller Latin American countries (in terms of size, population and resource endowment) which have experienced significant gains in exports over the past decade, Ecuador's total exports have shown a significant downward trend in real terms -- from \$2.5 billion in 1980 to less than \$2 billion in 1989 (in 1980 dollars). Rigidities in the financial sector have contributed to periods of significant real decline for both savings and credit. Between December 1987 and December 1989, for example, real savings (including CD's) fell by 24%. Real credit operations of the Central Bank fell by 75% between December 1984 and August 1990, while commercial bank portfolios fell by 56% from December 1984 to March 1990, the last available figure. Private investment is down from 23.6% of GDP in 1980 to 12.5% in 1988 and 1989 and the economy is currently in the second year of a recession.

Between 1980 and 1989 Ecuador's GDP grew at an average annual rate of 2.1%, less than the population growth rate of 2.9%. A variety of exogenous factors (including weather, earthquakes, and petroleum price movements) contributed to large annual fluctuations around the slow upward trend, buffeting the economy with sharp fiscal, monetary, and exchange-rate shocks. Per capita GDP in 1989 was 8.0% below its 1981 peak and equivalent to roughly \$965 in 1989 prices. Since 1985 economic growth has been particularly weak in the manufacturing and construction sectors, while agriculture's performance has been strong.

Ecuador under the Borja administration has made significant progress in stabilizing the economy. The Government has initiated a far-reaching, three-stage tariff reform program; passed new legislation on maquila operations, free zones and mining; and drafted positive new legislation on capital markets and the labor framework. Nonetheless, there is a reluctance to tackle such other obstacles as inflation, financial rigidities, bureaucratic bottlenecks, and the pervasive role of government in the economy.

USAID/Ecuador maintains a guarded optimism that attitudes are changing and that serious structural reform is possible over the medium term due to the influence of both the economic liberalization process in the international arena and the prolonged stagnation of the Ecuadorian economy. Policies associated with Ecuador's inward-oriented growth strategy have been a major contributor to the economic stagnation of the past decade. The country's inefficient manufacturing sector, developed under the import-substitution policies of the past thirty years, is characterized by a bias against employment in

favor of capital, a disproportionate use of scarce foreign exchange, an orientation towards internal demand that foments an unequal distribution of income, and the lack of vertical and intersectoral integration that impedes the promotion of economic growth and employment throughout the economy.

Ecuador's experience as an oil exporter has been double-edged. The oil bonanza of the 1970's forced Ecuador to become a more open economy and trade came to constitute a greater share of economic activity. While Ecuador was becoming more dependent on oil, however, the effect of the oil boom was to deteriorate the economy's ability to produce other exports. During the period of bonanza, the country's negative current account position worsened and increasing deficits had to be financed with greater international indebtedness. This negative balance is no longer sustainable. Despite the windfall from the recent Middle East crisis, its current account deficit amounts to over 7 percent of GDP if 1990 debt services arrears are included. As a result, Ecuador must turn to non-oil sources of foreign exchange earnings to provide for its imports and to service its international debt. Diversification of exports takes on added importance for Ecuador given that its oil reserves are diminishing and it is expected to become a net oil importer by the turn of the century.

During the late 1980's many Ecuadorians of differing political viewpoints came to understand the importance of a more outward-looking development strategy, given the radical changes that had occurred in the international economic environment and the growing realization that petroleum exports could not be counted on to last forever. At the same time, however, Ecuador remained politically, socially, and economically fractionalized. Governments are inherently weakened by such an environment, and it is easier to build consensus to destroy a government's economic policy than to support it. Policy reform is thus difficult, and it is not surprising that most political leaders prefer gradual reforms to shock treatments. A program of gradual policy reforms can work -- Costa Rica is one recent example -- but only if a government maintains the impulse toward reform even in the face of serious opposition. Forward motion, even if it must be slow for a while, is essential; backsliding on reforms is usually fatal for the reform program. The Ecuadorian political scene is particularly problematic given the destructive political transition processes which occur at each election, especially when they involve a presidential transition.

2. Constraints to Trade and Investment

a. Credit

For many years, credit shortages has been one of the most serious constraints faced by Ecuadorian investors and exporters. The main

causes of this problem are structural, institutional and discretionary government policies, being associated with low per capita incomes, subsidized and negative interest rates, the legal impossibility of applying compounded interest rates in order to encourage long term savings, resulting low levels of financial savings, and mis-utilization of social security funds.

Inflation, which is currently running at 50%, makes such long term lending extremely risky, particularly since commercial banks must rely primarily on short-term deposits for much of their funds. Furthermore, government financial regulations ensure high commercial bank intermediation costs, which are reflected in the large spread between lending and savings interest rates and which result in a negative real interest yield to savers. The combination of these factors has encouraged capital flight, reducing the amount of domestic savings for productive investment.

These problems affect all the productive sectors of the economy, including the export sector at every level of the export process. However, recent negotiations between the Banco Nacional de Fomento (BNF) and the Inter-American Development Bank (IDB), efforts by the Corporación Financiera Nacional (CFN) to sell off its companies, and credit made available by the World Bank and the IDB, will together result in an increase in medium-term credit available for each productive sector of the economy. The negotiations between the BNF and the IDB have resulted in renegotiation and extension of a credit line for US\$ 140 million for purchases of agricultural machinery, fixed assets and working capital with two years grace period and a term of up to 10 years at the annual interest rate of 47 percent. Divestment efforts by the CFN will make available another US\$ 80 million, in addition to the World Bank and IDB credit lines which amount to US\$ 120 million. The Mission believes that this supply of credit will effectively alleviate the current lack of credit for the export sector until such time as the new World Bank credit line for US\$ 400 million comes on stream. (See the "Project Rationale" and "Donor Coordination" sections of this document for more information on this major new credit line).

b. Bureaucratic Bottlenecks to Trade: Nearly every government ministry has some mandate relating to trade promotion. While there are numerous players, there is no central coordinating body. In addition, there exists a complex array of non-tariff barriers, which include a number of prior steps before licenses for importation and exportation of goods can be obtained, prior deposits of the foreign exchange equivalent of the goods being imported and exported, outright prohibitions on the importation and exportation of certain commodities, and exchange rate regimes which have tended to vary in their rules, at times in unpredictable manners.

Entrepreneurs interviewed for a recent AID-financed trade study (Franklin, August 1990) stated that the regulatory process for exports is lengthy and cumbersome. When new rules are announced these are presented as simplifications, but frequently they are nothing more than changing one set of impediments for another. On occasion new rules are heaped on top of old ones and the two sets of rules are mutually inconsistent. These situations create the need for informal arrangements that add to cost and risk. During the first twelve months of the Borja administration there were twelve major rule changes that related to trade.

Furthermore, the tradition for affecting allocation and for attempting to compensate or stimulate specific subsectors of the economy through tariffs, subsidies, surcharges, prohibitions and administrative and institutional regulations, is a force that maintains distortions at the firm level even when the macro economic signals appear to be correct. The rationale for intervention is undoubtedly a belief that administrative fiat, regulation and legislation can cause resources to flow into socially desirable activities and to provide for the common good. As well intentioned as these notions are, the vast body of experience and analysis from other regions of the world, Latin America and Ecuador itself, indicate that the interventions result in lower levels of output and lower levels of income, employment and consumption. One major consequence is that such policy interventions distort the distribution of income away from low income persons to those better situated to take advantage of the system of incentives that results from policy interventions.

c. Labor Regulations: Labor-Management relations in Ecuador are governed by a protectionist Labor Code through which the Government regulates salaries, dispute resolution, hiring and firing, formation and approval of labor unions, profit-sharing and provision of other non-salary benefits. The Ecuadorian Labor Code, approved and passed in 1938, is an enhancement of the legislation Mexico passed after its revolution. It theoretically covers all workers except central government employees in non-revenue earning entities (i.e., it covers employees of the state-owned oil company, but not Ministry of Energy and Mines employees), and members of the military and public security forces.

Apart from providing authority for detailed GOE regulation of labor management relations, the Labor Code (as amended) grants important "stability" rights to workers. These stability provisions require an employer to obtain the express permission of the Ministry of Labor to terminate any worker's contract. If the worker is fired or laid off without the Labor Ministry's approval, the employer is liable for stiff indemnity payments made to the worker. This basic separation payment amounts to one year of salary for a worker fired or laid off without government

approval. These stability measures are often increased in the collective bargaining process.

Approximately 12-15% of the labor force is organized into trade unions, many of which belong to one of the four nationwide Labor Centrals or Labor Confederations. According to the Labor Code, an employer with 15 or more employees is obligated to negotiate a collective contract when the workers "association" (union) so requests. More than one union may represent workers in the same place of employment. A workers committee (50% plus one of the employees) may declare a strike if an employer fails to respond to or honor the results of an Arbitration and Conciliation Panel comprised of 2 workers, 2 management representatives and the Labor Ministry Inspector. If the Labor Ministry declares the strike legal, the workers are entitled to take over the factory under police protection until the strike is resolved while the owners have to continue paying full salaries for the duration of the strike. An employer is not permitted to hire substitute workers, and generally is liable for all salaries and benefits during a strike. Boycotts and picketing are also permitted.

About 120 tripartite salary commissions set wages for numerous occupations. The wages established by these commissions are the operative wage in some occupations, and are the basis for upward revisions in the collective bargaining process.

By artificially and substantially raising the cost of labor in this labor abundant economy, these stability and right to strike provisions of the Labor Code constitute a serious disincentive to employment. Foreign and domestic investors are equally subject to these rules, although foreign investors are more likely to follow them to the letter. Combined with long existing policies favoring use of capital (e.g., subsidized interest rates and overvalued exchange rates), the protection in the Labor Code has resulted in a highly segmented labor market characterized by a small number of generally skilled workers in union-protected jobs receiving relatively good salaries and benefits, and a large body of un- and underemployed workers, perhaps 60% of the economically active population. The Labor Ministry is attempting to make some forms of employment more flexible and more attractive to businesses, for example, by proposing the recent maquila and part-time work laws. The Government has also recently sent broader labor legislation to the Congress, where it will undoubtedly encounter strong opposition.

d. Property Rights: In Ecuador, murky land titling abounds and increases the risk involved in investment in agriculture and mining. Farmers and miners are unwilling to undertake major investments to increase productivity without assurance that the property will remain theirs. Moreover, even if they are willing to take the risk, they are unable to use their land as collateral to obtain credit. In addition, in some

areas, the indigenous movement is making claims for "good farm land" and, since virtually all good agricultural land is under cultivation, is supporting "invasions" of property -- invasions which are generally undertaken violently. Once the squatters are installed, there is very little the legal owner can do, short of bribing them to leave. The land tenure risk puts a premium on intensive as opposed to extensive farming, favoring crops such as flowers and this will probably remain the case until a political solution is found to the "indigenous problem" and land tenure property rights.

e. Obstacles Within the Private Sector:

The import substitution model embraced by Ecuador over the past 30 years, combined with overvalued exchange rates, subsidized credit and the labor code of 1938, have all led to distortions in the entrepreneurial behavior of private business people. A spirit of competition, creativity and risk-taking is not characteristic of the Ecuadorian private sector. On the contrary, productive enterprises tend to be either monopolistic or oligopolistic, inefficient, oversized and not very adaptable to changes in the economic or market environment.

The economic downturn of the 1980's and the adoption of stabilization measures by the government had an influence on the business community, which reacted by moving to protect their short term profit position and pressured for even more protection from external competition, especially with respect to industrial imports. While policy measures favoring a more outward-oriented growth strategy began to receive official endorsement, the established private sector sought regulations designed to maximize trade surpluses and reduced debt service as an attempt at self-survival. With diminishing opportunities for growth in the domestic market over the past decade, private sector capital has been diverted to speculative ventures such as real estate and to capital flight.

Another aspect limiting new trade and investment is the private sector's deeply ingrained mistrust of government. The lack of consistent policies and their application which is equally erratic have fed this mistrust. But curiously, the private sector seeks and has been quite successful in obtaining special concessions and assurances which protect their interests while at the same time severely criticizing government actions. The very marked regional differences within the private sector further complicate any process of developing a national strategy for growth and development. The private sector has a difficult enough time entering into dialogue among its own ranks, much less supporting serious dialogue with the government policy makers.

f. Quality Control and Productivity: If Ecuador is to compete successfully for export markets, the private business mentality must undergo a wholesale

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transformation. A recent symposium sponsored by the Latin American Social Research Institute (ILDIS) on "Andean Cooperation: the Business Perspective" highlighted the vulnerability of the region's industry and the need to support programs which will ease the private sector's transition toward competitive markets. Some argue that reductions in tariff barriers to intra-regional trade represent a complementary path to a more general liberalization process, and offer domestic industry opportunities for growth as it prepares itself for the more demanding international market place. Local firms are generally unaware of the importance placed on quality, conformity to industry standards, timeliness and production volumes necessary to successfully compete internationally.

Ecuadorian exporters face a major challenge of quality and productivity. Low productivity and low quality are a tradition in Ecuadorian exports, for example, bananas, which are produced at lower yields are also of lower quality than bananas from other countries, as such they suffer discounts in international markets. The same is true in cocoa and coffee. In the case of each of these, Ecuador has the potential to be a high productivity and quality producer, but it is not that now and in fact, has allowed its reputation with respect to quality to deteriorate. Attention to quality is particularly important with new, non-traditional products competing directly with established products from other countries. Until a high level of quality is achieved, it is counter-productive to promote these products overseas. Factors of productivity and quality are in part an issue for entrepreneurial initiative at the macroeconomic level; i.e., the individual producers and traders. Erratic policy frameworks that have existed in Ecuador over the last 15 to 20 years cause individual entrepreneurs to view the economic conditions as uncertain and many therefore are unwilling to invest the necessary resources to achieve and maintain higher levels of quality which today's competitive world markets require

g. Foreign Investment Climate:

Ecuador's foreign investment climate poses substantial risks. Ecuadorian governments change every four years, and there is no certainty that the rules of the game will remain the same -- as recently illustrated by the Government's imposition of a 49% limit on foreign ownership of banks and finance companies. Added uncertainties are introduced by an adverse labor environment, invasions of property, bureaucratic obstacles, and high inflation and devaluation. With all those caveats, there has been a dramatic improvement recently in the legal framework for foreign investment. On March 22, 1991, the Committee of the Cartagena Accord approved Decision 291 greatly liberalizing the foreign investment regime for the whole Andean region. As a general proposition, Decision 291 states that foreign investors will have the same rights and obligations as national investors, except as

specifically provided in the national legislation of each Andean country.

On May 28, 1991, the Ecuadorian Government passed the regulations for implementation of Decision 291 in Ecuador. Relatively few areas of discrimination against foreign investment remain in effect:

--Foreign investment is prohibited in the areas of defense and national security; radio, television, and the press; and any other sectors covered by special laws. Foreign investment may not exceed 49% in banking and finance companies.

--Prior authorization from the Ministry of Industry, Commerce, Integration, and Fishing (MICIP) is required for investments in public services; investments covered by international agreements providing for investment insurance; and the transfer of national company shares to a foreign company.

The new regulations also provide for streamlining of bureaucratic procedures, requiring MICIP to reach a decision on foreign investment applications within 15 days of submission. They even permit unfettered profit remittances, so long as the corresponding income taxes have been paid.

The current Government of Ecuador also passed new mining, maquila, and free trade zone laws representing significant progress in the legal environment for foreign investment. Particularly important are the labor code changes (e.g. provisions permitting contracts for temporary employment without incurring costly labor separation liabilities) in the new maquila and free trade zone laws which, if promoted and implemented with vigor, could attract substantial foreign investor interest. Now that the legal framework is favorable, the Government will have to take steps to ensure that the implementation process is agile and mount an investment promotion campaign, resources for which are sadly lacking.

h. Transportation and Infrastructure Deficiencies: A recent survey of exporters of non-traditional products conducted under the Agriculture Sector Reorientation Project (ASRP) pointed to transportation and infrastructure deficiencies as key constraints to the export process. Laws are in place which seek to promote Ecuadorian transporters; these involve cargo preference regulations that require reciprocity between foreign and national transporters. This reduces choices of transport media and affects costs and timeliness. Furthermore, the state plays a dominant role in the international transport system; it owns airlines and seagoing shipping companies. These two factors have contributed to a retarded development of service organizations to support export-oriented

activities. Without private sector competition in these areas there exists little incentive to operate at low costs; either real costs are made higher or services are inadequate.

The country lacks sufficient air cargo runs to meet exporters' demands, especially for perishable items. Air cargo business is not profitable for some companies, due in part to the significant level of state intervention. State-determined charges for export airfreight are subsidized and are fixed without consulting the airlines. The state does not provide the airlines with any compensation for this subsidy to the export sector.

B. Project Rationale and Strategy

1. Ecuador's Potential to Increase Trade and Investment

In July 1990, President Borja visited Washington and was the first Latin American head of state to personally congratulate President Bush on his Enterprise for the Americas Initiative (EAI). President Borja and a broad array of Ecuadorian business and government leaders have heartily welcomed this Initiative's emphasis on trade, investment and debt reduction. Whether influenced by the EAI; by the example of reform measures in other Latin countries; by the influence of its neighboring, Andean countries in their movement toward and accelerated regional free trade zone; or by domestic pressures to reverse a decade of economic stagnation; Ecuador is making serious attempts to set a new course which hopefully will satisfy its people's desire for broad-based, self-sustaining growth. Over the past year, a number of positive changes have been observed -- major tax and tariff reform, new maquila, mining and free zone legislation, and a decision to join with other Andean Pact members in accelerating the creation of a regional free trade zone. Ecuador has many important advantages to offer. It is an island of peace in a very tumultuous region. With a vast natural resource base, it is strategically located to take full advantage of a regional market of 91 million inhabitants as trade barriers are removed over the coming year. While this government's political capital is waning, Ecuadorians are actively debating the need for further reforms -- a very healthy process has begun and solutions to the remaining structural impediments to growth may not be that far off.

Ecuador's trade balance was positive throughout the 1980's, with the exception of a small deficit in 1987. At present, agricultural and agro-industrial products account for over 95% of the country's non-oil exports. These areas appear to offer the best opportunities for future export growth due to the natural, geographic and climatic advantages which the country enjoys. A good example of the utilization of the country's natural advantages is the success of flower exports. Since 1985, flower

exports have increased by 27 times from around \$500,000 to over \$13.6 million in 1990. The flower exporters association estimates that flower exports should reach \$30 million in 1991. Fruits and vegetables also represent an interesting potential for future export growth. Between 1985 and 1989, exports of these non-traditional products increased by about 50%, although the dollar volume is still quite low. Existing analyses of export potential show that many opportunities exist for increasing export production in Ecuador, primarily in the mining, shrimp, and fishing sectors in addition to agro-industry.

Increasing concerns are being expressed by U.S. and European manufacturers that their costs for installation of legally-required environmental controls are not reflected in similar goods manufactured in LDC's and exported to the U.S. or Europe, and that this effectively represents a subsidy to LDC manufacturers reflected in the prices of their exports. This argument is being used to ask for countervailing duties on LDC goods, unless equivalent environmental controls are put on LDC manufacturers. Recent exports of Chilean copper to the EEC have included requirements for Chile to show that the copper and copper products are being produced with minimal negative environmental impacts. These considerations will likely become increasingly important in exports of manufactured goods, much in the same manner as the present controls on pesticide residues in agricultural products. The Ecuadorian manufacturers or the GOE must acknowledge these realities of the marketplace and reduce or eliminate environmental pollution in their manufacturing processes to remain competitive internationally.

2. Project Strategy

The modest funding level for AID's intervention in the trade and investment sector limits the project's ability to impact upon the full range of constraints identified and discussed in the background section. Consequently, the T&I project seeks to address more limited objectives in line with the resources available.

1. Improvement in macroeconomic climate. AID experience in other countries indicates that getting the policies right is the single most important factor for fostering expanded trade and investment. Ecuador is clearly in a transitional phase, with a number of policy distortions still to be corrected. Unlike in some other countries in the region, AID/Ecuador does not have the same amount of leverage as the IMF or the IBRD in encouraging the GOE to address major outstanding stabilization and structural reform measures. The Mission, however, is playing and will continue to play a key supporting role through the fostering of consensus among the key sectors of society on the need for policy reform through its Policy Dialogue Support Project and through

the future dialogue activities of the Fundacion Ecuador which this project aims to create. In addition to sponsoring various seminars and workshops which respond to the policy and administrative constraints outlined above, the central policy dialogue activity of this project is the creation of the Fundacion Ecuador itself, a process which will demand a great deal of concerted effort both within the private sector between different regional actors and interest groups, and in coordination with the public sector whose support the Fundacion will seek. The Project will also assist the GOE to implement policy reforms it has already agreed to undertake, such as reduction of bureaucratic obstacles through the establishment of a ventanilla unica (one-stop window) for exports.

2. Development of quality control, productivity, and an export mentality. The project will seek to demonstrate, through actual success stories, that Ecuadorians can export. By expanding the number of exporters in new and profitable product lines, this project will increase the ranks of domestic policy reform advocates, possibly the most certain and authentic way to bring about more appropriate and sustainable policies. Evaluation will be made of environmental impacts of manufacturing processes, either sectorially or by customized services for specific manufacturers, particularly in terms of discharge of waste products or other potentially toxic substances. As needed, technical assistance will be provided to reduce the negative environmental impacts of these processes, emphasizing techniques for economical recovery, sale, or use of materials presently treated as waste products. Seminars or workshops may be arranged to demonstrate the relevant experiences of manufacturers in such countries as Chile and Colombia.

By helping to overcome the country's endemic fear of the international market place and by building a critical mass of successful new investors and exporters, it is hoped that growing support for more far-reaching policy reform will develop. Through the provision of technical assistance and training services, the project will focus on those sub-sectors of the economy in which Ecuador possesses a comparative advantage, and will seek out targets of opportunity, such as maquila and free zone operations. The project will emphasize the provision of customized, targeted, intensive, high-quality services to maximize the impact on new trade and investment by helping those firms best positioned to compete in international markets.

In preferring, where justified, the customized approach described above over a standardized service approach, the Mission reviewed the literature on AID and other donor experience in trade and investment and sponsored observation trips to Costa Rica and Guatemala to see the results of AID's trade and investment experience first hand. The literature is somewhat divided on this question. The AID evaluation indicates that the strategies

that provide basic, but essential information to a large number of firms may well have a greater total impact than those that provide intensive assistance to a few. Conventional wisdom, however, says that customized, targeted, intensive services have an impact, and standardized, diffuse services have less. As international markets are mostly extreme buyers markets, they are highly discriminatory. In each transaction the buyer is usually able to choose a supplier from among hundreds of very willing candidates. Over time, the market will inevitably reject large numbers of would-be market entrants from developing countries. Standardized services may be inappropriate in environments where only a few industries are even close to being ready to export.

The literature 1/ points out several other "realities" which impact on this concern: (i) targeting is generally not feasible for membership organizations; (ii) customized, targeted programs are not sustainable, but may be worth supporting anyway; and (iii) a customized, concentrated service strategy can be made to work well for individual clientele groups, and so can a standardized, diffuse strategy, but not both at once in the same institution.

To be successful, the Trade and Investment (T and I) Project must address the specific needs of the firms or groups of firms involved. These needs are not homogeneous as there are different types of firms. The needs of firms already exporting are not equal to those only operating in the domestic market, nor are the needs of the large firms similar to those of the smaller ones. Likewise, the foreign company requires services which differ from those demanded by local firms.

1/ Principal literature reviewed includes the following:

(1) The Four Successful Exceptions - Official Export Promotion and Support for Export Marketing in Korea, Hong Kong, Singapore, and Taiwan, China. Donald B. Keesing. UNDP-World Bank Trade Expansion Program, Occasional Paper 2. September 1988.

(2) Development Assistance Gone Wrong: Why Support Services Have Failed to Expand Exports. Donald B. Keesing and Andrew Singer. World Bank Policy, Research, and External Affairs Working Papers. WPS 543. November 1990.

(3) How Support Services Can Expand Manufactured Exports: New Methods of Assistance. Donald B. Keesing and Andrew Singer. World Bank Policy, Research, and External Affairs Working Papers. WPS 544. November 1990.

(4) AID Trade and Investment Programming. AID Evaluation (LAC and PPC/CDIE)

Based on the Mission's experience under the Non-traditional Agriculture Exports (NTAE) project and analysis performed during the intensive review, it was decided that the main thrust of the Project at the outset should be directed to the provision of a complete range of customized services to a narrow set of firms in selected sub-sectors of the economy. Targeting of services is necessary because the provision of this kind of services to a broad spectrum of firms would be extremely costly and inefficient and because many of these firms may not require these services. Standardized services may not be as valuable as customized services that address specific needs of industrial firms and sub-sectors. The provision of all types of services to a large number of potential or existing exporters could result in a dilution of efforts. The preference for customized services in response to the Ecuadorian policy context, however, does not rule out more generalized interventions; indeed, the provision of standardized services may prove to be appropriate as implementation experience indicates and, therefore, some flexibility in this regard is required.

The project's emphasis on customized services as the most appropriate approach in Ecuador at the present time means that sustainability will be a difficult goal to achieve. The Mission has clearly opted to place emphasis on trade and investment impact over the short to medium term rather than more generalized, low-impact services which may be more sustainable. While it is clear that customized services are clearly not as sustainable as cheaper, standardized ones, the project will attempt to close the gap between the two by implementing a system according to which firms are required to pay for the services they receive under the project in relation to their ability to pay. However, ability to pay for project for services will not be a factor in the selection of firms eligible for project interventions given the project's goal of helping those firms to export who can do so quickly and with demonstrable employment impacts. (For firm selection, the criteria outlined in the Technical Analysis in Annex E will be used). Rather, the sliding-pay scale will be used transparently as an instrument which will, to an extent, enable the project to meet sustainability questions. The project will also support the creation of trading companies which in return will be able to provide technical assistance and intermediation services to small producers of exportable products.

3. Strengthening of institutional framework in support of trade and investment. The T&I project will seek to strengthen local institutions in support of increased exports and investment by the private sector. The new institution, Fundacion Ecuador, is expected to play a major role in channeling trade and investment services, working closely with existing institutions, such as FEDEXPOR.

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FEDEXPOR will be strengthened by adding new staff to all of its offices in Ecuador, including a Technical Director, a Commercial Information Specialist, a Research Analyst, and a Quality Control expert in Guayaquil; eight professionals, including a Commercial information Specialist, a Research Analyst, and Quality Control and Transportation and Packaging specialists in Quito; and five technicians in FEDEXPOR's other offices. This increased staff will permit FEDEXPOR to provide more services to its members, thereby making membership in the organization more attractive. FEDEXPOR expects that its participation in the T&I Project will allow it to increase its membership share from the current 50% of all exporters to 80% by 1992.

The discussion included below in Section V.B. and Annex F on the institutional analysis describes the Fundacion Ecuador proposal in more detail, as well as the context of private sector organizations to which it relates. The appropriate institutional vehicle for this program was perhaps the most difficult to resolve in the process of project design. As mentioned above in the context of "customized" versus "standardized" services, the Mission has also reviewed the literature and made observation visits with national level private sector leaders in order to identify options and assist the Ecuadorian private sector to select a realistic institutional approach which it finds suitable for promoting trade and investment. The intensive review focussed seriously on the issues of sustainability and the number and type of institutions which should be supported under the project.

The project strategy selected for institution building involves a two-phase approach, the ultimate goal of which is the establishment of Fundacion Ecuador. In Phase I, the period before Fundacion Ecuador is established, USAID will provide a \$931,100 grant to FEDEXPOR, \$979,000 to an international contractor, and \$80,000 to IESC -- all funds for export promotion services, both industrial and agricultural; a \$502,000 grant to IESC to provide investment promotion services and an additional \$175,000 grant which IESC will use to pay for the initial operating expenses of the Fundacion; and \$25,000 to contract the services of an accounting/management firm to design and set up the initial administrative structure of the foundation. In this way, the project will pursue two institutional goals in the first phase; 1) it will strengthen and upgrade the performance of FEDEXPOR; and 2) at the same time lay the groundwork for a foundation, the establishment of which will signify the beginning of the second phase in which the foundation is responsible for the implementation of the project's three components. It is expected that in the second project year, the foundation will be ready to operate and, with a mix of AID and private sector funds, will take on the task not only of directing the project's policy dialogue and investment promotion efforts, but also the project's technical interventions for the promotion of exports. In the

event that the establishment of Fundacion Ecuador is not forthcoming in a timely manner, the first phase of the project will be extended, meaning that the institutional grantees will continue to provide much-needed technical assistance to groups of firms in comparatively advantaged product lines and, in the process, will continue to coordinate activities closely with those of the NTAE project and of other domestic service providers. These arrangements are more fully described in the Project Description and Institutional Analysis sections of this PP.

4. Other constraints. At the project's current funding level, it will be unable to have a significant impact on reducing other important constraints outlined above: credit shortages, transportation and infrastructure deficiencies, and the counterproductive, direct interference by the state in the economy. These are areas requiring substantial resources which might be addressed by international financial institutions, such as the World Bank and Inter-American Development Bank.

3. Relationship to AID Policy and USAID/Ecuador Strategy

The Trade and Investment Project 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 proposed project 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 project 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 (ETIO).

The project also contributes to the Mission's policy dialogue agenda. The component for studies and seminars will strengthen local institutions' capabilities to analyze sector-specific reform measures, such as "open skies" agreements, non-tariff barriers to trade, and government interventions in productive enterprises. The project will facilitate consensus-building necessary to adopt reform measures and complement macroeconomic policy dialogue activities in other Mission projects. The project'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.

The Trade and Investment Project will be highly complementary of a number of current and planned AID 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 Project, AID will expand the range of technical and investment promotion services to targeted firms beyond those involved in non-traditional agriculture as well as initiate specific support to privatization initiatives. All Project activities involving agricultural exports will follow the recommendations and requirements of the Environmental Assessment of the NTAE Project, particularly concerning pesticide residues, integrated pest management practices, and changes in agricultural production systems.

4. Relationship to Other Donor Activities

Ecuador's relationship with other donors has been positive over the years. Early in 1990 the GOE published in the local press an action plan for economic reform presented to the World Bank. The major areas of reform included reduction of earmarking to municipalities and local governments, simplification of the tax system and tariff reform. The World Bank (IBRD) and the Inter-American Development Bank (IDB) disbursed US\$ 246 million to support reduction of earmarking to municipalities and local governments. The World Bank was also supposed to disburse another US\$ 100 million dollars to support tariff reform. However, as the GOE is still negotiating with the IMF to reach an agreement on a new Stand-by Arrangement to follow the previous one which expired in February 1991, further disbursement of loans from the IBRD has been put on hold. The IDB is contemplating a \$1 million grant for Ecuador's export sector, focusing primarily on the flower and processed wood sector.

In the meantime, the GOE has continued discussions with the World Bank on reform of the Public Sector and the Financial System. The GOE requested US\$ 100 million from the IBRD to support public sector reform. In support of financial reform, the GOE is requesting a co-financing loan of US\$ 400 million from the IBRD, IDB, Government of Japan, and the Andean Development Corporation.

This loan will be directed toward lending to the private sector to meet demand for medium-term financing. As financial reforms will include eliminating the fixed spread between lending and deposit rates, private sector borrowing will be at market interest rates for business activities which have the highest returns. Credit will include industrial development and reconversion or export development activities.

Parenthetically, the Mission feels confident that this financing loan will be able to meet the increased demand for credit required by the firms which will cross over into the export business with the help of project technical assistance.

III. Project Description

A. Goal, Purpose and End of Project Status

The goal of this \$10 million project is to support the achievement of broadly-based, sustainable economic growth. The project purpose is to support Ecuador's transition towards an outward-oriented growth strategy through the provision of quality export and investment promotion services and through the development of a viable Ecuadorian trade and investment promotion organization.

The T&I project will result in the following achievements by the PACD (EOPS) 1/:

-- Fundacion Ecuador established and serving as lead private sector organization in coordinating trade and investment promotion programs.

-- Operational Ventanilla Unica which reduces export/import license processing time from 3-4 weeks to less than two days.

1/ As was explained in the summary of the economic analysis (section V. C.) and Annex G, the benchmark indicators for incremental exports and employment generation were obtained from other T&I projects in the LAC area. These include Belize, Costa Rica, Dominican Republic, and Peru.

-- \$4 million annual increase in net additional export earning generated by T&I Project in subsectors in which Ecuador has a comparative advantage. This translates into total T&I-supported exports of \$84 million, with the overall level of exports \$24 million higher in 1997 than would have been the case without the T&I Project.

-- 7000 workers (65% women) newly employed or productively re-employed in firms receiving T&I Project support.

-- \$5 million increase in investment in the T&I Project's subsectors.

-- 10 new investments under maquila and free trade zone regimes directly as a result of the T&I Project's promotion efforts.

-- Five policy changes favoring trade and investment in which the T&I Project played a significant role.

B. Project Components

The T&I Project will consist of three components: (1) export promotion services; (2) investment promotion services; and (3) institution strengthening and policy dialogue. All three components will be included in Phase I of the Project. Initial two-year grants will be negotiated with FEDEXPOR for export promotion, with the International Executive Services Corps (IESC) for investment promotion, and with an appropriate institution to provide the administrative, financial, legal and any other services required for the establishment and initial operations of the Fundacion Ecuador. In Phase II, USAID/Ecuador will sign a Cooperative Agreement with Fundacion Ecuador for overall direction of T&I Project activities. Before doing so, USAID/Ecuador will have to be satisfied that Fundacion Ecuador has an appropriate structure, staff, and technical capability to implement and/or to oversee the implementation of the project. If Fundacion Ecuador is established before the end of the two-year period covering grants to FEDEXPOR and IESC, the new foundation will coordinate closely its activities with those of these institutions, ensuring no duplication.

1. Export Promotion Services

This component will involve two aspects: support for non-traditional agricultural exports and support for industrial (non-agro-industrial) exports. With respect to non-traditional agricultural exports, it is anticipated that follow-on technical assistance to the NTAE project will be required beyond the July 1994 PACD of that project. The T&I Project budget for this activity is based on a three-year continuation of the PROEXANT program through the T&I Project PACD of September 1997. A final evaluation of the NTAE project in late 1993 will be the major determining factor for defining the range of agricultural products and services to be included in this continuation phase under the T and I Project.

In order to also extend export promotion services to non-agricultural products, FEDEXPOR will be asked to create a program for industrial products and to address the manpower capacities of local firms through the provision of a comprehensive range of services (as described in more detail in Section V.A. and Annex E - Technical Analysis). USAID/Ecuador will contract on behalf of FEDEXPOR for the international expertise necessary to develop and carry out unique, industry-specific business development strategies and contact programs. A comparative advantage study

(see Annex L) has identified five subsectors as having the greatest opportunity for trade and investment impact and employment generation over the short to medium term: wearing apparel, including cloth and leather but excluding shoes (CIIU no. 3220); wood furniture and accessories (CIIU No. 3320); ceramics (CIIU No 3610); basic iron and steel products (CIIU nos. 3710 and 3720); and metallic products, machinery and equipment (CIIU nos. 3823 and 3833). This study will be used to refine the types of technical expertise and services required by the project.

2. Investment Promotion Services

At the current time, a national investment promotion institution does not exist per se. While CENDES and PROEXANT provide related services, no one entity has a clear mandate in this area. IESC will be requested to provide initial investment promotion services, to staff investment promotion centers in Guayaquil and Quito (perhaps sharing offices with Fundacion Ecuador) and to develop a suitable Ecuadorian investment promotion structure which the project could support through Fundacion Ecuador at the end of the two-year contract. IESC staff in the investment centers and volunteer executives (VE's) will identify, link and provide venture planning assistance to Ecuadorian firms interested in joint and cooperative ventures with U.S. partners. In addition, these VE's will develop outreach to appropriate U.S. companies and technology suppliers, and provide the follow-up support necessary for successful venture development. IESC's activities will also include foreign investment promotion linked to the new maquila and free trade zone laws. As in the case of export promotion services, specific subsectors have been identified based on the DAI comparative advantage study completed in July, 1991.

See Technical Analysis (Annex E) for justification for sole sourcing with IESC for investment services.

3. Institution Building and Strengthening

The T&I Project's support for institution strengthening will be directed at two levels:

- (1) The T&I Project will assist the Fundacion Ecuador in becoming operational, developing plans for achieving a solid financial base, and helping to establish it as the lead Ecuadorian private sector organization for trade and investment matters. In particular, T&I Project will assist Fundacion Ecuador's high level Assembly and Council to engage the Government on desirable macroeconomic and sector policy improvements and also to channel technical assistance through Fundacion Ecuador to help the

Government implement policy reforms and streamline administrative procedures. The level of effort of these activities could be expanded should additional funds become available for the Project;

-- (2) Through an initial grant, the T&I Project will strengthen FEDEXPOR's capacity to provide export promotion services. Subsequently, once Fundacion Ecuador becomes operational, the T&I project envisages channeling funding through the Fundacion to support programs of other institutions active in the trade, investment, and policy dialogue fields, thereby strengthening these institutions indirectly. Furthermore, the T&I project will stimulate the development of private export (e.g. trading companies) and investment service suppliers so that customized services will continue to be provided beyond the termination of the Project on a full-cost, commercial basis.

For the first two levels of institution strengthening, the following activities will be pursued:

- Provide technical assistance through a management/accounting firm and IESC to Fundacion Ecuador to develop administrative, financial and programmatic systems for the organization.
- Provide long-term technical assistance to Fundacion Ecuador so that it can develop a framework for engaging the Government systematically on important policy issues and to provide administrative implementation assistance.
- Provide a grant to FEDEXPOR for the provision of export promotion services in the industrial and agricultural sectors.
- Through Fundacion Ecuador, support a variety of executing institutions to strengthen their ability to provide, on a continuing basis, generalized export and investment promotion services and to engage the government on desirable policy reforms.

In the area of policy dialogue, the T and I Project will be highly complementary of other AID-sponsored activities, including the Policy Dialogue Support, Agriculture Sector Reorientation, and NTAE projects. The Project will seek to avoid duplication of efforts and ensure that Fundacion Ecuador coordinate its policy efforts with other institutions, including INCAE, IDEA, ANDE, FEDEXPOR. Such strategic planning will help to better define the respective roles and contributions of the various institutions.

In addition, the T&I project will help Fundacion Ecuador to follow through on the implementation of key policy and administrative changes, such as the creation of a ventanilla unica, enactment of labor reform, or an "open skies" regime, so that they do not remain paper changes. This may require providing expert services and research to the Central Bank for making a ventanilla unica functional, to the Ministry of Labor for facilitating major reforms in the labor code, or to the Ministry of Industry for the elaboration of practical regulations and procedures to accompany newly enacted legislation for maquila and free trade zones. Through the Fundacion, the T&I Project could provide technical experts to help public sector managers use strategic management approaches to (a) modify organizational purpose, structure, activities, procedures, systems and performance; and (b) influence and collaborate with other organizations and groups in the policy environment -- where some or all of these steps have priority importance to policy implementation.

The T&I Project will also help Fundacion Ecuador pursue a number of activities in support of privatization, defined in the broadest terms, namely as increased private sector participation in the Ecuadorian economy. The rationale is that private enterprise performs efficiently and effectively when it unleashes entrepreneurial skills and faces fierce competition, and that simply transferring enterprise ownership from government to the private sector does not necessarily achieve these benefits. The level of effort in support of privatization could be increased should additional funds become available for the Project.

In close coordination with the Policy Dialogue Support Project and other Mission policy dialogue endeavors, and through financing of seminars, studies and consultants, the T & I project has prioritized the following activities which Fundacion Ecuador may wish to pursue in leading Ecuador toward divestiture and demonopolization on the part of the public sector.

1. **Divestiture:** Fundacion Ecuador may wish to play a role in promoting divestiture by disseminating information on positive divestiture experiences in other countries. Fundacion Ecuador interventions will include the organization of seminars on the selection of joint venture partners, likely to be one of the main forms of divestiture in Ecuador, and on contracting out State-Owned Enterprise management and other services to the private sector. Fundacion Ecuador may wish to sponsor a study on the use of debt-equity swaps for financing foreign acquisitions, which is a poorly understood issue in Ecuador. Fundacion Ecuador may also consider channelling technical assistance to the Banco Nacional de Fomento (BNF), which has no previous experience with divestiture and would welcome exactly this type of assistance, and for the setting up of independent bodies in order to strengthen regulatory systems, which the project considers an

indispensable first step toward eventual privatization of these services.

2. Demonopolization: Fundacion Ecuador may also wish to organize a seminar on the competitive provision of long distance and special telecommunications services, the relation between efficient communications and international competitiveness of the economy, and benefits that can be obtained by converting the national IETEL network into a common carrier. A study could also be sponsored which looks into the development of private pension and social insurance funds to provide competition for the Ecuadorian Social Security Institute (IESS). Fundacion Ecuador may also consider channelling technical assistance to the Superintendencia de Companias to strengthen its surveillance of the Bolsas, which is essential to inspire the confidence of new investors and to broaden Bolsa operations. Similarly, technical assistance to the Superintendencia de Bancos will strengthen surveillance of insider lending, the soundness of financial institution portfolios, and confidence on the part of savers and investors in order to deepen capital markets.

C. Cost Estimate and Financial Analysis

1. Project Budget

The Trade and Investment Project No. 518-0094 will be implemented over a period of six years with a total LOP funding level of \$13,778,000, comprised of dollar-appropriated funding totalling \$10,000,000 (73%) and estimated counterpart contributions of \$3,778,000 (27%). The dollar appropriated obligations schedule provides for \$2,049,000 in FY 91, \$3,674,372 in FY 92, \$2,886,538 in FY 93 and \$1,390,090 in FY 94. In this best case scenario, the tentative Counterpart Contribution would be comprised of \$445,000 of in-kind personnel, equipment, and office space from FEDEXPOR, and \$850,000 in debt-swap local currency provided by the GOE to be dedicated to the endowment fund, and up to \$2,483,000 in Private Sector contributions and service charges. The FEDEXPOR in-kind portion is secure, but the Mission recognizes that the additional projected counterpart is uncertain. A concerted effort will be dedicated to generating the maximum counterpart possible, but successful implementation during the Life of Project is not contingent on these funds, and the Mission is satisfied that AID's investment is warranted even without assurance that this effort will be fully successful.

A summary budget by component and input categories, providing a breakdown of Dollar (FX) and Local Currency (LC) expenditures, and AID and Counterpart funding, is as follows:

(US\$000)

	AID		TOTAL	COUNTERPART
	FX	LC	AID	LC
<u>Export Promotion:</u>	<u>4,870.2</u>	<u>880.5</u>	<u>5,750.7</u>	445.0
- Technical Assist	4,819.6	0.0	4,819.6	0.0
- Equip/vehic/furn.	0.0	143.0	143.0	0.0
- Operational Costs	50.6	737.5	788.1	445.0
<u>Investment Promotion:</u>	<u>2,054.3</u>	<u>0.0</u>	<u>2,054.3</u>	<u>0.0</u>
- Technical Assist	2,054.3	0.0	2,054.3	0.0
<u>Institutional Strength. and Policy Dialogue</u>	<u>140.0</u>	<u>1,825.0</u>	<u>1,965.0</u>	<u>3,333.0</u>
- Technical Assist.	50.0	0.0	50.0	0.0
- Equip/vehic/furn.	90.0	0.0	90.0	0.0
- Operational Costs	0.0	1,625.0	1,625.0	3,333.0
- Policy Dialogue	0.0	200.0	200.0	0.0
<u>Evaluations and Audits</u>	<u>140.0</u>	<u>90.0</u>	<u>230.0</u>	<u>0.0</u>
- Environmental Studies	0.0	30.0	30.0	0.0
- Technical Evaluation	140.0	0.0	140.0	0.0
- Audit	0.0	60.0	60.0	0.0
TOTALS	7,204.5	2,795.5	10,000.0	3,778.0

Detailed budget line items, institutions involved and project components are attached as Annex K, page 1. The budget allocates \$2.9396 million for an international contractor; \$931,100 for FEDEXPOR; \$582,000 for IESC (\$502,000 for investment services and \$80,000 for export services); \$5.32 million for Fundacion Ecuador (\$1.965 million for institutional strengthening/policy dialogue; \$1.8 million for export promotion; and \$1.55 million for investment services); and \$230,000 for evaluations and audits.

2. Disbursement Schedule

A detailed Disbursement Schedule by year is provided as Annex K, pages 2 and 3. The Schedule calls for total disbursements as follows (US\$ 000):

Year 1	1,609.7	Year 5	1,644.7
Year 2	1,568.2	Year 6	1,734.9
Year 3	1,696.0		
Year 4	1,746.1		

3. Administrative and Financial Management Reviews

The Mission will be contracting with a U.S. affiliated Accounting/Consulting firm in order to direct the establishment of the Fundacion Ecuador. The Contractor will be tasked with the preparation of job descriptions and written delegations of authority and responsibilities, elaboration of written procedures for personnel, procurement, contracting, cash management, travel, reporting, etc., and for the installation of a computerized accounting system with appropriate operational manuals. In addition, the Contractor will assist the Foundation with the recruitment and training of administrative and financial management staff. Since the Foundation will be established in accordance with AID accountability requirements, a Pre-Award Survey is not warranted. However, the Mission will perform an in-house review of the foundation's operations approximately one year after it is fully operational.

With regard to FEDEXPOR, a Pre-Award Survey was performed by Ernst & Young in 1990. USAID/Ecuador has determined that the results of that audit are still valid and therefore that FEDEXPOR is capable of properly expending and accounting for project funds. As with Fundacion Ecuador, an in-house review will be performed approximately one year into project activity.

In the case of the International Executive Service Corps (IESC), a pre-award survey or financial review is not deemed necessary. As a U.S. registered PVO, IESC is monitored by FVA/PVC (financial reviews, etc.). Furthermore, the several grants made by RCO to IESC over the last few years have been trouble free, and per IG/A/FA their A-110 audits are current and deemed acceptable.

If in-house reviews identify weaknesses which require corrective actions, the respective grantees will have a fixed period of time (to be agreed upon in consultation with the Mission) in which to

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address the material recommendations to the satisfaction of USAID. The failure to implement adequate corrective measures would serve as a basis for suspension of disbursements.

4. Audit requirements

The grantees must contract for annual financial and compliance audits, beginning in year two, with U.S. affiliated independent audit firms. The USAID/Ecuador Controller's Office will provide guidance for the scope of work, review the draft reports, and track efforts to address all material recommendations. The audits will be performed in accordance with GAO standards and OMB Circular A-133, with copies provided to RIG/A/T.

5. Self Sustainability and Counterpart Contributions

The potential host country (HC) contribution derived from the debt swap, private sector contributions, and service revenue will be largely dedicated to the establishment of an endowment to sustain Fundacion Ecuador after AID financing ends. AID is prepared to contribute up to \$1.15 million in grant funds towards a debt swap, which would result in an equal amount in local currency to pay for project operational costs, as well as an additional \$850,000 in local currency to be invested in an endowment for the Fundacion Ecuador.

USAID/Ecuador recognizes that the above provisions for HC contributions are far from secure at this point of time. However, the Mission and the proposed counterpart institutions recognize the need to develop a financial mechanism to pay for project activities after AID financing ends, and considerable effort will be dedicated to this endeavor. The project budget contemplates \$50,000 for short term technical assistance to help the Fundacion to develop a viable plan to obtain the additional financial resources required to sustain operations beyond the life of the project.

The Mission believes the benefits to be derived from AID's investment justify proceeding with the Project, despite the uncertainty on the issue of sustainability. Experience in other LAC region T&I projects financed by AID shows that each dollar in technical assistance and credit generates \$5.40 in gross exports and \$2.42 in net foreign exchange. As the number of active exporters increases, it is reasonable to assume that demand for the paid services of the Fundacion Ecuador will also increase.

In addition to the counterpart contributions contemplated as part of this project, the Mission expects that other donors and international financial institutions will also contribute to the Fundacion's endowment once the Project begins to show productive results. Furthermore, during the early stages of project activity, the Fundacion will aggressively pursue the possibility

of the GOE authorizing a small fee on international trade (preferably on imports), which could generate as much as \$10 million annually for trade and investment activities to be managed by Fundacion Ecuador.

Even if at the end of the six-year project period the foundation has not achieved financial sustainability, AID's investment will have still been warranted in terms of the development of Ecuador's export sector and in light of expected improvements in the macro-economic policy matrix. An improved fiscal and monetary policy environment, as well as a more open economy favoring the export sector, will put Ecuador on a path of broad based economic growth. Simultaneously, new employment opportunities and related income generation will increase Ecuador's demand for imports. From the United States perspective, which represents 65% of Ecuador's total trade with the rest of the world, the increase in Ecuadorian imports from the United States and the improved investment climate for U.S. companies, would also justify the cost of the Project.

6. Methods of Implementing and Financing

The methods of implementation and financing for each component are summarized as follows:

<u>Component</u>	<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Estimated Amount</u>
<u>Export Promotion:</u>			
Tech. Assistance	Inst. Contractor	Direct Payment	2,939.6
FEDEXPOR	Co-op Agreement	Direct Reimb. w/ AID advances	1,011.1
Fund. Ecuador	Co-op Agreement	Direct Reimb. w/ AID advances	1,800.0
<u>Investment Promotion</u>			
IESC	Co-op Agreement	Direct Reimb. w/ AID advances	502.0
Fund. Ecuador	Co-op Agreement	Direct Reimb. w/ AID advances	1,552.3

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IESC	Co-op Agreement	Direct Reimb. w/AID advances	175.0
Fund. Ecuador	Co-op Agreement	Direct Reimb. w/AID advances	1,740.0
Tech. Assistance	Direct Contract	Direct Payment	50.0
<u>Evaluations and Audits</u>			
	HC Contract	Direct Reimburs.	<u>230.0</u>
		TOTAL	<u>10,000.0</u>

7. Endowment Fund Sensitivity Analysis

An endowment fund will potentially be financed by import fees, a debt swap, and paid services to Fundacion Ecuador and other organizations to which the foundation may make sub-grants under the Project. The assumptions employed in this sensitivity analysis include the following variables:

- a. An import fee will be in effect during four years, beginning in the second year of the project. Four different tax rates have been used in the analysis (0.5%, 0.2%, 0.1% y 0.0%).
- b. The total amount of Ecuadorian imports is estimated at approximately 1.6 billion dollars, excluding fuels and lubricants, agricultural raw materials and agricultural capital goods.
- c. The endowment fund, based on its investments, will grow at 2% per year in real terms.
- d. Fundacion Ecuador's receipts for services will increase at 10% per annum in real terms, beginning the third year of the project.
- e. After the Project PACD, Fundacion Ecuador's expenses will grow at 10% per year in real terms.

Four basic scenarios have been developed (graphs 1 through 4), which show how the endowment will grow under the above assumptions.

Scenario 1: Debt Swap and 0.5% Import Fee

This would be the best case scenario, in which the equivalent in local currency of 2 million dollars generated from debt swap plus the 0.5% import tax would enable the endowment to increase to approximately 38 million dollars in real terms by 2005. This scenario shows an exponential growth during the life of the project, with fee in effect from 1992 through 1996. Beginning 1997, the endowment fund shows moderate growth, due to the lack of additional fees and the use of endowment funds to cover operating expenses of Fundacion Ecuador (see Annex K, page 4, graph 1).

Scenario 2: Debt Swap and 0.2% Import Fee

In this case the import fee has been substantially reduced to an estimated 0.2%. The endowment fund will reach its peak of approximately 15 million dollars in 1997. Due to the absence of additional import fees at the beginning of the same year and the use of funds to finance operating costs, the result will be a moderate decline in the endowment fund beginning in 1998. By 2005 the endowment fund will have the equivalent of approximately 14 million dollars (see Annex K, page 4, graph 2).

Scenario 3: 0.1% Import Fee and No Debt Swap

This projection shows how the endowment will grow under a 0.1% import fee and no debt swap funds. The funds will increase to a maximum of 7 million dollars in 1997 and subsequently decline sharply to 5 million dollar by 2005. As in the above two previous scenarios, the import fee plays the predominant role in the development of the endowment (see Annex K, page 5, graph 3).

Scenario 4: Debt Swap and No Import Tax

This is the worst case scenario. The endowment fund shows a life span of 8 years before it terminates. The fund reaches a maximum of approximately one million dollars in 1997, which coincides with the PACD date. This case shows that the debt swap is not critical to the growth of the endowment fund.

The Sensitivity Analysis demonstrates how critical the import fee is to the overall financial sustainability of the Fundacion Ecuador. The founders and Executive Director of the Fundacion, selected for their integrity and influence, will have to make major efforts to persuade the GOE to levy and allocate this fee for its endowment. The debt swap, on the other hand, is far less important to the long term sustainability of the foundation.

IV. Implementation Arrangements

A. Implementation Plan

Project implementation will begin with the negotiation of two year grants to FEDEXPOR for export promotion services and to the International Executive Service Corps (IESC) for investment promotion services; and a six-month allocation of \$200,000 to a management consulting firm and IESC to provide the services needed for the creation of Fundacion Ecuador.

Since FEDEXPOR does not currently have the expertise to provide export promotion services directly, it will have to use Project Funds to obtain the required specialized services, both short-term and long-term from a highly qualified international contractor. FEDEXPOR will have primary responsibility for management of this component of the Project, with the international contractor assuming an advisory and service-providing role. The international contractor must have expertise in the subsectors selected for Project emphasis by the DAI comparative advantage study, as well as in other agricultural and agro-industrial sectors, so that it can provide technical support for PROEXANT after the NTAE Project ends in 1994. Until 1994, however, the international contractor will be expected to concentrate on the subsectors identified by DAI, leaving the agricultural and agro-industrial sector in the hands of PROEXANT and Experience Inc. Appropriate arrangements to avoid duplication will be developed to deal with areas where the NTAE and T&I have common responsibilities -- e.g. marketing and policy dialogue.

IESC will provide direct investment promotion services and help another institution -- as yet not selected -- to take on this responsibility in Phase II of the Project. IESC will be housed in the Fundacion Ecuador's offices to help strengthen the foundation's initial technical capabilities. IESC's lead role in investment promotion activities and subsidiary role in FEDEXPOR's export promotion activities provides it with a unique capacity for coordination of Project activities -- a capacity which it will transfer as soon as possible to the Fundacion.

By the end of the first year of project implementation, it is expected that a Cooperative Agreement will be signed with the new Fundacion Ecuador. In the year of overlap between the FEDEXPOR and IESC grants and the Cooperative Agreement with Fundacion Ecuador, FEDEXPOR and IESC will continue to provide directly supply-side services to exporters and informational services to investors, but in close cooperation with the Fundacion Ecuador. After the two-year grants with FEDEXPOR and IESC expire, the Fundacion will assume full control for implementation of the Project, although this does not preclude the Fundacion from

entering into a contractual arrangement with FEDEXPOR or IESC to continue to provide trade and investment services.

A schedule of sequential key events to be included during specific stages of project implementation is presented below. The schedule is a guide to target dates and will be subjected to change according to the shifting requirements of the project and the ability to meet previously scheduled events.

<u>Event Date</u>	<u>Target</u>
1. Prepare PIO/T's for Cooperative Agreements with FEDEXPOR, IESC, and FE	August, 1991
2. Prepare Cooperative Agreements with FEDEXPOR and IESC	August, 1991
3. Negotiate and sign Cooperative Agreement with FEDEXPOR & IESC	Sept., 1991
4. Sign Contract with Accounting/ Management Consulting firm	Sept., 1991
5. Registration of FE with AID	Feb., 1992
6. Prepare PIO/T for Cooperative Agreement with FE	Feb., 1992
7. Negotiate and sign Cooperative Agreement with the <u>Fundacion Ecuador</u>	Feb., 1992
8. First AID review of <u>Fundacion Ecuador</u> structure, operational procedures, etc.	Feb., 1992
9. Complete baseline data surveys for measuring project impact	Sept., 1992
10. Evaluation I (management review) is conducted	January, 1993
11. NTAE final evaluation conducted	November, 1993
12. Audit I is conducted	January, 1994
13. Mid-term evaluation is conducted	Sept., 1994
14. Audit 2 is conducted	January, 1995
15. Audit 3 is conducted	January, 1996

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|--------------------------------|---------------|
| 16. Audit 4 is conducted | January, 1997 |
| 17. Final evaluation conducted | June, 1997 |

B. Procurement Plan

In general, the host country implementing agencies will procure local goods and services while A.I.D. will procure in the exterior. The large share of Grant funded procurements will be for technical services; grant funding of commodities has been held to the minimum necessary to support the institutional development of Fundacion Ecuador, the non-profit organization which, once approved by AID, will coordinate all project components. Specific procurements are described below by project component.

1. The largest technical assistance components under the project will be for the export promotion and technology transfer services contracted by USAID on behalf of FEDEXPOR and investment promotion services provided through a Cooperative Agreement with IESC.
2. As for the AID-assisted development of Fundacion Ecuador, AID will finance short-term, on-site training and assistance to the foundation in the areas of setting up administrative and financial accounting systems and fund-raising activities.

C. Monitoring and Evaluation Plan

The USAID/Ecuador staff who will provide overall Mission monitoring of this project will include a USDH Exports, Trade and Investment (ETIO) Office Chief, and two FSN ETIO Officers. All evaluation activities will be coordinated with the Mission's Evaluation Officer.

Annual implementation plans and quarterly reports will serve as principal project monitoring instruments. These will be complemented by a permanent contact between USAID's ETIO with FEDEXPOR, the IESC, eventually Fundacion Ecuador and T.A. contract personnel. The local counterparts, with the assistance of AID, will host an annual program review which will include an analysis of the achievement of outputs and purpose level indicators.

The plan for monitoring and evaluation arrangements focuses on the need for a close monitoring of inputs, an on-going assessment of outputs, interim process evaluations of the results and effectiveness of the three project components and a final impact evaluation. An initial requirement will be for the Project grantees to gather baseline data, including gender disaggregated employment figures, against which Project's outputs can be

measured. Project reviews will be conducted semi-annually, during the first two years of the Project which is the planned gestation period for Fundacion Ecuador (FE), to focus on process and problem solution for both inputs and outputs. After the second year, and assuming that FE is in operation and fully integrated into the project, such project reviews could be conducted annually. These process reviews will be combined with a mid-term evaluation to be conducted by an external evaluation team around the middle of the project period, sometime in 1994. The mid-term evaluation will involve interviews of implementation-level personnel and review of project monitoring data to assess project progress and to focus on outcomes and project effectiveness. The final impact evaluation will be conducted at the end of the project and will focus its attention on lessons learned and on the specific EOPS listed under Section III - A above.

D. Monitoring/Evaluation Components

1. Monitoring Inputs

The Project Officer, working together with counterparts in Fedexpor, IESC, and Technical Assistance contract personnel will be responsible for tracking and monitoring the timely procurement, arrival and utilization of all project inputs, including commodities, personnel, training and financial resources. A computer system will be used to manage this information and provide necessary data on the final disposition of all inputs. Routine USAID and counterpart documentation will be the source of data to be organized and kept available for input tracking, assessment of problems in procurement, supply, distribution, or utilization of inputs, and the correction of such problems, as well as for future evaluations of the effectiveness of project implementation.

2. Assessment of Outputs

Output reports for this project are designed to monitor the extent to which the project generates the expected outputs and to determine shortcomings and identify possible bottlenecks in project implementation. Of particular importance in this area will be the steps and outputs that are conducive to the creation and putting into operation of Fundacion Ecuador, for which the USAID Project Officer will be responsible for developing a detailed work plan and schedule, following up closely and preparing monthly status reports. These reports will be based on field data and on-site inspections that conform to AID reporting requirements. The output reports will correspond to the output indicators in the logical framework. One central source of project output data will be compiled quarterly and maintained by the USAID Project Officer for reference and use in the various

evaluation activities. These reports will include changes or improvements of manufacturing processes for reduction of environmental contaminants, based on the prior sectorial or manufacturer-specific recommendations. Fundacion Ecuador will be encouraged to track these environmental improvements, for positive marketing information to be used in improving acceptance of Ecuadorian products in the U.S. and European markets.

3. Evaluation of Process/Results

To improve the ability of IESC and local counterparts to diagnose the implementation process and assess problems relating to the project's overall effectiveness, the monitoring and evaluation plan will emphasize routine data collection and analysis of relevant statistics and information on exports, investment, employment and policy reform for periodic process evaluations. To the extent necessary, the USAID Project Officer and the implementing agencies will conduct surveys on exports, investments, employment and institutional improvements to assess project process and results on a periodic basis. The USAID and the implementing agencies will examine problems in project implementation and diagnose the situations/processes which impede success within the three project components.

4. Impact Evaluation

The project will gather and develop information on exports, investment, gender disaggregated employment, and institutional and policy dialogue performance, which will serve as a baseline for assessing the project's impact. This data will be analyzed so as to establish a comprehensive baseline for measuring overall project's progress and impact.

5. Evaluation Activity by Project Components

Monitoring of inputs/outputs, process evaluation and impact evaluation activities will be conducted at the level of each individual project component; Export Promotion; Investment Promotion; and Institution Building/Policy Dialogue. Such individual project component monitoring and evaluation activities will help establish progress/performance and impact under each project element, identify problems, issues and implementation bottlenecks, and take pertinent corrective actions.

V. Summary of Analyses

A. Summary of Technical Analysis

Toward the goal of providing services that will promote exports and investment in the short run, the T&I Project will negotiate

both a cooperative agreement with the Federation of Ecuadorian Exporters (FEDEXPOR) for the extension of services to exporters, and a buy-in with the International Executive Service Corps (IESC) in order to access the Corps' extensive investment networks and matchmaking ability. To enhance the production and marketing capacities of local firms for export, FEDEXPOR will use project funds to provide currently unavailable supply-side services, particularly directed toward industrial product lines. In this way, the project will result not only in a greater number of non-traditional exporters in new and profitable product lines, but also in strengthened domestic institutions, such as FEDEXPOR, which will outlast the LOP. To increase investment levels in the country, the project will task IESC's Sector Investment Promotion program and its Volunteer Executives with the identification of Ecuadorian firms interested in joint and cooperative ventures, linking them with foreign partners, and providing them with venture planning assistance. IESC will also have a small role in export promotion, providing industry experts under the supervision of FEDEXPOR.

In terms of export promotion, one of the key areas of project support will consist of assistance in product development and design, evaluation and improvement of production and management techniques, establishment of efficient quality control procedures, and assistance in industrial engineering.

For those firms satisfying production capacity criteria, the project will provide through FEDEXPOR market information and intelligence services such as the identification of potential export markets, research into specific markets, preparation of samples and brochures, and the formulation of market penetration strategies.

While the project will sponsor the provision of standardized services such as monthly bulletins and export directories, the main thrust of the Project will be directed to the provision of a complete range of customized services to a narrow set of firms in selected sub-sectors of the economy. The exact nature of the services provided will depend on whether the firm being serviced is actually exporting, ready to export, or not ready to export. Firms will be selected according to a combination of criteria such as financial soundness, managerial expertise, production capacity, export potential and demonstration of backward and forward linkages.

As for investment promotion, project interventions will focus on promoting the maquila law as a "policy oasis" by matching up local exporters with foreign investors interested in setting up maquilas. To facilitate this matchmaking role, the TIS/Ecuador program will build on and expand the operating network of IESC Volunteer Executives. IESC Volunteer Executive expertise will help develop and carry out contact programs such as venture

planning assistance to Ecuadorian firms interested in joint and cooperative ventures with U.S. partners and provide expert advice to help Ecuadorian firms with technology search and acquisition through partnerships with U.S. businesses. In addition, the TIS/Ecuador staff in the United States will engage in aggressive outreach to U.S. industrial sectors and businesses to direct opportunities toward Ecuador and to respond to client needs. Volunteer experts will work with appropriate U.S. companies and technology suppliers through co-marketing, production drawback, licensing, and other business relationships, and provide the follow-up support necessary for successful venture development. The TIS/Ecuador staff will engage in similar promotional efforts in the local environment, in coordination with the U.S. staff and under the aegis of the IESC Country Director.

B. Summary of Institutional Analysis

Ecuador has a number of institutions/organizations which play a role in the area of trade and investment -- but virtually all of them have weaknesses and need substantial strengthening before they can make a significant contribution to Ecuador's efforts to increase exports and attract investment.

FEDEXPOR is a private membership organization whose mission is to represent Ecuador's exporters and provide technical and marketing support to increase exports. FEDEXPOR has been in existence 15 years and, after a number of years of management and financial difficulties, has registered tremendous improvement under its current Executive Director.

ANDE is a national businessmen's association whose efforts are primarily confined to policy dialogue activities supporting the opening of Ecuador's economy and strengthening of the private sector. With an office only in Quito, its membership base is currently limited to the Sierra, although the new Executive Director has announced his intention to open an office in Guayaquil. Except through its management responsibilities for the Non-Traditional Agricultural Export (NTAE) Project, ANDE currently has virtually no direct role to play in either trade or investment promotion.

PROEXANT, the NTAE project's management unit, is responsible for the implementation of a variety of NTAE project activities, including technical assistance to farmers and agricultural associations, quality control and post-harvest handling, policy dialogue, and investment promotion. As originally conceived, PROEXANT's life is tied to the life of the NTAE project but there is a possibility that it could evolve into a more permanent structure, perhaps as a division of another institution or some of its functions spun off into a trading company.

CENDES is a public institution which, until recently, promoted investment for import substitution purposes. Now that Ecuador is opening its economy, CENDES' emphasis has changed to the promotion of investment in sectors which offer good economic returns and in which Ecuador has a comparative advantage. CENDES plays almost no direct role in the area of trade.

Secondary institutions with a very narrow focus include FUNDAGRO, a private foundation which provides technical assistance to agriculture -- mainly traditional; and IDEA, a think tank which engages in agricultural research and policy dialogue.

Given the existing institutional weaknesses, USAID has explored at length the various options for the best institutional framework for the project and decided that flexibility must be built into the project design to allow for institutional development. Based on a review of the literature, extensive discussions with private sector leaders and observation visits to other LAC countries, the Mission believes that the best solution is to support the creation of a new foundation, Fundacion Ecuador, which will have both trade and investment functions responsibilities.

Though details of the Fundacion Ecuador's structure and specific operations will be an output of the Project's first stage, present plans envisage that the new foundation's structure will be composed of an assembly of up to 100 respected private sector leaders, selected for their vision of Ecuador's future growth and development which supersedes any sectoral or regional interests with which they may be associated. This assembly, in turn, will select a 29-person board of directors (24 private sector representatives -- 12 from the Coast and 12 from the Sierra -- plus 5 GOE representatives: the Ministers of Finance, Agriculture, Industry, and Foreign Affairs and the General Manager of the Central Bank). In the Phase I stage, when the foundation is in the process of being created, Project assistance will be channeled through a management/accounting firm and IESC.

The foundation has as its goals the promotion of trade, investment, and overall modernization of the economy. Its three main functions consist of:

- (1) raising funds for the achievement of its goals through negotiations with donor agencies, the possible negotiation of an export/import tax earmark with the GOE, and conducting a fund-raising campaign among national and foreign firms and institutions;
- (2) providing programmatic direction to the use of resources it generates in support of trade, investment, and economic modernization objectives by negotiating agreements with other Ecuadorian institutions for execution of specific activities. In

the case of policy dialogue, we envisage that the foundation will eventually play a direct, key role; and

(3) monitoring/evaluating the use of the resources it channels to these implementing institutions. Given the very limited resources the foundation will have at the outset, it will take some time for the foundation to develop this capability.

The Project thus contemplates a two-phased approach. In the first stage, USAID will provide a \$931,100 grant to FEDEXPOR, \$979,000 to an international contractor, and \$80,000 to IESC -- all funds for export promotion services, both industrial and agricultural; a \$502,000 grant to IESC to provide investment promotion services and an additional \$175,000 grant which IESC will use to pay for the initial operating expenses of the Fundacion; and \$25,000 to contract the services of an accounting/management firm to design and set up the initial administrative structure of the foundation. Once established, Fundacion Ecuador will assume overall responsibility for trade and investment promotion services and related policy dialogue, coordinating closely with other organizations to avoid duplication. In the second stage, likely after one year and based on a positive evaluation of the Fundacion's development, USAID will negotiate a Cooperative Agreement with the new foundation for continued implementation of the Trade and Investment Project's activities.

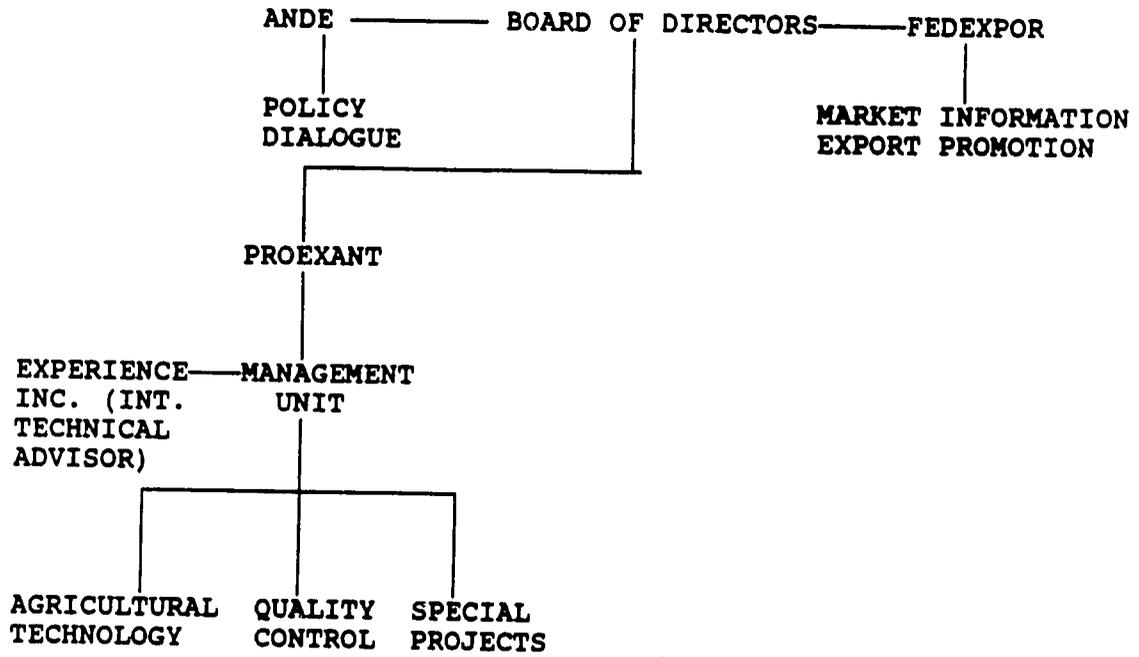
The grant to FEDEXPOR will allow the T&I Project to start providing export promotion services in the short-term and at the same time help strengthen FEDEXPOR as an institution. FEDEXPOR will necessarily have to use the specialized services provided by an international contractor or contractors to implement program activities. At the same time, it will have to ensure that activities under the T&I Project are closely coordinated with those of the NTAE Project, establishing an organizational structure which will avoid duplication of PROEXANT's activities and possibly using the same NTAE (ANDE/FEDEXPOR) Board of Directors for oversight. Once FEDEXPOR's two-year grant runs out, responsibility for coordination of export promotion activities will necessarily pass to Fundacion Ecuador. In 1994 when the NTAE Project ends, USAID will undertake an evaluation of the NTAE Project and determine what NTAE activities should continue to be funded out of the new T&I Project.

In Phase I, IESC's role will be to provide investment services while at the same time helping the Fundacion develop a permanent structure for investment promotion activities. In this sense, IESC's responsibilities will include institution building and strengthening. The Fundacion may decide that it wants to assume direct operational control of the investment function or, alternatively, may designate another organization for this role.

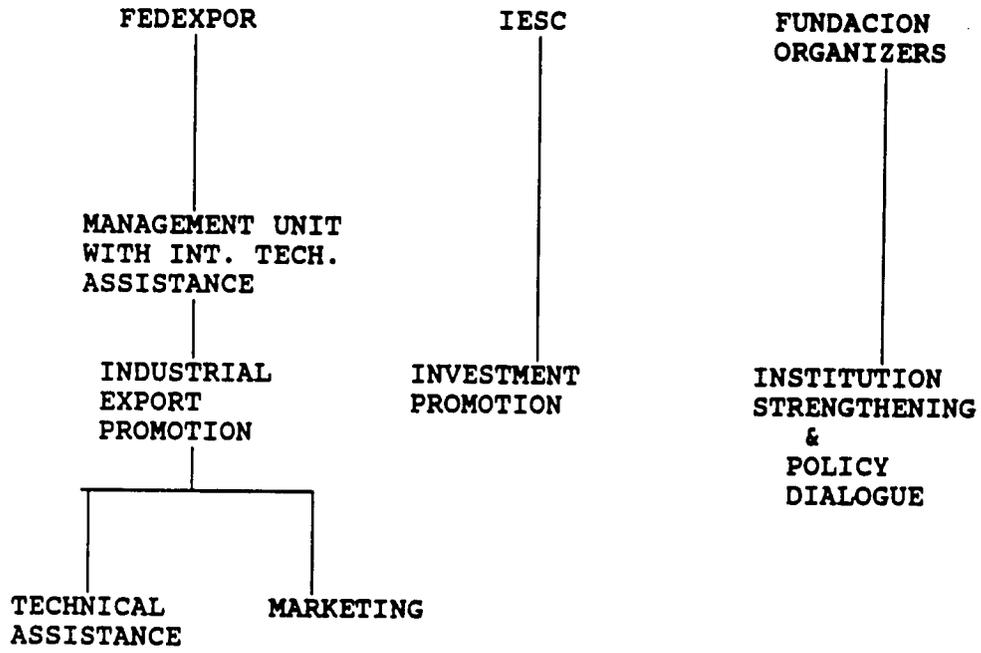
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Illustrative institutional arrangements for the NTAE and T&I projects during Phase I are shown in the two charts below:

NTAE STRUCTURE



TRADE & INVESTMENT PROJECT STRUCTURE



C. Summary of Economic Analysis

1. Introduction

Ecuador's large export potential has over the years been inhibited by the predominance of petroleum exports and a strong anti-export bias. The dominance of petroleum exports created the "Dutch Disease" phenomenon, effectively overvaluing the exchange rate and resulting in a downward trend of non-oil exports in the late 1970's and early 1980's. This phenomenon was aggravated both by the relatively rigid exchange rate regime maintained until 1982, which in turn resulted in a grossly over-valued exchange rate, and by labor rigidities imposed by an outdated labor law, and subsidized interest rates which favored capital intensive production. As a result, the country's strong competitive advantage based on its agricultural diversity, excess installed capacity in the industrial sector, and low wage rates could not effectively be utilized to promote exports, investment or economic growth. Non-traditional exports, in particular, did not experience higher growth rates because a combination of tax incentives and tariff and non-tariff barriers favored industrial import substitution at the expense of exports.

These preferences and import prohibitions, however, were eliminated or substantially reduced as part of a major tariff reform which was adopted by the GOE in 1990. While the country is consequently at a watershed, both the private and public sectors lack experience in promoting exports. Furthermore, there exists only one small export promotion institution. Thus, this new Trade and Investment Promotion Project is timely both for its anticipated positive effects on new trade and investment opportunities, as well as for its impact on employment generation and increased foreign exchange earnings for the country.

2. The Methodology Used

Given the practical constraints of developing a complete economic analysis with the baseline data for this project, the Mission has chosen to analyze instead the experience of the Mission's Non-traditional Agricultural Export (NTAE) project, now in its sixth year of implementation, the broader experience of USAID in other LAC countries with this type of project, and current information from the Central Bank of Ecuador. The Mission believes that the presentation of previous experience of the Non-Traditional Agricultural Export project in Ecuador and other LAC Trade and Investment projects establishes the appropriate benchmarks and set of economic impact indicators to justify the new Trade and Investment project for Ecuador.

3. The Social Costs and Benefits for the NTAE Project

The evaluation of the NTAE project by Chemonics and the analysis carried out by the Mission of the NTAE project confirm the view that agribusiness in Ecuador needs a lead time before it can provide important results in terms of incremental exports and employment generation. Once this gestation period is completed, results can be as impressive as with the recent experience with the flower export sector in Ecuador. Between 1985 and 1990, 5,000 direct jobs and 10,000 indirect jobs were created and exports increased from US\$ 526,000 to US\$ 13.5 million.

The Central Bank of Ecuador concluded that 70 non-traditional exporters, who together received credit worth US\$ 11 million (USAID's share was about US\$ 3 million), generated US\$ 22 million in annual sales and created 3,511 new jobs. Moreover, the existence of 32 new export projects in the highland (Sierra) region of the country, which does not have an export tradition, is exceptional.

4. The Relevance of these Other LAC Projects to the PP for Ecuador

Review of the Trade and Investment Projects in Belize, Costa Rica, the Dominican Republic and Peru demonstrates high incremental export and employment generation. Of particular relevance is the projected IRR at shadow prices of 53 % to 86% for the three firms analyzed in the Peru project. Moreover, for every US dollar provided in technical assistance and credit by the Peru Trade and Investment Project, US\$ 5.4 in gross exports were generated, and US\$ 2.42 in net foreign exchange was generated. 1/ The ex-post economic analysis of the Investment and Export Program of PIE/CINDE in Costa Rica demonstrated that even at 80% attribution levels for new investment firms and export promotion generation, the IRR was 16% compared to the 12% IRR established by the World Bank for Costa Rica. 2/

5. Sustainability

The Trade and Investment Project for Ecuador anticipates charging for the technical assistance and services beneficiary firms receive based on their ability to pay. The Project also envisages efforts by Fundacion Ecuador to obtain financial support from other donors and international financial institutions and also to persuade the GOE to levy a small fee on Ecuador's international trade for allocation to the foundation.

1/ USAID/Peru Mission. Draft Report for the Investment and Promotion (IEP) Project.

2/ Corrales Quesada, Jorge. 1990. "Evaluacion economica del programa de inversiones y exportacion PIE/CINDE." USAID.

This approach will lay the groundwork for future sustainability of the institutions supported or created by the project.

6. Credit

It is the Mission's view that technical assistance provided by the project will increase demand for credit within the country. In this respect, the Mission is confident that credit available in Ecuador through specialized institutions such as the CFN, BNF and BCE can be mobilized in such a fashion as to complement the project's technical assistance and institution building elements. However, there is no study available on the amount of credit that could potentially be leveraged by these components.

7. Policy Dialogue

The T&I Project will promote policy dialogue to improve the export and investment climate through directed studies, seminars, and technical assistance, as well as through institutional support to the new Fundacion. Other major donors such as the IBRD, IDB and IMF are attempting to play a more direct role in influencing Ecuador's trade and investment policy environment through financial leveraging and conditionality with funding levels that greatly exceed this particular USAID Project. Nevertheless, the Mission is confident that new technologies, improved productivity, and streamlined procedures will create a "bandwagon" or demonstration effect within the productive Ecuadorian private sector. The net effect should be enhanced, broad based economic growth and increased investment, exports and employment.

D. Summary of Social Soundness Analysis

The social impacts of the project will be positive and considerable. Technical assistance to agricultural and industrial enterprises will directly lead to employment creation, easing current labor market rigidities. The expansion of production by firms receiving technical assistance and their movement into the export sector will contribute to overall economic recovery and free up government resources for greater social expenditures.

While current data specifying the number of jobs that will be created through project interventions are speculative, extrapolations based on AID experience with similar projects elsewhere in Latin America (see the Economic Analysis, Annex G) indicate that approximately 7,000 jobs (an estimated 65% of which will be filled by women) will be created over the life of the project. Gender disaggregated baseline data is being collected in order to be able to measure the Project impact on female employment creation. This figure will be further explored and refined.

Because both non-traditional agricultural and industrial products are heavily dependent on raw materials and other inputs, other project beneficiaries will be the growers/suppliers of raw materials in product lines selected for emphasis by the project's comparative advantage analysis. The impact on women of this project will be positive, as women will benefit from the increased employment opportunities generated through promotion of exports and investment, particularly as small, labor intensive processing plants are created and/or enlarged.

The spread effects of the project are considerable and bode well for achieving long lasting impacts on the development performance of the country. Higher employment rates for women will translate into greater levels of social welfare, since women hold back less income for personal consumption than men and are more focused on children's well-being and family subsistence. Successful movement into the export sector on the part of previously non-exporting firms will demonstrate that exporting is a potentially profitable activity and in this way generate greater export volumes overall. As another, indirect spread effect, the efforts of production and marketing consultants in country will serve to strengthen other service providers. Project activities will lend themselves well to replication. The existence of competitive service providers down the line, both domestic and foreign based, will more fully allow the country to take advantage of dynamic international trade opportunities and will vindicate the project rationale.

More generally, the results of project interventions will improve the social landscape by leading the way to higher overall economic growth rates, more and higher quality jobs, a streamlined administrative apparatus, and a more stable footing for fiscal budgets which are currently unable to maintain necessary levels of social expenditure.

VI. Covenants

- (1) FEDEXPOR will submit to AID for approval annual implementation plans and budgets for project-financed activities;
- (2) IESC and FEDEXPOR covenants to coordinate their provision of technical assistance in Ecuador, as well as with other relevant institutions involved in investment promotion activities in Ecuador.

ACTION AID-2 INFO CHARGE 3

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TAGS:

SUBJECT: ECUADOR ACTION PLAN REVIEW

REPLY DUE 06-10-91
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1. THE 1992-1993 ECUADOR ACTION PLAN WAS REVIEWED ON 5/13/91 AT A MEETING CHAIRED BY AA/LAC JAMES MICHEL AND ATTENDED BY REPRESENTATIVES FROM THE LAC, FVA, PPC AND APRE BUREAUS AS WELL AS ARA AND TREASURY. DIRECTOR CHARLES COSTELLO AND PROGRAM OFFICER PATRICIO MALDONADO REPRESENTED THE MISSION.

2. AMBASSADOR MICHEL COMMENDED USAID/ECUADOR FOR THE STREAMLINED AND FOCUSSED PROGRAM PRESENTED IN THE ACTION PLAN. ECUADOR IS AN INTEGRAL PART OF THE ANDEAN STRATEGY, AND ITS DEVELOPMENTAL AND ECONOMIC PERFORMANCE ARE CENTRAL TO REGIONAL GROWTH. HOWEVER, IT IS NOT ONE OF THE COUNTRIES CURRENTLY RECEIVING ESF ASSISTANCE. THE MISSION EFFORTS TOWARD PROJECT PRIORITIZATION ARE APPROPRIATE IN THIS CONTEXT AND THE PROGRAM DIRECTION DETAILED IN THE ACTION PLAN WAS DETERMINED TO BE APPROPRIATE.

3. THE REVIEW MEETING DISCUSSED A NUMBER OF PROGRAMMATIC ISSUES, AS SUMMARIZED BELOW.

A. WILL NSD-18 OR OTHER ESF BE AVAILABLE FOR ECUADOR? THE CONSENSUS OF THE PARTICIPANTS WAS THAT ESF FUNDING FOR ECUADOR IN FY'S 1991 AND 1992 IS UNLIKELY AND THAT THE MISSION SHOULD NOT PLAN ON IT. GIVEN THE POLITICAL SITUATION, IT IS NOT EXPECTED THAT ECUADOR WILL MAKE ANY DRAMATIC ECONOMIC POLICY IMPROVEMENTS FROM NOW UNTIL THE ELECTIONS NEXT YEAR. HOWEVER, THE GOE DOES SEEM INTENT ON MAINTAINING THE REFORMS ALREADY ACHIEVED. IN THE LEAD UP TO THE POST ELECTION/CHANGE OF GOVERNMENT PERIOD LATE NEXT YEAR, HOWEVER, A COMPELLING JUSTIFICATION FOR PROVIDING ESF MIGHT BE MADE AND A REQUEST FOR FUNDING COULD BE APPROPRIATE AT THAT TIME. BASED ON THAT, THE AA/LAC EXPRESSED WILLINGNESS TO SUPPORT ECUADOR AS AN ESF-RECIPIENT FOR FY 1993.

B. TO WHAT EXTENT DOES PROGRESS UNDER STRATEGIC OBJECTIVE NO. 1 DEPEND ON ESF FUNDING? MISSION DIRECTOR COSTELLO INDICATED THAT THE ECUADOR PROGRAM WAS A POLICY-BASED PROGRAM WITH OR WITHOUT ESF FUNDING. THE

PPD 2

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TRADE AND INVESTMENT PROJECT, EVEN WITHOUT ESF FUNDING, WILL BE AN ADEQUATE VEHICLE TO PROMOTE SECTORAL POLICY REFORM.

C. WHAT ARE THE PROSPECTS FOR CONTINUED SECTION 416 FOOD ASSISTANCE AT THE LEVELS PLANNED? THE DISCUSSION REVEALED THAT THE MISSION'S PROPOSED LOCAL CURRENCY USES WERE FOR CAPITAL FUND TYPE ACTIVITIES RATHER THAN FOR RECURRENT COSTS. THE LOCAL CURRENCY IS TO BE USED FOR ENDOWMENTS TO ENSURE THE FUTURE SELF-SUSTAINABILITY OF AN AUTONOMOUS NATIONAL AGRICULTURAL RESEARCH CENTER AND PRIVATE DEVELOPMENT ORGANIZATIONS. LAC WILL SUPPORT CONTINUED PROVISION OF SECTION 416 FEED GRAINS FOR MONETIZATION, PROVIDED THAT COMMODITIES ARE AVAILABLE UNDER THIS SURPLUS DISPOSAL PROGRAM. HOWEVER, IT APPEARS THAT USDA WILL TAKE OVER MANAGEMENT OF 416 PROGRAMS STARTING IN 1992. THE MISSION WILL NEED TO WORK CLOSELY WITH THE AGATT AND COUNTRY TEAM ON THIS ISSUE IN ORDER TO ASSURE AVAILABILITY OF LOCAL CURRENCY.

D. IS THE MISSION DOING ENOUGH IN WATER AND SANITATION IN THE CONTEXT OF THE CHOLERA OUTBREAK IN ECUADOR? THE MISSION DIRECTOR INDICATED THAT CHOLERA IS SPREADING AND HAS REACHED THE ECUADOREAN HIGHLANDS WHERE ACCESS TO HEALTH SERVICES IS MORE LIMITED AND THAT THIS COULD RESULT IN A HIGHER DEATH RATE. IT WAS NOTED THAT CHOLERA IS A REGIONAL PROBLEM AND THAT LAC HAS STRUCTURED A REGIONAL RESPONSE THROUGH PAHO AND BUY-INS TO CENTRALLY FUNDED S AND T ACTIVITIES. THE MISSION ASKED WHETHER SOME OF THE FUNDS COULD BE TRANSFERRED TO USAID/ECUADOR FOR IMMEDIATE RELIEF ACTIVITIES, E.G., MASS MEDIA CAMPAIGNS AND LOCAL PROCUREMENT OF SUPPLIES AND TRANSPORTATION. THERE WAS AGREEMENT THAT THIS KIND OF ARRANGEMENT WAS THEORETICALLY POSSIBLE UNDER THE CURRENT CENTRALLY FUNDED ACTIVITY IF SUFFICIENT FUNDS ACTUALLY BECAME AVAILABLE IN 1991 TO MEET AUTHORIZED LEVELS. THE MISSION AND LAC/DR/HNP WILL DISCUSS PROPOSED EMERGENCY RELIEF REQUIREMENTS AND ACTIVITIES.

E. HOW WILL THE MISSION REACH ITS END OF FY 92 PER LEVEL OF 18? HOW WILL THE MISSION REDUCE COSTS IF THE OE LEVELS PROPOSED IN THE ACTION PLAN ARE NOT AVAILABLE? AA/LAC INDICATED THAT FURTHER STAFF AND OE REDUCTIONS ARE TO BE EXPECTED. THE MISSION INDICATED THAT IT WOULD BE NECESSARY TO FACTOR REGIONAL OFFICIALS CURRENTLY STATIONED AT USAID/ECUADOR INTO STAFF/OE REDUCTION PLANS AND REQUESTED AID/W ASSISTANCE IN DEVELOPING A PROFILE FOR THE "SMALL MISSION" CONCEPT. THERE WAS GENERAL

AGREEMENT THAT THIS WOULD BE BENEFICIAL.

F. AMBASSADOR MICHEL UNDERLINED THE IMPORTANCE OF MEASURING PROGRAM IMPACT, PARTICULARLY IN THE TRADE AND INVESTMENT AND POLICY REFORM AREAS. INDICATORS SHOULD BE BROADLY BASED TO SHOW NOT ONLY INCREASES IN TRADE AND INVESTMENT BUT ALSO EMPLOYMENT GENERATION AND BENEFITS ACCRUING TO THE POOR.

4. CLARIFICATIONS

A. IN ITS STATEMENT OF STRATEGIC OBJECTIVE NO. 1 (IMPROVED POLICY AND INSTITUTIONAL ENVIRONMENT LEADING TO INCREASED TRADE WITH EMPHASIS ON NON-TRADITIONAL EXPORTS) THE ACTION PLAN PRESENTS NO POLICY-RELATED INDICATORS. THE MISSION AGREED TO REEXAMINE THE OBJECTIVE STATEMENT AND EITHER REPHRASE IT OR INCLUDE POLICY INDICATORS.

B. IN THE ISSUES MEETING DISCUSSION OF INDICATORS FOR STRATEGIC OBJECTIVE NO. 3 (IRM AND/OR VACCINATION RATES) IT WAS RECOGNIZED THAT EACH INDICATOR WAS IMPORTANT. THE MISSION AGREED TO USE BOTH INDICATORS TO MONITOR PROGRESS AGAINST THIS STRATEGIC OBJECTIVE.

C. THE MISSION CLARIFIED AT THE ISSUES MEETING THAT THE INDICATORS FOR STRATEGIC OBJECTIVE NO. 5 (SUSTAINABLE USE OF BIOLOGICAL RESOURCES) ARE BEING DEVELOPED IN THE SUBIR PROJECT (518-0069) DESIGN PROCESS.

D. THE MISSION AGREED TO UPDATE THE INDICATORS FOR STRATEGIC OBJECTIVES 1, 3, 4 AND 5, AND FORWARD A COPY OF THE REVISED ACTION PLAN TO LAC/DR.

5. NEW PROJECT DESCRIPTION DECISIONS.

A. TRADE AND INVESTMENT SECTOR PROGRAM (518-0094). REVISED NPD, BASED ON AN LOP OF DOLS 10 MILLION LEVEL DA, WAS REVIEWED ON 5/16/91. THE REVISED NPD WAS APPROVED AND ACCEPTED AS THE PID EQUIVALENT DOCUMENT. LAC CONCURS WITH MISSION APPROVAL OF THE PROJECT PAPER WITH GUIDANCE AS FOLLOWS, BELOW.

-OF PRIMARY CONCERN WERE THE INSTITUTIONAL ARRANGEMENTS. THE MISSION REPRESENTATIVE EXPLAINED THAT, AT THE HIGHEST LEVEL, A BOARD OF PROMINENT PRIVATE SECTOR FIGURES WOULD BE FORMED TO DEAL WITH POLICY MATTERS. AT A LOWER LEVEL THE COUNCIL FOR THE DEVELOPMENT OF EXPORTS (CONANDEX) WILL INCLUDE THE PRIVATE SECTOR AND SOME PUBLIC SECTOR REPRESENTATION, AND WILL BE RESPONSIBLE FOR OVERALL IMPLEMENTATION OF THE PROJECT. THE MISSION SHOULD BE VERY CAREFUL IN DESIGNING SUCH AN ARRANGEMENT AS IT WILL PRESENT ALL OF THE CHALLENGES OF WORKING WITH A NEW ENTITY. THE MISSION SHOULD INVOLVE THE RCO AND RLA EARLY ON AS IT CONSIDERS CERTIFICATION OF SUCH AN ENTITY, OR INTERIM

ARRANGEMENTS (I.E. SIGNING OF A COOPERATIVE AGREEMENT)
WITH EXISTING ENTITIES SUCH AS FEDEXPOR.

-ACCORDING TO THE NPD A SECONDARY OBJECTIVE OF THE PROJECT WILL BE TO STRENGTHEN ANDE AND FEDEXPOR AND IMPROVE THEIR SERVICE ORIENTATION BUT QUOTE WITHOUT EXPLICITLY PLANNING TO DEVELOP A SELF-SUSTAINING CAPACITY TO PROVIDE THE FULL RANGE OF SERVICES TO BE PROVIDED UNDER THE PROJECT. UNQUOTE. THE PE SHOULD CONSIDER THE ROLES OF CONANDEX, ANDE AND FEDEXPOR AFTER THE PROJECT, AS WELL AS THE SUSTAINABILITY OF APPROPRIATE ACTIVITIES.

-THE PROJECT'S CRITERIA FOR PROVIDING CUSTOMIZED SERVICES SHOULD BE JUSTIFIED AND DOCUMENTED IN THE PP. PROVISION OF CUSTOMIZED SERVICES IS EXPENSIVE AND SHOULD BE WEIGHED AGAINST OTHER, PERHAPS MORE ECONOMICAL MEANS OF ACHIEVING THE PROJECT PURPOSE. THE BUREAU IS CONCERNED ABOUT INDIVIDUAL FIRMS BENEFITTING FROM SUCH SERVICES, OVER OTHER FIRMS. TO THE EXTENT POSSIBLE, TECHNICAL ASSISTANCE AND OTHER SERVICES SHOULD BE PROVIDED ON A SECTORAL OR INDUSTRY BASIS TO GROUPS OF FIRMS. THE PROJECT SHOULD MINIMIZE SITUATIONS WHERE SOME FIRMS WOULD BE GIVEN A COMPETITIVE EDGE OVER OTHERS WITHOUT STRONG JUSTIFICATION. THERE SHOULD BE AS LITTLE SUBSIDIZATION OF SERVICES AS POSSIBLE.

B. HEALTH AND FAMILY PLANNING (518-0084). THE PROPOSED EXPANSION OF THE PROJECT FROM DOLS 7.5 MILLION TO DOLS 10.5 AND THE INCLUSION OF NEW ENDEAVORS SUCH AS NON PROJECT ASSISTANCE AND DEBT SWAPS DESCRIBED IN QUITO 04488 WAS REVIEWED IN THE NPD MEETING AND A FOLLOW-UP MEETING. THE BUREAU IS VERY INTERESTED IN THIS PROJECT AND COMMENDS THE MISSION FOR ITS CREATIVE APPROACH. THE BUREAU RECONFIRMS CONCURRENCE WITH MISSION'S PROCEEDING WITH DESIGN AND APPROVAL OF PROJECT. GIVEN THE NEWNESS

OF THE NPA MODE OF ASSISTANCE PROPOSED UNDER THE PROJECT. PRIOR TO PROJECT APPROVAL LAC WILL REVIEW A MORE DETAILED DESCRIPTION OF THE NPA COMPONENT AND THE POLICY BENCHMARKS UPON WHICH DISBURSEMENT OF DOLLARS WILL BE BASED. WHEN THE DESIGN HAS ADVANCED SUFFICIENTLY, THE MISSION IS REQUESTED TO CABLE THE INFORMATION OUTLINED BELOW TO LAC/DR.

-JUSTIFICATION FOR NPA: THIS SHOULD BUILD ON SOME OF THE REASONS CONTAINED IN PARAGRAPH 5 OF QUITO 04488 (I.E. AID IS THE LARGEST DONOR IN FP AND POLICY CHANGES WILL OCCUR AS A RESULT OF THE PROGRAM, THE NPA MODE FOR THIS COMPONENT IS MORE EFFECTIVE THAN THE PROJECT MODE, ETC.)

-DESCRIPTION OF THE PROGRAM(S): THE PP SHOULD CONTAIN AND THE CABLE SHOULD SUMMARIZE A DESCRIPTION OF THE NPA LOCAL CURRENCY PROGRAM TO BE CARRIED OUT BY THE MINISTRY OF HEALTH, SOCIAL SECURITY AND MINISTRY OF FINANCE, INCLUDING CLEARLY DEFINED PROGRAM OBJECTIVES. THE CABLE WILL OUTLINE THE PROGRAM OUTPUTS TO BE ACHIEVED UNDER THE NPA COMPONENT.

-BENCHMARKS/CONDITIONS PRECEDENT TO DISBURSEMENT: QUITO 04488 STATES THAT DOLLARS WILL BE USED FOR PROCUREMENT OF HEALTH SECTOR COMMODITIES, ESPECIALLY FOR MATERNAL HEALTH AND FAMILY PLANNING PROGRAMS. THE CABLE WILL DESCRIBE THE TIMING AND AMOUNTS OF DOLLAR DISBURSEMENTS UNDER NPA AS WELL AS BENCHMARKS TO TRIGGER DISBURSEMENT. THE BENCHMARKS SHOULD BE RELATED TO EXPECTED POLICY OR INSTITUTIONAL CHANGES.

-MONITORING AND EVALUATION: POLICY-BASED NPA REQUIRES INCREASED EMPHASIS ON MONITORING PROGRAMS TO ENSURE THAT POLICY IMPROVEMENTS DO IN FACT OCCUR AND THAT THEY HAVE A POSITIVE IMPACT ON THE PROGRAM OBJECTIVES, I.E., INCREASING CONTRACEPTIVE PREVALENCE OR ACCESS TO FAMILY PLANNING SERVICES. THE CABLE WILL SUMMARIZE THE MISSION'S PLANS FOR MONITORING AND EVALUATING THE NPA COMPONENT.

-PROCEDURES FOR DOLLARS AND LOCAL CURRENCY: THE USE AND PROCEDURES, INCLUDING MONITORING AND TRACKING, OF BOTH DOLLARS AND GENERATED LOCAL CURRENCY SHOULD BE DESCRIBED. THIS SHOULD INCLUDE A PRELIMINARY LIST OR DESCRIPTION OF THE TYPES OF COMMODITIES TO BE FINANCED WITH DOLLARS. AN INDICATION OF THE INSTITUTIONAL CAPACITY (IN TERMS OF SOUND FINANCIAL MANAGEMENT, AUDIT, ETC.) OF THE ENTITIES RESPONSIBLE FOR MANAGING DOLLARS AND LOCAL CURRENCY SHOULD BE INCLUDED. SUCH USES AND PROCEDURES SHOULD BE IN COMPLIANCE WITH EXISTING GUIDANCE AND SHOULD ALSO TAKE INTO ACCOUNT DRAFT LOCAL CURRENCY GUIDANCE WHICH HAS BEEN DISTRIBUTED TO MISSION CONTROLLERS.

C. STRENGTHENING DEMOCRATIC INSTITUTIONS (518-0105)

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ANNEX A 6

THE MISSION IS DELEGATED AUTHORITY TO APPROVE THE PID AND PE. THE MISSION SHOULD IMPLEMENT EACH DISCRETE ACTIVITY (LOJ, ELECTORAL PROCESS) THROUGH THE MOST APPROPRIATE INSTITUTION AND SEEK TO LIMIT THE NUMBER OF DISCRETE COMPONENTS IN THE PROJECT.

D. SMALL ENTERPRISES EXPORT LINEAGES (518-0106). LAG APPROVES INCLUSION OF THIS PROJECT IN THE FY 1993 AFS. BAKER
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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

ANNEX B 1

U.S. Agency for International Development
Project # 91-127 97
Total U.S. Funding \$10,000,000
Washington, September 1991

Project Title & Number Trade and Investment Project 518-0094

INTRODUCTION: THE LOGICAL FRAMEWORK FORM SHOULD BE COMPLETED AS AN ADD-ON TO THE PROJECT DESIGN SUMMARY FOR THE PROJECT. IT WILL BE USED TO MONITOR OR EVALUATE THE PROJECT.

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goals: The broader objectives to which the project contributes (A-1)	Measure of Goal Achievement (A-2)	(A-3)	Assumptions for achieving goal targets (A-4)
<p>A. Goal: To help Ecuador achieve broad-based, self-sustainable economic growth through export and investment promotion</p> <p>B. Purpose: To provide quality export and investment services and support the institutional development of a viable Ecuadorian trade and investment promotion organization</p>	<ul style="list-style-type: none"> - Improved policy environment for trade and investment - 10% annual increase in value of non-traditional exports - 10% annual increase in value of new foreign investment in export industries - Operational <u>Ventanilla Unica</u> which reduces export/import license processing time from 3-4 weeks to less than one day - <u>Fundacion Ecuador</u> established and serving as lead private sector organization in coordinating trade and investment promotion programs - \$4 million annual increase in net additional export earnings generated by T&I Project in subsectors in which Ecuador has a comparative advantage - 7,000 workers (65% women) newly employed or productively re-employed in firms receiving T&I project support - \$5 million increase in investment in the T&I Project's subsectors - 10 new investments under maquila and free trade zone regimes directly as a result of the T&I Project's efforts - Five policy changes favoring trade and investment in which the T&I Project played a significant role - Enhanced capacity of private sector to conduct constructive policy dialogue with GOE on trade and investment issues 	<ul style="list-style-type: none"> - U.S. Dept. of Commerce, Imports for Consumption, Customs Value AID/LAC.DPP trade database - Statistics from Banco Central, FEDEXPOR, and/or PRDEXANT - Banco Central and Ministry of Finance - The project will track administrative reforms taken by the GOE (FEDEXPOR) - Project monitoring through local press and Government sources - FEDEXPOR annual reports and project monitoring - Gender disaggregated data will be collected - Quarterly statistical reports by IESC's TIS/Ecuador office - Project monitoring through local press and GOE sources 	<ul style="list-style-type: none"> - Continued economic, and political stability in Ecuador - Private sector confidence in national development policies leads to greater interest in investment in outward-oriented export industries - The GOE continues to move forward towards macro-economic policy reform, and potential exporters and investors respond rationally to the new policy environment - Those bureaucrats, brokers and customs agents who profit from systemic inefficiencies are not successful in blocking administrative reform process - There do exist firms on the exporting and investing threshold for whom services can make a difference and whose successes will demonstrate the plausibility of the new free-market regime

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

INSTRUCTIONS: THE DESIGN OF LOGICAL FRAMEWORKS SHOULD BE USED AS A GUIDE TO ORGANIZING THE DATA FOR THE PROPOSAL. IT DOES NOT BE REQUIRED OR ENFORCED.

Life of Project: 1 year 97
Total U.S. Funding: \$10,000,000
Date Prepared: September 1991

ANNEX D

Project Title & Number: Trade and Investment Project 518-0094

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goals: The Level of performance to which the project contributes (A-1)</p> <p>C. <u>Outputs:</u></p> <ol style="list-style-type: none"> 1. Provision by Institutional Contractor (under FEDEXPOR) of services to expand and improve industrial exports 2. Non-Traditional Agricultural Export Promotion Program (PROEXANT) strengthened 3. IESC establishment of a Trade and Investment Services (TIS) Center in Ecuador, with promotional office in U.S.A. 	<p>Measure of Goal Achievement (A-2)</p> <ul style="list-style-type: none"> - Seminars and workshops to discuss the divestiture and demonopolization of selected public service SOEs and private markets - A critical mass of competitive service suppliers created, predominantly in the private sector, that respond to exporter's needs - An increased # of efficient exporting firms that will maintain pressure for policies favoring trade and investment - Backward linkages established that include small and medium exporters and producers through contract agreements and other arrangements with large successful exporting firms and trade groups - Supply-oriented technical services benefiting 350 firms in both non-traditional agricultural and industrial product lines within sectors with comparative advantage - 120 firms receive business and investment linkage support - 5 industry surveys conducted - Approximately 14 Training and Manpower Development Seminars conducted by IESC volunteers - 4 newsletters, 8 project opportunity bulletins and 1 investment brochure generated - IESC efforts result in 40 new project ideas leading to 10 new ventures 	<p>(A-3)</p> <ul style="list-style-type: none"> - USAID/Quito Project Monitoring - A survey of the market for export/investment services will be conducted - Project monitoring and follow-up with firms which have received services - Institutional Contractor reports - IESC quarterly and annual reports 	<p>Assumptions for achieving goal targets (A-4)</p> <ul style="list-style-type: none"> - Willingness of firms to take on the challenges of exporting - Existence of potential investors currently held back by lack of services and the policy environment

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

INTRODUCTION: THIS IS AN ORIGINAL COPY OF THE LOGICAL FRAMEWORK TO BE USED FOR THE PROJECT. IT IS NOT TO BE REPRODUCED OR TRANSMITTED IN ANY FORM OR BY ANY MEANS, ELECTRONIC OR MECHANICAL, INCLUDING PHOTOCOPYING, RECORDING, OR BY ANY INFORMATION STORAGE AND RETRIEVAL SYSTEM.

Lib. of Proj. :
From FY 91 to FY 97
Total U.S. Funding - \$10,000,000
Date: September 1991

Project Title & Number: Trade and Investment Project 518-0094

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program Sector Goals: The broad objectives to which the project contributes (A-1)</p>	<p>Measure of Goal Achievement (A-2)</p>	<p>(A-3)</p>	<p>Assumptions for achieving goal objectives (A-4)</p>
<p>4. <u>Fundacion Ecuador</u> persuades GOE to levy fee, proceeds of which are directed (along with debt-swap and matching funds) toward foundation endowment.</p> <p>5. Technical assistance and training provided to the Central Bank for establishment of a <u>ventafilla unica</u>.</p> <p>D. <u>Inputs:</u></p> <p>1. Export Promotion Services</p> <p>2. Investment Promotion Services</p> <p>3. <u>Fundacion Ecuador</u> Endowment, Institution Strengthening, Policy Dialogue Studies and Seminars</p> <p>4. Evaluation/Audits</p>	<p><u>Fundacion Ecuador</u> endowment fund is large enough to provide for sustainability of activities after the LOP</p> <p>Number of bureaucratic steps and time involved in processing export/import licenses, reduced to less than one day</p> <p><u>Budget</u> <u>AID (US\$000)</u></p> <p>5,700</p> <p>2,200</p> <p>1,900</p> <p>200</p> <p><u>10,000</u></p>	<p>- Annual financial statements</p> <p>- Statistics from Banco Central</p>	<p>- Private sector leaders take charge of the process of creating the foundation</p> <p>- GOE willingness to streamline administrative apparatus</p>

(LOGFRAM)

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5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

The project goal is to facilitate transition towards an outward oriented growth strategy, thus, encouraging efforts to increase international trade, foster private initiative, encourage development of associations and improve technical efficiency of industry, agriculture and commerce.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project will by definition promote increased foreign investment in Ecuador. US private trade and investment in Ecuador will be actively encouraged. Private US firms will provide technical assistance.

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3. Congressional Notification

a. **General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A):** If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

N/A

b. **Notice of new account obligation (FY 1991 Appropriations Act Sec. 514):** If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)):** If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic pool policy reforms to be promoted?

N/A

4. **Engineering and Financial Plans (FAA Sec. 611(a)):** Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes, a project detailed detailed budget has been prepared with an estimate of the cost of the assistance.

5. **Legislative Action (FAA Sec. 611(a)(2)):** If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Private sector entities participating in the project will contribute local currencies to meet the services to be provided under the project, with a minimum of the equivalent of U.S. \$2.5 million.

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

NO

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

N/A

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

N/A

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

N/A

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

N/A

12. Trade Restrictions

a. **Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)):** If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

Assistance is to be provided on commodities where Ecuador has comparative advantage. No damage to U.S. producers is likely.

b. **Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)):** Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

The project may include the textile industry to take advantage of an expanded market, in the Andean Fact countries, and the establishment in Ecuador of maquila operations (US firms) to use labor capacity.

13. **Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)):** Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

14. **Sahel Accounting (FAA Sec. 121(d)):** If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. **PVO Assistance**

a. **Auditing and registration (FY 1991 Appropriations Act Sec. 537):** If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

A foundation to influence this project is in the process of being constituted. Once it acquires its legal existence, it will comply with all AID requisites to receive grants, as will the Federation of Ecuadorian Exporters (FEDEXPOR).

b. **Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"):** If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

The International Executive Service Corps (IESC), a U.S. PVO, will be one of the project grantees. It receives funding from various sources including the U.S. government.

16. **Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)):** Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

No, the agreement is for less than \$25 million.

17. **Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy):** Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the

N/A

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extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Increased employment as a result of the project will impact significantly on women.

19. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

This project will encourage other donor participation. However, the Mission does not consider this project to be susceptible to execution as part of a regional or a multilateral project.

20. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

NO

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion?

21. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

Indirectly, by encouraging the participation of groups that traditionally have not been involved in exporting.

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22. U.S.-Owned Foreign Currencies

a. **Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509):** Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

The host country counterparts will provide local currency resources to finance 25% minimum of total project costs.

b. **Release of currencies (FAA Sec. 612(d)):** Does the U.S. own excess foreign currency of the country and, if so what arrangements have been made for its release?

No, the U.S. does not own excess Ecuadorian currency.

23. Procurement

a. **Small business (FAA Sec. 602(a)):** Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

In accordance with AID regulation, procedures to encourage small business participation will be followed.

b. **U.S. procurement (FAA Sec. 604(a)):** Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

YES

c. **Marine insurance (FAA Sec. 604(d)):** If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

This type of discrimination has not taken place in Ecuador

d. **Non-U.S. agricultural procurement (FAA Sec. 604(e)):** If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. **Construction or engineering services (FAA Sec. 604(g)):** Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible

N/A

under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. Cargo preference shipping (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No, shipping is not excluded from these requirements.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes, all technical assistance will be procured from private sources.

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes, the Project agreement will so state.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes.

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j. Consulting services
 (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

Yes, they will be.

k. Metric conversion
 (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

24. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

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N/A

c. Large projects, Congressional approval (FAA Sec. 620(x)):
 If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

N/A

25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

NC

26. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

27. Narcotics

Yes.

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

Yes.

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

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28. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? Yes.
29. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes.
30. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes.
31. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes.
32. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes.
33. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes.
34. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes.
35. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes.

36. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.

37. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propoganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propoganda purposes not authorized by Congress? No.

38. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? Yes.

39. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. Agricultural Exports (Bumpers Amendment) (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training); are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

Assistance to agricultural production will enhance the country's capacity to export to the U.S. and to other countries as well. This, however, is not the only area to be covered by the project.

2. Tied Aid Credits (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

N/A

3. Appropriate Technology (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes.

4. Indigenous Needs and Resources (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Export diversification, investment promotion, policy reform and the achievement of broadly-based economic growth recognizes the needs of the country and are aimed at using the capacity of the people and their intellectual resources for a strong institutional development.

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

The project 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. The promotion of labor intensive industries will increase employment particularly those coming from depressed areas. Women will benefit from the new industries, especially maquila. The Andean Pact tariff reduction will encourage regional cooperation among the countries.

7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Local counterpart contribution will be at least 25%.

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

The country as a whole will benefit from the initiatives to be undertaken by this project. An increase in export activities and in investment will create more jobs for the poor majority.

9. **Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):** N/A
- a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? N/A
- b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? N/A
- c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? N/A
- d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? N/A
- e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A
- f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? N/A
- g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? N/A

10. **Contract Awards (FAA Sec. 601(e)):** Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

- 11. **Disadvantaged Enterprises (FY 1991 Appropriations Act Sec. 567):** What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

No set-asides have been identified.

12. **Biological Diversity (FAA Sec. 119(g)):** Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

13. **Tropical Forests (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):**

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes, a categorical exclusion has been recommended.

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent

N/A

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feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

N/A

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

Yes.

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. **Sub-Saharan Africa Assistance** (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) being provided in accordance with the policies contained in FAA section 102; (d) being provided in close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (e) being used to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (f) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks,

N/A

to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

16. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

Project is DA grant funded

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

Same as 6 above

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20. Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

The Project will provide technical assistance for agricultural production oriented towards foreign markets. The rural poor will benefit as they can produce those products that have potential.

b. Nutrition: Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

c. Food security: Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of

N/A

mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Training via short term TA will be provided at various levels in the export and investment promotion process as well as in development of an Ecuadorian trade and investment organization.

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

N/A

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

N/A

c. research into, and evaluation of, economic development processes and techniques; N/A

d. reconstruction after natural or manmade disaster and programs of disaster preparedness; N/A

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; N/A

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

24. Sahel Development (FAA Secs. 120-21). If assistance is being made available for the Sahelian region, describe: (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) whether a determination has been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom). N/A

Agency for International Development
Washington, D.C. 20523

LAC-IEE-91-65

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Ecuador

Project Title : Trade and Investment Project

Project Number : 518-0094

Funding : \$10 million D.A.

Life of Project : 6 Years (FY 91-96)

IEE Prepared by : Ron Ruybal/Carlos Torres
USAID/Ecuador

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Negative Determination

Comments : Negative determination granted subject to inclusion of environmental technical assistance in the export and investment services provided. This assistance will be directed towards ensuring that industries serve as models in meeting Ecuadoran environmental pollution control standards.

Copy to : Charles E. Costello, Director
USAID/Ecuador

Copy to : Ron Ruybal, USAID/Ecuador

Copy to : Howard Clark, REA/SA
USAID/Ecuador

Copy to : Melinda Keenan-Wood, LAC TI

Copy to : Peter Lopera, LAC/DR/SAM

Copy to : John Schneider, LAC/SAM

Copy to : IEE File

James S. Hester Date JUL -3 1991
James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

INITIAL ENVIRONMENTAL EXAMINATIONTRADE AND INVESTMENT PROJECT
USAID/ECUADOR.

Project Number: 518-0094

I. PROJECT DESCRIPTION:

The Trade and Investment Project in Ecuador consists of a \$10 Million Grant to support the achievement of a broadly-based, sustainable economic growth. The project seeks 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, and high-quality services. As a secondary objective and as experience accumulates, the project will foster the development of a number of competing service suppliers predominantly in the private sector, both foreign and local.

The export and investment promotion services to be provided will be directed toward:

1. The development of new export ventures in the manufacturing sector.
2. Industrial transformation to meet the new challenges and opportunities to the international market place.
3. Foreign investment promotion to take full advantage of Ecuador's new maquila and free zone legislation.
4. Studies and promotion activities for basic infrastructure and transportation investment related to trade and investment.

Technical assistance and training will be provided in the following areas: product design and development; process technology; quality control; packing 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 project will also address key policy and administrative reform measures, and support the GOE's privatization efforts.

Annex D 3

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Ecuador

Project Title: Trade and Investment (T&I)

Project Number: 518-0094

Funding: US\$10 million D.A.

Life of Project: Six years

IEE Prepared by: *[Signature]*
 Roy M. Rybal/Carlos Torres
 USAID/Ecuador

6/2/91
 Date

Recommended Threshold Decision: Categorical Exclusion, because 22 CFR, Part 216.2(c), 1(i) and 2(i) states that programs involving actions that do not have an effect on the natural or physical environment, and that provide technical assistance, are exempted from IEE procedures.

Copy to Richard Peters, Chief, LTIO, USAID/Ecuador.

Copy to Howard Clark, Regional Environmental Advisor, REMS/SA.

Concurrence with Recommended Threshold Decision *[Signature]* 6/2/91
 Charles E. Costello, Date Director, USAID/Ecuador

LAC Bureau Threshold Decision James S. Hester
 Chief Environmental Officer
 Bureau for Latin America and the Caribbean

 Date

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STATE 222484

ANNEX D

ACTION AID-2 INFO DCM 3

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CHRG: AID
DIST: AID

JUL 9 1991
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AIDAC QUITO FOR K. YAMASHITA, R. RUYEAL, C. TORRES AND

E.O. 12356: N/A

TAGS:

SUBJECT: ENVIRONMENTAL THRESHOLD DECISIONS FOR HEALTH AND FAMILY PLANNING PROJECT (518-0084) AND TRADE AND INVESTMENT PROJECT (518-0094)

H. CLARK, REA/SA

1. THE LAC CHIEF ENVIRONMENTAL OFFICER HAS REVIEWED THE SUBJECT PROJECTS. ENVIRONMENTAL THRESHOLD DECISIONS FOR THESE PROJECTS ARE REPORTED BELOW IN PARA. 2-3. LAC/DR/I COMPLIMENTS MISSION ON ITS ENVIRONMENTAL AWARENESS. COPIES OF ENVIRONMENTAL THRESHOLD DECISIONS ARE BEING FOUCHED TO MISSION FOR INCLUSION IN PROJECT FILES.

2. HEALTH AND FAMILY PLANNING PROJECT (518-0084). LAC HAS REVIEWED AND HEREBY APPROVES MISSION REQUEST FOR A CATEGORICAL EXCLUSION FOR THIS PROJECT. INITIAL ENVIRONMENTAL EXAMINATION (IEE) NUMBER IS LAC-IEE-91-57.

3. TRADE AND INVESTMENT PROJECT (518-0094). LAC HAS REVIEWED THIS PROJECT AND MADE A NEGATIVE DETERMINATION. IEE NUMBER IS LAC-IEE-91-65. NEGATIVE DETERMINATION GRANTED SUBJECT TO INCLUSION OF ENVIRONMENTAL TECHNICAL ASSISTANCE IN THE EXPORT AND INVESTMENT SERVICES PROVIDED.

THIS ASSISTANCE WILL BE DIRECTED TOWARDS ENSURING THAT INDUSTRIES SERVE AS MODELS IN MEETING ECUADORAN ENVIRONMENTAL POLLUTION CONTROL STANDARDS. BAKER

BT
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STATE 222484

REPLY DUE 07-15-91
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ASSIGNED : *H Clark*

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Technical Analysis

Toward the goal of providing services that will promote exports and investment in the short run, the T&I Project will negotiate both a cooperative agreement with the Federation of Ecuadorian Exporters (FEDEXPOR) for the extension of services to exporters, and a buy-in with the International Executive Service Corps (IESC) in order to access the Corps' extensive investment networks and matchmaking ability. To enhance the production and marketing capacities of local firms for export, FEDEXPOR will use project funds to provide currently unavailable supply-side services, particularly directed toward industrial product lines. In this way, the project will result not only in a greater number of non-traditional exporters in new and profitable product lines, but also in strengthened domestic institutions which will outlast the LOP. To increase investment levels in the country, the project will task IESC's Trade and Investment Services (TIS) program and its Volunteer Executives with the identification of Ecuadorian firms interested in joint and cooperative ventures, linking them with foreign partners, and providing them with venture planning assistance and technology search and acquisition advice. IESC will also participate in a small, complementary way in export promotion, providing industry experts toward this goal.

I. Export Promotion

In subsectors to be selected by a comparative advantage study currently underway, the T&I Project will provide through FEDEXPOR a comprehensive range of services to targeted firms, as indicated below:

A. Enterprise Development Assistance

This type of assistance entails the provision of management and organization development support; preparation and evaluation of feasibility studies; formulation of investment and financing packages; strategy formulation; setting up financial, accounting and information systems; assessing and recommending solutions to supply constraints; and provision of specialized training to key executive, administrative and line personnel.

B. Production Assistance

One of the key areas of project support refers to the assistance in product development and design, evaluation and improvement of production and management techniques, establishment of efficient quality control procedures, and assistance in industrial engineering.

Generally, in the case of companies without previous export

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experience, a great deal of effort is required to upgrade the capacity of local firms to supply the target markets. To adequately meet the needs of the target markets, it is extremely important to enhance the production capacity and skills of local firms.

Of all the services to be provided, production assistance is probably the most important. The main reason why foreign buyers hesitate to establish formal business relationships with exporters in LDC's is connected to supply deficiencies of the later. These deficiencies include, for example, an exporter's inability to supply a consistent quality of output, respond rapidly to orders, and meet deliveries on time.

What counts for a foreign buyer is the perception of the local firm's production capabilities and its ability to properly satisfy orders. A local firm's inability to meet any of the conditions of a foreign buyer, not only disqualifies the local company for any future business, but also casts a negative shadow on the entire country. Before these deficiencies are properly solved, it is fruitless to launch a major export promotion effort. In the meantime, the provision of supply-side services through FEDEXPOR is the best way the project can help to strengthen firms abilities to meet the greater levels of external demand for their products which will ensue from future export promotion drives.

To address an important need of several exporting firms, the Project will also provide assistance in upgrading production capacities of small and medium-sized producers supplying raw materials to processing/exporting companies. Examples of companies requiring this type of support are CETECA, ECUAVEGETAL and the wood processing companies.

C. Marketing Assistance

For those firms satisfying production capacity criteria, the Project will provide market information and intelligence services. These services refer to the provision of assistance to:

- * identify potential export markets,
- * conduct research and assess the feasibility of export ventures into specific markets,
- * identify new buyers,
- * prepare samples and brochures,
- * formulate market penetration strategies,
- * design packaging and promotional materials,
- * conduct negotiations with potential foreign buyers,
- * identify new business opportunities,
- * establish joint ventures and partnerships,
- * select intermediaries and marketing channels,
- * acquire licenses,

- * set up trade representations,
- * attend to trade fairs,
- * supply all the necessary marketing training to executives, administrators and salespeople.

As detected in the survey conducted by outside consultants from DAI during project design, the provision of information with respect to potential export markets and buyers is considered to be one of the most important types of services required by existing exporters. Because of this, information is a critical service that promotional institutions can provide to speed up the export promotion process. In addition to this type of service, firms with no export experience but with considerable export potential are likely to require comprehensive support in all other marketing areas.

D. Provision of Customized and Standardized Services

In addition to the separation of production from marketing assistance, another division which is often emphasized in the development literature is that between customized and standardized services. Customized services refer to the provision of targeted assistance directed to specific groups of firms, while standardized services refer to the provision of assistance suitable for a broad range of groups of companies. Providing both of these types of services within any one project is often considered to be impossible, and the literature tends to phrase the question in terms of "customized versus standardized services." Another myth is that customized services are mistakenly thought to assist specific firms rather than specific groups of firms, which underestimates the spread effect that customized services do have. This project will determine the nature of the services it will provide on a case by case basis, whereby certain standardized services will best respond to certain demonstrated service needs, and more customized services will best respond to others.

(1) Standard Services

As indicated in the literature and determined in interviews with local exporters, certain types of standardized services - principally information- are useful and valued by exporters and investors alike. These services refer to the publication of Exporters' Directories, monthly bulletins concerning trade opportunities and buyers interested in local products, as well as the provision of short courses (up to four months), seminars and conferences in areas of interest to exporters.

Certain types of services are generally provided in a standardized fashion, such as information for both potential investors and exporters. This information refers to non-specific information about the country, labor laws, administrative

procedures, etc. These can be provided by an official TPO, a membership organizations or a private foundation.

In this respect, the Project will sponsor the publication of:

- One monthly Bulletin
- One Exporters' Directory
- An "Invest in Ecuador" Brochure, outlining the more relevant facts about the available natural resources, transportation and port facilities, costs of production, and the regulatory environment.

Likewise, the Project will sponsor a minimum of:

- Four courses per year in each of the principal areas of the exporting business (e.g. establishment of an export business, administrative procedures, logistics, market evaluation, negotiation with foreign buyers, provision of services to the export industries, etc.). These courses will be widely promoted among the general public and particularly among private sector service providers (i.e. trading companies, banks, insurance companies, transportation and cargo-handling companies, information and customs-expediting agencies, etc.).

Participation in these courses will be open to the general public and they will be self-financing.

(2) Customized Services

The main thrust of the Project will be directed to the provision of a complete range of customized services to a narrow set of firms in selected sub-sectors of the economy. This preference is the result of an important reality which has guided the entire design process of the project, namely the high degree to which the policy environment currently constrains exports and investments. In such an environment, standardized informational services are not sufficient to move firms into exporting and investing. Where policies remain prohibitive, firms need more specialized help to overcome what amounts to a greater number of disincentives. Furthermore, these specialized interventions must be targeted because the provision of customized services to a broad spectrum of firms would be extremely costly and inefficient. In the effort to increase the impact of project interventions, those customized services will be developed and provided by the TIS/Ecuador office which meet the needs of the largest number of industrial firms and subsectors. In other words, customized services will, to a certain extent, lend themselves to repetition if they respond to the service needs as felt within sub-sectors.

To be successful, the Trade and Investment Project through FEDEXPOR must address the specific needs of the firms involved.

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These needs are not homogeneous, as there are different types of firms. The needs of firms already exporting are not equal to those still operating in the domestic market, nor are the needs of the large firms similar to those of the smaller ones. Likewise, the foreign company requires services which differ from those demanded by local firms. These concepts are explained in detail as follows:

For the provision of customized services to selected firms, the following operating procedures will be adopted:

- Complete the comparative advantage study of Ecuadorian industrial products, identifying the most competitive sub-sectors in the international market.^{1/}

It is assumed that the sub-sectors considered will be in the "non-traditional" export sector, that is generating aggregate exports of less than \$25 million. For purposes of Project Implementation, the ceiling will be raised to \$50 million. This higher amount will permit a producers' association to apply a 1-2% levy and attain self-sufficiency and the capability to provide essential services to its members.

- During the initial phase of the Project, a minimum of three and a maximum of five productive sub-sectors (e.g. shoes, wood furniture, and non-electrical machinery) will be selected from the ones identified by the study on industrial comparative advantages.

- Within each of the selected productive sub-sectors, a census of existing companies will be conducted. This census will include an in-depth collection of information regarding: financial status (assets, liabilities, net worth), experience in the domestic and foreign markets, production capacities, client

- With the results of the census of firms in each sector, they will then be broken down into four categories: firms

^{1/} This study (see Annex L for the scope of work) is about to be undertaken by the Mission and should be completed before project implementation. The obvious comparative advantages of Ecuador seem to lie in the labor-intensive agricultural and agro-industrial sub-sectors, as well as in mining and tourism. As determined in a World Bank study and the survey conducted by the DAI consultant team, promising sub-sectors do exist in the production of leather goods, wood furniture, shoes, clothing, clay products, as well as metallic products and non-electrical machinery. In the agro-industrial sub-sector, export opportunities exist in the production of flowers, pigeon peas, and a variety of exotic fruits, such as mangos. list, qualifications of the owners, executives, and line personnel, level of plant utilization, etc.).

presently exporting, firms ready-to-export, firms not-ready-to export, and unwilling/unable to export.

- For each of the selected sub-sectors, two experts will be brought, one in production and the other in marketing. Preferably the marketing experts should be experienced foreign buyers with in-depth knowledge of trade practices and supply requirements of the target market. These experts will conduct an evaluation of each one of firms in with the greatest export potential to determine the type of assistance and support required by each of them to export successfully.

- Based on the recommendations of each group of sectoral experts, the Project will select specific firms in each sector that will qualify for project support.

E. Service Needs According to Firm Category

Service needs of each firm will vary. Naturally, the more experience a firm has in the exporting business, the lesser assistance it will require, although less assistance in these cases is likely to result in larger increases in exports. On the contrary, firms with no export experience will require comprehensive production and marketing assistance. Firms in the first three categories should be the main focus of customized services provided by the project, being the principal candidates for joint-venture and co-venture arrangements as well as direct exports. These are also the firms that offer the best potential for immediate project success.

The differences in services required by these firms are explained as follows:

(1) Actual Exporting Firms

This category includes those firms whose production capacity is adequate and are already exporting successfully. These firms are generally large and need project support to increase their outputs, predominantly in terms of services for accessing investment and equity funds. Examples of these firms which were found in the survey conducted by the DAI Team are FLORINSA, AGROMOD, ECUAVEGETAL, EXTRACTOS ANDINOS, CETECA, OCEPA, DUREX, PLYWOOD y MADEROTECNIA.

Several of these firms require support in obtaining additional financial resources for expansion and/or diversification, or equity capital from foreign investors. They are also likely to require limited production assistance, as they are presently competitive in the international market.

(2) Ready-to-Export Firms

The firms considered to be ready-to-export are those having an adequate production capability, and a sound management and financial condition. Firms in this category need marketing information assistance, and possibly access to investment and/or equity funds, matchmaking, dealmaking and information services and business transactions and facilitation support.

Firms in this category include INAGRAFA SCC, a large agro-industrial company actively searching for markets for its processed quinoa products; VANI, a medium-sized textile company who is entering in maquila arrangements with a U.S. firm; INCARIO, a small handicrafts producer presently searching for markets; and C & W Exportaciones, a small and newly-formed trading firm dealing with handicraft products.

(3) Not-Ready-to-Export Firms

With respect to firms in the previous two categories, not-ready-to-export firms exhibit limited management abilities and expertise, psychological reluctance to participate in international markets, a short-term business outlook, a lack of access to information and inability to utilize it properly, as well as an inability to qualify export business opportunities.

These firms require assistance in strategy formulation, search for potential investment partners, support in elaboration of feasibility studies for plant expansion or technological upgrading, financing, start-up and planning, know-how, training and overall management assistance. To enable these firms to export, a comprehensive set of services would have to be provided at all stages of the production and marketing process.

Examples of firms in these categories are SUSCAL, a small food processing company interested in exporting canned pineapple cuts and BAHANA, a handicrafts trading company interested in exporting tagua products.

F. Service Needs According to the Size of Firm

Services required by firms will also vary in relation to the size of the company. The larger companies are likely to require relatively less assistance in general. On the contrary, the smaller the firm, the more likely it will be that it requires integral support in all services supplied by the proposed Project.

G. Criteria for Firm Selection

As seen above, the Project contemplates the provision of both customized and standardized services, in the form of production

and marketing assistance, and to firms located on different sections of the exporting, non-exporting continuum. One critical issue for project implementation is the criteria for selecting the firms to receive these different forms of project support. For selecting among the groups of firms identified above, several factors, oriented to minimize business risk and optimize export success, will be considered.

Ideally, firms selected to receive project support should be financially sound, having a positive cash flow, healthy asset/debt ratios, gross margins, and consistent net profits. They should also possess proven managerial expertise in the areas of finance and production, and have qualified line personnel. Production processes being employed should be relatively modern and cost-efficient, to assure international competitiveness. Even though the firm may only be selling in the local market, it is important to analyze its principal clients and find out the company's effectiveness as a supplier. It is also important to assess the firm's experience and ability as an exporter and its potential foreign exchange generation capacity. Finally, the Project should also consider the existence of any backward linkages with the potential beneficiary, measured in terms of the number of direct and indirect jobs created, utilization of local inputs, or provision of inputs to other local industries.

As an example, a possible objective weighting approach that utilizes the above concepts for firm selection is indicated in Table I.

Table I. Suggested Weighting Approach for Firm Selection

CONCEPT	WEIGHT
- Risk Potential:	
Financial soundness:	10
Managerial expertise:	10
Production capacity:	10
Client satisfaction/marketing expertise:	10
Exporting experience:	10
Sub-total	50
- Export potential:	30
- Backward and forward linkages:	20
TOTAL	100

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To maximize the overall goal of increasing the value and volume of non-traditional industrial exports, the essential recommendation to bear in mind in selecting the final group of firms is to adopt a low to moderate risk (say, concentrate on firms having scores no lower than 40 points in the risk potential indicator and no less than 70 in the overall score), and focus on no more than five different target groups.

The above criteria may raise objections based on equity considerations, as Project support would tend to flow to the larger, more export-ready firms, while the smaller are left behind. In this respect several considerations need to be made:

- * First, even though the Project would initially emphasize work with the most export-ready firms, to attain experience and the necessary level of success leading to public credibility and long-term support, it is expected that gradually the Project would be enabled to devote increasing shares of resources to smaller and less sophisticated firms.
- * Second, from an efficiency standpoint, the firms that are most ready-to-export are likely to require the least Project support and generate the largest and immediate foreign exchange earnings.
- * Third, the wealthier and larger firms benefitting from Project assistance will generally be able to pay the full, or a major share, of the cost associated to the provision of Project assistance to expand their exports, versus the smaller companies which can receive a larger proportion of subsidy or matching grant.

II. Investment Promotion

The best investment promotion is the maintenance of a favorable policy climate for exports and investment. Potential investors are attracted to a particular country if clear and consistent rules are applied efficiently and automatically. Given the existing political context in Ecuador, in the short and medium-term, establishing such rules seems unattainable. Moreover, until sound economic policies and efficient administrative procedures are adopted in the country, a major investment promotion effort could in fact be detrimental to Ecuador. Accordingly, policy dialogue activities will be a major role of the Fundacion Ecuador, the national scope and high visibility of which will enable successful interaction with the GOE on policies that deter investment in particular and maintain the country's inward orientation in general. This project's funding levels, however, are insufficient to leverage GOE adoption of specific policy measures. Other than offering seminars and informal

networking, project funds will be best used to bring about greater levels of investment by concentrating on a select group of essential and high-impact activities which the International Executive Service Corps (IESC) will carry out.

According to Handbook 13, competition in the award of grants or cooperative agreements is not required if the assistance award is based on an unsolicited application. This regulation excuses the Mission from competing the award to IESC since the proposal which the Corps submitted two years ago for funding of its investment and export promotion program was unsolicited. Since that time, IESC has been working in Ecuador in this field, and therefore its efforts under the Trade and Investment Project will constitute a continuation and expansion of activities the Corps is already pursuing. The existing relationship between IESC and the cooperating country is another indicator that competition in the award of this grant is not required.

A. Background and Overview of IESC

In the light of recent project design-related trips to Costa Rica and Guatemala, in which a group of Ecuadorian private sector leaders and A.I.D. officers observed the International Executive Service Corps' T.I.S. activities in action, the project anticipates taking advantage of this mechanism for the promotion of investment in Ecuador.

For over twenty-three years, IESC has provided technical assistance to more than 10,000 enterprises in developing countries through its Volunteer Executive (VE) program. The VE program utilizes the expertise of retired U.S. business executives for direct volunteer technical assistance such as business planning, organizing, product development, and feasibility studies. More recently, IESC's relationship with AID has been strengthened through the former's Trade and Investment Services (TIS) mechanism. Experience shows that many firms are prepared to consider new types of joint ventures or co-ventures with foreign partners if organizations, such as IESC, provide the resources and networks necessary to identify potential partners, locate technology and other resources, and lessen venture risks by supporting development efforts from the initial stages to on-going productivity improvement and expansion.

The TIS/Ecuador program will develop investments and joint and coventures (ie. licensing, co-production and technology transfer agreements) through the activities of its Trade and Investment Services (TIS) division, which include TIS VE-directed Sector Development, U.S. business linkage and investment promotion and marketing Support; and TIS-generated demand for technology upgrading from private firms in selected sectors by helping these firms diagnose their production and marketing problems and formulate requests for assistance to search for technological

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solutions and joint or coventure partners.

The TIS/Ecuador program will build on and expand the operating network of IESC Volunteer Executives. IESC Volunteer Executive expertise will help develop and carry out contact programs such as venture planning assistance to Ecuadorian firms interested in joint and cooperative ventures with U.S. partners and expert advice to help Ecuadorian firms with technology search and acquisition through partnerships with U.S. businesses. IESC will also build/strengthen/support the activities of the Fundacion Ecuador through technical and managerial assistance provided by Volunteer Executives, as well as through access to all IESC business development services.

In addition, the TIS/Ecuador staff in the United States will engage in aggressive outreach to U.S. industrial sectors and businesses in order to direct opportunities toward Ecuador and in response to client needs. Volunteer experts will work with appropriate U.S. companies and technology suppliers through co-marketing, production drawback, licensing, and other business relationships, and provide the follow-up support necessary for successful venture development. The TIS/Ecuador staff will engage in similar promotional efforts in the local environment, in coordination with the U.S. staff and under the aegis of the IESC Country Director.

The IESC approach can service all stages of the venture development process from sector development to specific project assistance, providing a practical package of services to U.S. and Ecuadorian firms, and meeting in turn the flexibility needs of the project. The specific investment promotion priorities and activities which IESC will pursue are spelled out in more detail below.

B. Specifics of the IESC Approach

1. Maquila Law

It is important to mention that, as a major part of its activities to promote investment in Ecuador, the TIS/Ecuador program will particularly concentrate its efforts on those specific areas where legal and policy constraints have been relaxed. Specifically, the Project will focus its activities in the free zones and maquila areas created by the recently enacted maquila legislation.

2. Sector Development in Ecuador

Over a period of 2 years, TIS/Ecuador will conduct 5 industry surveys, including visits to up to 150 individual enterprises to evaluate short and long-term capacity. Up to 120 Ecuadorian firms will receive industry-specific business and investment

linkage and training support toward the goal of helping small and medium-sized firms participate in the emerging global economy. This component will include short-term diagnoses and technical consultations by Task Force VEs to assess short and long term capacity. The Sector Development Program will be measured by quarterly statistical reports of program results, comparing planned and actual numbers and types of clients served, ventures developed, and jobs and foreign exchange and jobs generated. IESC plans to generate 40 new project ideas leading to the eventual establishment of up to 10 actual new ventures.

3. Marketing & Promotion Support

IESC's Marketing Support staff in the U.S. will produce and distribute at least 4 newsletters and 8 project opportunity bulletins to industry, development, and other appropriate constituencies. In addition to trade shows, IESC will also generate a TIS/Ecuador program and/or investment promotion brochure for direct mail and client promotion and marketing use by VE and TIS/Ecuador staff. Case studies and other training materials will be developed by U.S. TIS support staff, as required, for TIS project use.

4. Association/Institution Strengthening

Toward the creation of the Fundacion Ecuador, four TIS VE projects will assist in strengthening the foundation, helping to build its credibility and enhance policy dialogue within the private and public sectors.

5. Training and Manpower Development

With the attendance of approximately 50 Ecuadorian businessmen per seminar, IESC volunteers who are either active industry experts or retired executives will conduct two one-week seminars in such areas as post-harvest handling, food-processing, environmental technology, etc. In addition, IESC plans various industry-specific workshops, in-plant training programs for individual firms, and in-plant training programs in U.S. facilities for Ecuadorian employees.

6. Investment Promotion Offices

The IESC proposal allows for a TIS/Ecuador Office which will count on the support of two dedicated full-time professional TIS Investment Promotion Officers, plus accounting and secretarial support. This staff will be located in IESC (or association) offices in Quito and Guayaquil and report to the IESC Country Director who will have overall responsibility for all IESC programs in Ecuador. In the U.S. TIS Office, a full-time TIS Investment Promotion Project Manager, part-time accounting staff, part-time Executive Oversight and marketing support at IESC TIS

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headquarters in Stamford, Connecticut will be required to support TIS/Ecuador's U.S. networking, venture development and linkage activities.

ANNEXE

Institutional Analysis

Ecuador has a number of institutions which play a role in the area of trade and investment -- but virtually all of them have weaknesses and need substantial strengthening before they can make a significant contribution to Ecuador's efforts to increase exports and attract investment. FEDEXPOR is a private membership organization whose mission is to represent Ecuador's exporters and provide technical and marketing support to increase exports. Its role in the area of investment is relatively minor. ANDE is a national businessmen's association whose efforts are primarily confined to policy dialogue activities supporting the opening of Ecuador's economy and strengthening of the private sector. Except through its management responsibilities for the Non-Traditional Agricultural Export Project, it has virtually no direct role to play in either trade or investment promotion. CENDES is a public institution which prepares feasibility studies and attempts to attract investment. However, it has almost no direct involvement in the area of trade. Secondary institutions with a very narrow focus include FUNDAGRO, a private foundation which provides technical assistance to agriculture -- mainly traditional; and IDEA, a think tank which engages in agricultural research and policy dialogue. A more detailed review is given below:

FEDEXPOR (Federacion Ecuatoriana de Exportadores), a private institution, was founded in April, 1976 by a group of exporters from both the Sierra and the Coast. FEDEXPOR is the only legally constituted organization with the mandate to represent the export sector. Its objectives include:

- To organize and represent the export sector before national and international institutions.
- To help exporters diversify their exports and develop new export opportunities;
- To increase the technical efficiency of production of exports;
- To persuade the Ecuadorian Government to adopt policies and to provide incentives favoring exports;
- To support legislation to facilitate exports.

FEDEXPOR's current organization structure is the following:

- The General Assembly is the top body of the Federation. It normally meets once a year and extraordinarily when the Board decides to call a meeting at the request of at least five active members.
- The Board of Directors has the administrative functions

stipulated in FEDEXPOR's statutes, including to ensure that the General Assembly resolutions are implemented, the designation of the President and Vice President of FEDEXPOR, the monitoring of FEDEXPOR operations, and approval of FEDEXPOR's budget.

- The President is elected for a period of two years and chairs the Board of Directors.
- The Vice President replaces the President when absent.
- The Executive Director is designated by the Board of Directors.

FEDEXPOR currently has 230 members, with its membership fairly evenly divided between the Sierra (48%) and the Coast (52%). The principal sectors represented in its membership include industry (34%), agriculture and agro-industry (28%), and seafood (21%). FEDEXPOR's activities include the publication of a monthly bulletin "Carta Informativa," and an inventory of exporters. It sponsors seminars and conferences, conducts market studies, and provides commercial information to its membership.

PERFORMANCE:

The 1988 evaluation of Phase I of the Non-Traditional Agricultural Project cited certain management shortcomings in FEDEXPOR's performance but, on balance, recommended that Phase II of the project be implemented through FEDEXPOR. To address some of these management shortcomings, USAID signed the Cooperative Agreement for Phase II of the NTAE project with ANDE, which in turn signed an agreement with FEDEXPOR for implementation of most of the project.

Since that time, FEDEXPOR has registered a tremendous improvement in its management under the administration of the current Executive Director of FEDEXPOR. Under his stewardship, FEDEXPOR's operations have been tightened and new, well-qualified staff have been recruited, including specialized personnel needed to operate the information services. FEDEXPOR has addressed satisfactorily almost all of the award audit recommendations made by the Inspector General, implementing new internal control procedures and taking steps to prevent future disallowances. It recently increased its fee structure which will more than double income from this source and provide for a revenue surplus in fiscal year 1991. FEDEXPOR is currently mounting an intense effort to increase its membership by at least 100 by June 1991 -- an approximately 50% increase. It is also raising its income base through a variety of charges for publications and a limited number of services, although most services are still provided free. FEDEXPOR is expanding its geographic presence, recently opening branch offices in Manta and Cuenca. FEDEXPOR has also

taken a more pro-active role in lobbying for the interests of the export sector and has become involved in a variety of activities which enhance its public perception and collaboration with other entities. Examples include its promotion of the maquila and free trade zone laws; representation of the export sector on various national committees developing positions for Ecuador's participation in Andean economic integration; and increased market information services for its membership. In sum, FEDEXPOR is exhibiting a dynamism which should allow it to develop in time into a truly national and representative institution serving the interests of exporters.

ANDE (Asociacion Nacional de Empresas) is a non-profit association of individual business and professional men, as well as firms and other associations or organizations, based in Quito. Currently, its membership includes close to 80 individuals and 60 firms and organizations. Its statutes were approved January 21, 1988. Its basic objective is for the business sector to assume social responsibility to promote the common good in Ecuador.

ANDE has a national focus, although its current membership is limited to the Sierra, predominantly Quito. The new Executive Director of ANDE has announced the intention to open an ANDE office in Guayaquil and over time gradually convert ANDE into a truly national and representative organization. ANDE's mission is to promote the strengthening and increased professionalism of the private sector, seeking to amplify its role in determining national policies. While its statutes do not spell out a lobbying function, it performs this function on an ad hoc basis. Nor do its statutes spell out a mandate for the promotion of exports. However, since many of its members are exporters, it is concerned with the opening of the economy which would favor increased exports.

Under Phase II of the NTAE Project, ANDE has assumed primary responsibility for the policy dialogue component of the project, sponsoring biweekly meetings with key economic policy-makers and presenting private sector positions on major economic issues and legislation under consideration.

Performance: ANDE, as the institution responsible for the Cooperative Agreement for implementation of Phase II of the NTAE project, has played an important role in the project's management. An award audit conducted by the Inspector General found a number of accounting shortcomings, principally due to a deficient accountant. This accountant has been replaced and ANDE is in the process of implementing the various recommendations made by the Inspector General.

PROEXANT (Programa de Promocion de Exportaciones Agricolas No Tradicionales) is the NTAE project's management unit responsible for implementation of a variety of NTAE project activities,

including technical assistance to farmers and agricultural associations, quality control and post-harvest handling, policy dialogue, and investment promotion. As originally conceived, PROEXANT's existence is tied to the life of the NTAE project (the NTAE Project is due to end in August, 1994), but there is the possibility that it could evolve into a more permanent structure, perhaps as a division of another institution, or it is even possible that some of its functions and staff may be eventually spun off into a trading company.

PROEXANT's organizational structure includes a Board of Directors which, in addition to ANDE and FEDEXPOR, MICIP (Ministerio de Industria, Comercio, Integracion y Pesca), MAG (Ministerio de Agricultura y Ganaderia), public and private financial institutions, and producer organizations are represented. It has prepared an ambitious work plan for 1991 - "Nueva Estrategia y Plan Operativo 1991" - which indicates a substantial increase in staff, in projects and activities and in regional offices.

PROEXANT is headed by an Executive Director, who reports directly to the Board. He has a senior expatriate advisor, the Chief of Party of the Experience, Inc. team. The organizational structure is currently divided into five departments, or sub-programs:

- Policy Dialogue and Credit Facilitation;
- Agricultural Technology;
- Quality Control and Post-harvest Management;
- Marketing Information, Market and Investment Promotion;
- Special Projects (initially, aquaculture and wood products).

At present the Quality Control and Special Projects sub-programs are not staffed, but PROEXANT expects to staff them during the course of the year. ANDE plays a role in the Policy Dialogue sub-program, while the Marketing Information sub-program is headed by the Executive Director of FEDEXPOR, who devotes half of his time to this activity and the other to his exclusively FEDEXPOR responsibilities.

PROEXANT, headquartered in Quito, has expanded its outreach by opening centers in Guayaquil, Manta, Cuenca and one to be opened in Machala.

The Secondary Players

CENDES (Centro de Desarrollo del Ecuador), FUNDAGRO (Fundacion para el Desarrollo Agropecuario), and IDEA (Instituto de Estrategias Agropecuarias), are occasionally involved in project activities either by joining in seminars and meetings or by providing discrete services, usually on a fee basis.

CENDES is a public institution which, until recently, promoted investment for import substitution purposes. Now that Ecuador is opening its economy, CENDES' emphasis has changed to the promotion of investment in sectors which offer good economic returns and in which Ecuador has a comparative advantage. CENDES plays almost no direct role in the area of trade.

FUNDAGRO, a private sector foundation which focuses on the agronomic and technological problems of selected crops (i.e. coffee, yucca, corn, potatoes, melons) in discrete studies emphasizing research, education and extension, was established in October 1987.

IDEA, a private sector organization, which studies policy and other agricultural issues, prepares reports of its findings, which are often used as material for policy dialogue and lobbying, in 1988.

Other than CENDES, these organizations focus exclusively on agriculture and are thus important resource organizations for the NTAE/PROEXANT project. In the new project, which will introduce a special focus on industrial exports, CENDES can play a useful role, particularly in the area of investment promotion.

Assessment:

Given the existing institutional weaknesses, USAID has explored at length the various options for the best institutional framework for the project and decided that flexibility must be built into the project design to allow for institutional development. Based on a review of the literature, extensive discussions with private sector leaders and observation visits to other LAC countries, the Mission believes that the best solution is to support the creation of a new foundation, Fundacion Ecuador, from where both the trade and investment functions would be housed.

Though details of the Fundacion Ecuador's structure and specific operations will be an output of the Project's first stage, present plans envisage that the new foundation's structure will be composed of an assembly of up to 100 respected private sector leaders, selected for their vision of Ecuador's future growth and development which supersedes any sectoral or regional interests with which they may be associated. This assembly, in turn, will select a 29-person board of directors (24 private sector representatives -- 12 from the Coast and 12 from the Sierra -- plus 5 GOE representatives: the Ministers of Finance, Agriculture, Industry, and Foreign Affairs and the General Manager of the Central Bank). In the Phase I stage, when the foundation is in the process of being created, Project assistance

will be channeled through a management/consulting firm and IESC.

The foundation has as its goals the promotion of trade, investment, and overall modernization of the economy. Its three main functions consist of:

(1) raising funds for the achievement of its goals through negotiations with donor agencies, the possible negotiation of an export/import tax earmark with the GOE, and conducting a fund-raising campaign among national and foreign firms and institutions;

(2) providing programmatic direction to the use of resources it generates in support of trade, investment, and economic modernization objectives by negotiating agreements with other Ecuadorian institutions for execution of specific activities. In the case of policy dialogue, we envisage that the foundation will eventually play a direct, key role; and

(3) monitoring/evaluating the use of the resources it channels to these implementing institutions. Given the very limited resources the foundation will have at the outset, it will take some time for the foundation to develop this capability.

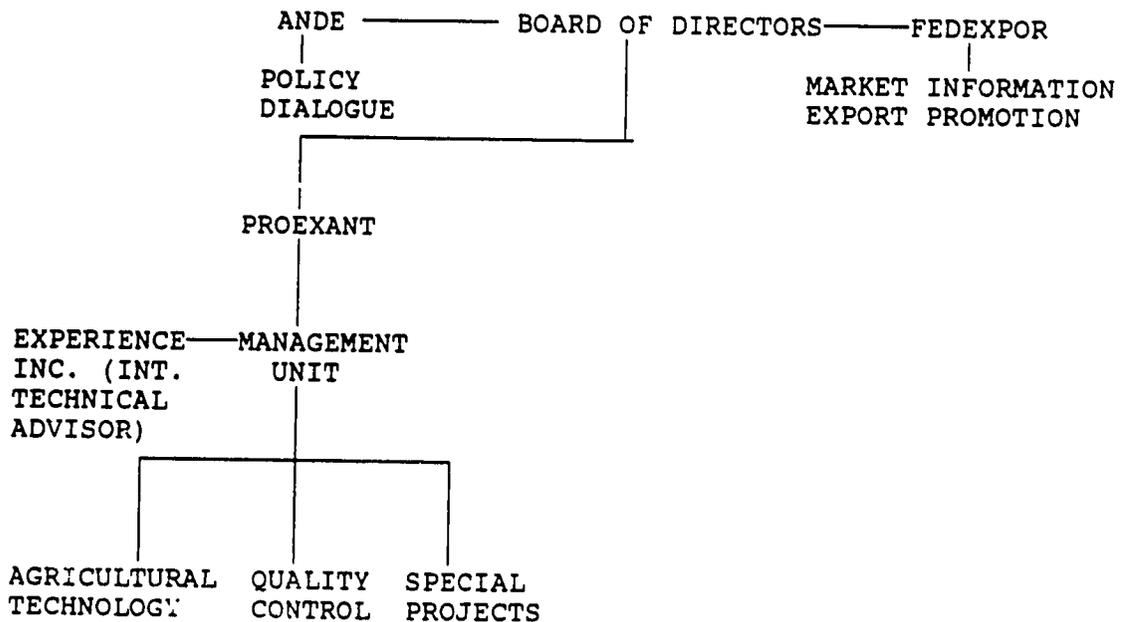
The Project contemplates a two-phased approach. In the first stage, USAID will provide a \$931,100 grant to FEDEXPOR, \$979,000 to an international contractor, and \$80,000 to IESC -- all funds for export promotion services, both industrial and agricultural; a \$502,000 grant to IESC to provide investment promotion services and an additional \$175,000 grant which IESC will use to pay for the initial operating expenses of the Fundacion; and \$25,000 to contract the services of an accounting/management firm to design and set up the initial administrative structure of the foundation. Once established, Fundacion Ecuador will assume overall responsibility for trade and investment promotion services and related policy dialogue, coordinating closely with other organizations to avoid duplication. In the second stage, likely after one year and based on a positive evaluation of the Fundacion's development, USAID will negotiate a Cooperative Agreement with the new foundation for continued implementation of the Trade and Investment Project's activities.

The grant to FEDEXPOR will allow the T&I Project to start providing export promotion services in the short-term and at the same time help strengthen FEDEXPOR as an institution. FEDEXPOR will necessarily have to use the specialized services provided by an international contractor or contractors to implement program activities. At the same time, it will have to ensure that activities under the T&I Project are closely coordinated with those of the NTAE Project, establishing an organizational

structure which will avoid duplication of PROEXANT's activities and possibly using the same NTAE (ANDE/FEDEXPOR) Board of Directors for oversight. Once FEDEXPOR's two-year grant runs out, responsibility for coordination of export promotion activities will necessarily pass to Fundacion Ecuador. In 1994 when the NTAE Project ends, USAID will undertake an evaluation of the NTAE Project and determine what NTAE activities should continue to be funded out of the new T&I Project. In Phase I, IESC's role will be to provide investment services while at the same time helping the Fundacion develop a permanent structure for investment promotion activities. In this sense, IESC's responsibilities will include institution building and strengthening. The Fundacion may decide that it wants to assume direct operational control of the investment function or, alternatively, may designate another organization for this role.

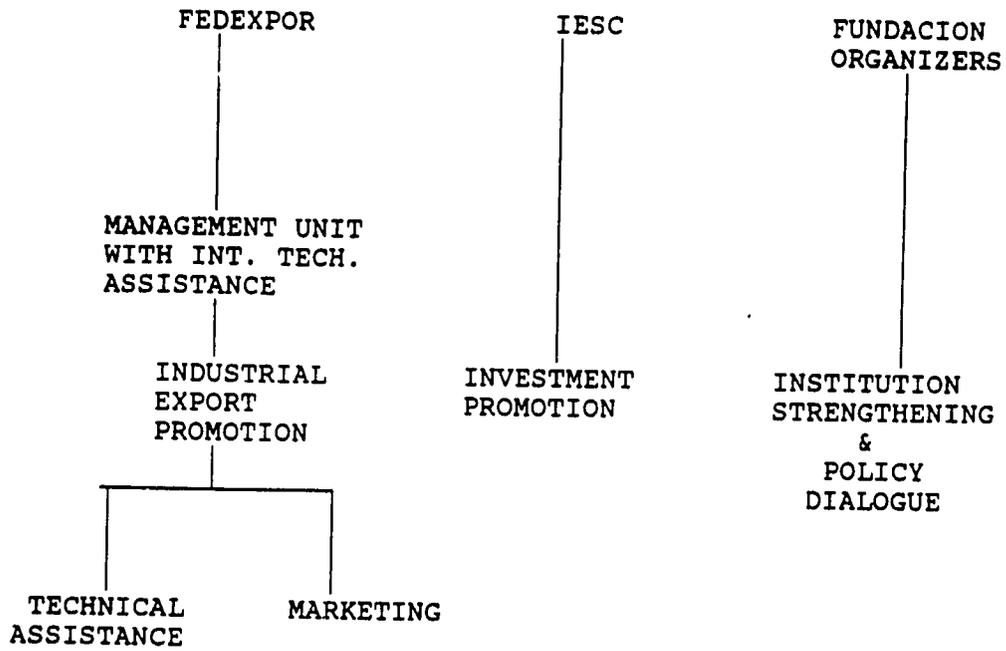
Under the T&I phase I, therefore, institutional arrangements for the NTAE and T&I projects are shown in the two charts below:

NTAE STRUCTURE



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TRADE & INVESTMENT PROJECT STRUCTURE



August 22, 1991

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Economic Analysis

I. Introduction

Ecuador's large export potential has over the years been inhibited by the predominance of petroleum exports and a strong anti-export bias. The dominance of petroleum exports has created the so-called "Dutch Disease" phenomenon, effectively overvaluing the exchange rate and resulting in a downward trend of non-oil exports in the late 1970s and early 1980s. This phenomenon was aggravated by the relatively rigid exchange rate regime maintained until 1982, which in turn resulted in a grossly over-valued exchange rate, by labor rigidities imposed by an outdated labor law, and by subsidized interest rates which favored capital intensive production. As a result, the country's strong competitive advantage arising from its agricultural diversity, excess installed capacity in the industrial sector, and low wage rates could not effectively be utilized to promote exports, investment or economic growth. Non-traditional exports, in particular, did not experience higher growth rates as businessmen moved to take advantage of special preferences such as import license requirements, tax incentives, and high tariff protection for industrial goods, and as the outright prohibition of imports incentivated industrial import substituting firms to the detriment of export businesses.

These preferences and import prohibitions, however, were eliminated or substantially reduced as part of a major tariff reform adopted by the GOE in 1990. While the country is thus at a watershed, neither the private nor public sector has significant experience in promoting exports. Currently, there exists only one small export promotion institution, which is of recent creation. Against this backdrop, the Mission's new Trade and Investment Promotion Project is important and timely because it will lead to new trade and investment opportunities, positively impact on employment generation and increased foreign exchange earnings for the country, and support the creation of a new Ecuadorian private sector organization which can lead the movement toward a more open economy capable of exporting.

II. Methodology

Given the practical constraints of developing a complete economic analysis with the baseline data for this project, the Mission has chosen to analyze both the experience of the Non-Traditional Agricultural Export (NTAE) project, now in its sixth year of implementation, and current information from the Central Bank of Ecuador. A careful review of AID's widespread experience in other LAC countries with this type of project has also been undertaken. The Mission believes that the analysis of previous experience with

the NTAE project in Ecuador and with other LAC Trade and Investment Projects establishes the appropriate benchmarks and economic impact indicators to justify the new Ecuador Trade and Investment Project.

III. Social Costs and Benefits of the NTAE Project

A. The May 1988 evaluation by Chemonics, Inc. stated that the direct impacts from the sub-projects include: cumulative incremental exports of US\$ 6.05 million, a cumulative net foreign exchange gain of US\$ 5.20 million, a cumulative value-added increment of US\$ 3.20 million, 475 new full-time jobs, and fixed asset increments of US\$ 6.20 million. The evaluation argued that the project did not achieve the projected increase of non-traditional export products presented in table 1 because substantive technical assistance and development in the areas of marketing development, post-harvest technology, and production technology were missing.

B. A more recent report by the Central Bank of Ecuador dated March 6, 1991 summarized the experiences of a cross-section of non-traditional exporters. The report indicates that impacts on employment creation and incremental exports are improving substantially. Out of the 70 projects financed by a credit line of US\$ 11 million (USAID's share was about US\$ 3 million), 28 projects were financed in the lowland region and 32 in the highland (Sierra) region of the country. Notable in this respect is that the Sierra region of Ecuador has had, until very recently, almost no export tradition. The report concluded by projecting that firms receiving funds from these projects will generate US\$ 22 million in annual sales and generate 3,511 new jobs.

C. These results seem to confirm the view expressed in the Chemonics study that the initial shortfall in actual results versus projected results is due to the nature of agribusiness, namely that such businesses require a reasonable lead time before moving from concept to market. The following Central Bank data for pineapples and flowers assisted by the NTAE project seem to substantiate this position. The flower sector is particularly impressive. During the period from 1985 to 1990, 40 new firms were created and export value increased by an average annual growth rate of 104%. Preliminary estimates indicate that about 5,000 direct jobs and 10,000 indirect jobs were created in the previously depressed Tabacundo-Cayambe highland region of Ecuador.

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Table 1. Selected Non-Traditional Exports
(In Thousands of US\$)

	1985	1986	1987	1988	1989	1990
Pineapples	120	103	173	239	545	547
Strawberries	392	700	512	505	508	N.A.
Flowers	526	1,706	3,566	4,102	9,226	13,530

IV. Social Costs and Benefits of Other LAC Projects for Trade and Investment

In its review of 15 trade and investment projects from the Latin American and Caribbean regions, CDIE concluded that "A.I.D. promotion projects can make a difference, particularly in countries with underlying strong export and investment growth trends and somewhat favorable policy environments." 1/ The Mission believes that as a result of recent policy actions described above in the Project Paper, the policy environment in Ecuador is better than "somewhat favorable" and that, consequently, the T and I project can make a difference. More specifically, to support the proposed project and establish indicative benchmarks, the Mission chose to analyze trade and investment projects in Peru, Costa Rica, the Dominican Republic and Belize, all of which include technical assistance components to promote exports and investment.

A. The Investment and Export Promotion (IEP) Project in Peru

The IEP project was designed to strengthen Peru's non-traditional export sector, helping to boost in a two to three year time frame investments and exports in agro-industry, light industry, metalworking and apparel. USAID/Peru aims to achieve this objective by providing technical assistance for the amount of US\$ 15 million over a five year period and a credit line of US\$ 50 million in local currency credit to finance investment.

Table 2 presents an estimation of the project's social benefit and cost streams, which correspond to investment, technical assistance, export earnings, net foreign exchange earnings, and the value added of labor associated with the Project. The table projects that US\$ 13 million in credit and technical assistance to be provided in the first year will generate US\$ 70 million in incremental exports. In other words, this export promotion package is expected to generate 5.4 US dollars worth of exports for every US dollar of support.

Moreover, the estimates for three selected sectors in the

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agroindustrial, apparel and light industrial sectors account for the major increase in exports. Exports are projected to increase by US\$ 50 million in the first year, US\$ 120 million in the second year, and US\$ 215 million from the third until the tenth year. As is apparent, these flows would be positive from the very beginning, and would reach their maximum potential beginning in the third year and continuing throughout the LOP. Approximately US\$ 1 billion of exports are expected to be obtained in a 10 year period, of which about a third would be a net generation of foreign exchange. This amounts to 2.42 US dollars of foreign exchange being generated for every dollar of credit and technical assistance provided.

Employment generation in Peru's IEP project is expected to contribute an additional 34,892 direct and indirect jobs, of which 21,123 positions will be directly created. Taken as a ratio, every dollar spent on credit and technical assistance in the project would generate US\$ 1.24 of value added for the labor factor.

Table 3 includes the microeconomic analysis of two representative asparagus exporting firms and a representative apparel exporting firm. The asparagus firms are considered as "Firm B," which exports fresh and frozen asparagus, and as "Firm C," which exports fresh and canned asparagus. Firm A refers to the apparel firm selected, which is oriented to the export of shirts, trousers and shorts.

The study calculated the firm's internal rates of return at market prices and at shadow prices. The table shows the results; at market prices, the preliminary IRR is 29% for firm A, 46% for firm B, and 106% for firm C. Economic rates of return are 51% and range between 68% and 86%, respectively. The estimated rates of return show that the IEP Project in these production lines is very cost effective, since they are considerably greater than the opportunity cost of capital, estimated by previous studies at 15% for the Peruvian economy.

The benefit-cost ratios, which result from dividing the present value of estimated benefits by the present value of estimated costs, reinforced the profitability of this type of investment. These ratios were all greater than 1, ranging between 1.18 and 1.32. On the other hand, the study states that investment in selected firms can be recovered quickly, between two and three years on average.

Table 3
Microeconomic Analysis Results

	FIRM A	FIRM B	FIRM C
IRR at market prices	29.38%	46.13%	106.15%
IRR at shadow prices	53.00%	68.00%	86.00%
Net foreign exchange generation (\$)			
a. Per unit of export	0.72	0.67	0.75
b. Per unit of investment	4.93	9.46	24.01
Investment recovery (years)	3.0	3.0	2.0

B. The Investment and Export Promotion (IEP) Program in Costa Rica

The social and economic benefits of the CINDE/PIE Program in Costa Rica were positive. During 1986 to 1990, 103 new foreign and domestic businesses were able to start operations through the IEP Program. Each firm generated on average 172 new jobs and a total of 15,000 new jobs were created during the LOP. These results are summarized in Table 4:

Table 4
Costa Rica PIE/CINDE Project Outputs

Year	Number of Firms Created	Average Number of Jobs per Firm	Increase in Employment Generated	Total Employment
1986	14	217	3032	3032
1987	17	212	3603	6635
1988	13	147	1911	8546
1989	29	113	3284	11830
1990	20	172	3373	15203

C. The Investment and Export Promotion (IEP) Project in Belize

This proposed IEP project will assist Belize over a period of five years in the promotion of exports, investments and tourism. The outputs of the project include the creation of an institution, human resource development, increased employment, and generation of foreign exchange earnings. One of the major benefits to the economy of increased investment and tourism activities will be a corresponding increase in employment.

The cost of generating employment in this project was not very high as is illustrated in a preliminary analysis. The analysis encompasses new and proposed investments in Belize and estimated that between 1985-86, 25 productive ventures were projected to begin operations. Total investment costs were projected at U.S.\$15 million and projected job creation at 2,500 for an average cost per job of U.S.\$6,000, which according to the analysis is quite reasonable.

An increase in the number of tourists visiting Belize and, as facilities develop, in the length of stay, coupled with the establishment of new export-oriented enterprises, will have a large and direct beneficial effect on generating foreign exchange for the country.

D. The Investment and Export Promotion (IEP) Project in Dominican Republic

On the benefits side, a ROI (Return-on-Investment) was not considered the appropriate yardstick for the evaluation for this project since it was assumed that investors would seek an equally-profitable ROI. Following this reasoning, benefits are compared with IPC project costs (AID + GODR contributions) plus the anticipated capital investment cost in the industrial and agribusiness sectors. Based upon the information collected and extrapolated, an average of US\$ 2,994 was invested in for each job created in either of the two sectors.

This analysis took into account Direct Project Cost (AID and GODR contributions) as well as forecasted capital investment costs to firms. Therefore, to measure the economic value of this project it was considered reasonable to measure the success of the project in terms of the domestic value added of labor. Value added was defined as the nominal yearly salary a worker in each respective sector receives plus employment benefits not directly paid to the workers, i.e., about \$728 for Agribusiness and \$1,273 for Light Industry Manufacturing. Without doubt, there are other benefits which were not accounted for, which, were they to be included, would only serve to strengthen the positive results of the analysis.

In all calculations, to arrive at a present value figure, a discount rate of 17% was used as the nominal opportunity cost of capital. Project costs and capital investments were considered during the first three project years in which it was assumed that all investments would be made, while benefits accruing to the investments were extended out for 10 years.

The purpose of the IPC Project is to coordinate and facilitate activities which encourage investment, generate employment, and increase exports to earn foreign exchange. On the basis of historical data and projections of average yearly growth rates, the introduction of new firms in the light industry area is expected to be:

END OF YEAR

<u>Year I (1986)</u>	<u>Year II (1987)</u>	<u>Year III (1988)</u>	<u>Year IV (1989)</u>
9	41	22	

Total incremental foreign exchange being generated by the additional business are expected to total (in millions of US\$):

<u>Year I</u>	<u>Year II</u>	<u>Year III</u>	<u>Year IV</u>
17.6	35.5	33.6	54.5

The ratio of foreign exchange gains as a percentage of capital investment and project costs are:

<u>Year I</u>	<u>Year II</u>	<u>Year III</u>	<u>Year IV</u>
.72	1.1	.2	2.6

with the nominal mean for project years 1986/1989 of US\$1.27 gain for each US\$1.0 invested.

On the basis of the various assumptions listed above and in the attached tables, the conclusions reached are favorable. These are summarized below.

The basis for investment of AID project funding in conjunction with counterpart funding is sound and is predicted to attract incremental capital investment of \$102.8 million by the end of Year IV, leveraging project funding by 12.7 to 1 ratio.

Incremental foreign exchange generated is anticipated to be \$141.2 million by Year IV for an aggregate mean of \$3,815 foreign exchange generated per incremental job created.

Total incremental employment is conservatively estimated at 37,011 jobs in both sectors by the end of Year IV.

Finally, a favorable Benefit to Cost ratio was calculated at 2.04 to 1 based upon partial benefits extending through 1995.

V. The Relevance of the NTAE Project in Ecuador and Other LAC Projects

A. Review of the NTAE project in Ecuador, and especially the most relevant projects in Peru and Costa Rica, demonstrates that the Trade and Investment Project will have a positive impact on promoting exports, investment and employment creation in Ecuador. The Project has some elements of all of the above projects as well as an additional policy dialogue component which will be part of its institutional development activities. The major difference between the new Ecuador projects and the others is the credit component, which will not directly be a part of AID/Ecuador's Trade and Investment Project. However, the Mission has identified other credit facilities for export promotion which are extended by the GOE, the Inter-American Development Bank or USAID itself through the credit line to the Corporación Financiera Nacional (CFN), which can be used to set up new exporting firms. Moreover, plans exist for an additional co-financing package of a US\$ 400 million credit line to the CFN from the World Bank and Inter-American Development Bank (IDB), the Andean Development Corporation, and the Government of Japan. As a result, the Mission feels confident that these amounts of credit will meet the increase in demand resulting from the new firms which cross over into the export business once they have received technical assistance from the Project.

B. The estimation of the social costs and benefits for the Peru project integrated both the credit component for US\$ 50 million dollars and the technical assistance component of US\$ 15 million dollars. It was estimated that for every US dollar in funds provided by this project, exports would increase by US\$ 5.4. This ratio is within the norm of 5 US dollars in exports being generated for every US dollar of technical assistance extended. As a result, assuming that credit is available for new firms going into exporting, the Mission believes that this benchmark number is also applicable to the technical assistance and investment promotion to be provided in the T and I project for Ecuador. Another important indicator which has a bearing on the Mission project is the projected IRR at shadow prices (or the Economic Internal Rate of Return) of 53% to 86% for the three firms which were analyzed. This is very favorable compared to the 15% opportunity cost of capital in Peru and preliminary estimates of the 13% to 14% cost of capital for Ecuador. In the Mission's view this proxy indicator satisfies the technical assistance and investment components of the project.

C. The ex-post economic analysis of the Investment and Export Program of CINDE/PIE in Costa Rica demonstrated that even at an 80% attribution level for new investment firms created and export businesses generated, the IRR was 16% compared to the 12% IRR established by the World Bank for Costa Rica. Moreover, each firm created or attracted by the project 172 new direct jobs on average.

D. In the case of the NTAE Project in the flower sector of Ecuador, only 100 direct jobs were created. However, if the indirect jobs which include services and part-time employment are taken into account, the average goes up to 300 new jobs per firm.

E. As far as trying to measure the impact of policy dialogue in changing the exporting and investment climate or applying conditionality which is more related to major donors such as the Multilateral Financial Institutions (IBRD, IDB and IMF), it is very difficult to estimate these qualitative effects.

F. Just as difficult would be the attempt to measure the amount of credit leveraged by technical assistance and the institution building component. It is the Mission's view that technical assistance provided by the project will increase demand for credit which is already available in Ecuador and will complement the components in the Trade and Investment Project.

G. Another benefit which will help the Project to meet sustainability concerns involves charging beneficiary firms for the services based on their ability to pay. This, in the Mission's view, lays the groundwork for future sustainability of the institutions supported by the project.

VI. Conclusion

As a result, the Mission is confident that this Project can be successful in generating investment, exports and employment. Moreover, positive externalities will be generated that provide new technologies, improve productivity, streamlining procedures and creating a "band-wagon" effect in the private sector. Their impact will promote broad-based economic growth and other additional benefits. In the Mission's view, any more in-depth analysis would clearly show that the incremental net benefits of the Project will be substantial.

Social Soundness Analysis

I. Introduction

A. Compatibility Between Project and Socio-Cultural Environment

The stimulus of an oil bonanza in the 1970s and subsequent accelerated economic growth that lasted until 1980 provided an environment for social sector programs to undergo considerable expansion. Aside from increases in the role of the public sector and in the size of the middle class, a few benefits of the oil boom did trickle down to the poor - mostly in the form of increased access to social services. Lower oil prices and heavy debt interest payments beginning in the early 1980s, with their disastrous effects on fiscal budgets, have resulted in shrinking social service budgets, eroding earlier progress achieved by the Ecuadorian poor. According to the World Bank, public social expenditure declined by about one-third between 1980 and 1988.

The 1980s have also seen increasing unemployment rates, due to slow or non-existent expansion of the public sector (the state being a great employment growth pole in the period before the Crisis), and due to financial and labor policies which have stimulated capital intensive development. A significant feature of the social landscape, and one that indicates the need for AID support of broad-based, employment-generating economic reactivation, is the segmentation of the labor market in the sense of enormous income differentials existing among equally productive workers because of their affiliation with enterprises in different segments of the labor market (private modern, public modern, and informal).

Furthermore, in the absence of a strong economic recovery, and to the extent that the annual growth rate of the economically active population (around 3.2%) has for some years now exceeded economic growth rates, the unemployment problem will continue for some time into the future, pushing more Ecuadorians below the poverty threshold and/or into the informal sector where social services are not extended. While urban unemployment rates are relatively low, the large concentration of employment in the informal sector means that low productivity and low-wage jobs are central features of the urban labor markets.

Although economic recovery is necessary for the well-being of the entire population, it is critical for the restoration of a rate of economic growth sufficient to support a desirable level of social services. Since "informalization" of the economy has been due, in

¹. Ecuador Micro-Enterprise Sector Assessment: Policy Framework, p 25. Gemini Technical Report No. 10, by Bruce Herrick, Gustavo Marquez, and Joseph Burke. Dec 1990.

part, to the lack of dynamism of leading sectors, this project's attempts to forge dynamic exports and investment activities are well on target. By directing project interventions such as technical assistance and supply-side services at those producers and manufacturers who are poised to begin exporting, the project will generate greater production for export, contributing thereby to overall economic recovery. From that will come more employment and added government revenues to maintain better social services.

B. Socio-Cultural Feasibility

Feedback from the project design process, which has thoroughly incorporated both participation by various business-oriented entities and consultations with high-level government officials, clearly indicates that the host country realizes the need for accelerated flows of exports and investment capital. Through interviews conducted in the design phase with a variety of firms of different sizes and export histories, it is clear that A.I.D. and the likely recipients of project assistance similarly perceive as crucial project outputs such as the provision of production and marketing technical assistance, administrative reform, and policy dialogue. Consensus between participants in the project design has been reached as well on the importance of strengthening overall indigenous institutional capability and of providing the type of services (e.g. quality control, product development and design, investment promotion in the U.S.) which are currently non-existent or in insufficient supply in Ecuador.

Furthermore, the fact that project participants (i.e. organizations such as FEDEXPOR) will necessarily have a large role in responding to the needs of firms ready to export (and thus in defining project activities) means that the active input of participants in project implementation is assured. Importantly, FEDEXPOR enjoys both excellent leadership and, despite the small size of its professional staff, highly capable personnel as well. FEDEXPOR is a solid and dynamic advocate of the process of policy dialogue leading toward the goal of a more open economy.

In terms of the suitability of proposed interventions given the reality of the beneficiary populations, the project will avoid providing inappropriate services since it will directly respond to the individual service requirements as expressed by different firms. The tailoring of project interventions should serve to avoid inefficiencies and ensure high utility of project activities.

II. Spread Effect

The spread effects of the project are considerable and bode well for achieving long lasting impacts on the development performance of the country. Successful movement into the export sector on the part of previously non-exporting firms will demonstrate that

exporting is a potentially profitable activity and in this way generate greater export volumes overall. This will strengthen advocacy of the policy dialogue process and the conviction that administrative reform must occur to facilitate greater exports.

The efforts of production and marketing consultants in country will serve to create and/or strengthen other service providers. Project activities are suitable for replication across product lines and subsectors. The impact of project activities such as the provision of services and technical assistance will continue beyond the life of the project both in those firms which have begun to export successfully and in the better quality of available services resulting from coordination with the foreign consultants. The existence of competitive service providers down the line, both domestic and foreign based, will more fully allow the country to take advantage of dynamic international trade opportunities and will vindicate the project rationale. The results of project interventions will spread to other parts of the economy through higher economic growth rates, more and better jobs, a more stable footing for fiscal budgets, and a streamlined administrative apparatus.

At the important micro level, the spread effect of greater employment rates for women is considerable. According to Rae Lesser Blumberg, "Men tend to spend income under their control differently than women who have provider responsibilities, with women more focused on children's well-being and family subsistence...Women tend to contribute a higher proportion of their income to family subsistence, holding back less for personal consumption." This relationship between women's employment and family and social well-being, together with the greater ability of women who control their income to better space and plan for the children they decide to have, indicates the strongly positive spread effect project assistance will have when focused on expanding economic activities which require the labor of women.²

III. Impact

A. Direct Beneficiaries

The project will create employment opportunities in a variety of ways, most importantly through the focus of project assistance on non-traditional product lines where positive employment linkages are significant. Since project-funded supply-side services will result in the creation and/or enlargement of small, labor intensive processing plants, the project will have an especially positive impact on the unemployment rate of women. This is important since,

². Gender, Family, and Economy, p. 25. Edited by Rae Lesser Blumberg. Sage Publications, Newbury Park. 1991.

the rate of unemployment in Ecuador for women is double that for men and directly related to poverty because poverty is more frequent in households headed by females.³

A primary group of project beneficiaries are those unskilled and semi-skilled laborers hired by the select industrial enterprises and agribusiness operations which, through the extension of project technical assistance, will be able to expand production. The wages paid, in turn, will have secondary effects and produce jobs indirectly in the industries which service the new investments or through the firms located in communities where the new wage earners are living.

Current data and projections on numbers of producers and numbers of employees who will be directly affected by project interventions are somewhat speculative, but will be refined during the initial stages of project implementation and incorporated into the project monitoring and evaluation system. However, based on AID experience elsewhere in Latin America (the Peru, Bolivia, and Costa Rica projects cited in Annex G, the Economic Analysis), it appears reasonable to target the creation of approximately 7,000 jobs over the next six years through the expansion of agricultural and industrial firms which are able to produce for export markets with the help of project assistance. Most of these jobs will be in rural areas and, according to comparisons with AID experience in the projects mentioned above, a great many (approximately 65%) will be held by women. That the selection of subsectors to receive project assistance will clearly affect the sex division of labor in Ecuador can be seen in the reality that wearing apparel industries involve female labor where metal and wood activities center around male employment. Consequently, and according to the DAI Comparative Advantage Study, the project will target its interventions at a mix of the following industries: textiles, ceramics, wood, and the processing of basic metals. (See Comparative Advantage Study in Annex L). Annual evaluations will then measure actual employment creation.

The project design team has developed a set of criteria A.I.D. will use to select eligible firms in need of specific project interventions, criteria which give us an idea about minimum and maximum participator profiles. Enterprises which combine financial soundness, managerial expertise, production capacity, marketing and exporting experience, along with export potential, will be considered for project interventions. Among firms which show a readiness to export in product lines characterized by comparative advantages, that firm will be chosen which demonstrates the greatest employment linkages, taking into consideration, for

³. Ecuador: A Social Sector Strategy for the Nineties, p 9. The World Bank (Country Department IV, Latin America and the Caribbean Region). August 24, 1990.

example, data which show that apparel jobs are cheaper to create than metal-working jobs.⁴ Large firms which are not encountering obstacles in exporting or which can, through their own financial resources, access technical assistance, will not qualify for project assistance.

B. Other Beneficiaries

Because both non-traditional agricultural and industrial products are heavily dependent on raw materials and other inputs, the second group of project beneficiaries are the growers/suppliers of raw materials in product lines selected for emphasis by the project's comparative advantage analysis. Related service industries such as transportation and warehousing will also be stimulated.

Because the project will support both industrial and agro-processing firms throughout Ecuador which are on the threshold of exporting, and due to the stimulus of raw material production, a good rural/urban distribution of benefits should be achieved.

C. Transfer of Technology and Skills

Project-supported export firms will receive training in product development and design, evaluation and improvement of production and management techniques, establishment of efficient quality control and packaging procedures, and assistance in industrial engineering. Furthermore, contractors from the United States will work to strengthen domestic providers of services, transferring in this way the skills involved in providing supply-side services.

On the investment side, promotion of the maquila law, the free trade zone legislation, and joint ventures will clearly allow for local participation in the reactivation process and the real transfer of technology. Technology transfer will have an especially important impact in this project due to its non-traditional focus, a preference which recognizes that traditional exporters are in a better position to access technology and that non-traditional exporters need more help if they are to take advantage of newer technologies.

D. Assumption and Issues

1. Assumptions about expected beneficiary behavior:
The project rationale assumes that firms who are able to begin exporting with the help of project assistance invest their earnings in their own enterprises and in the economy more generally defined, thus breaking with the traditional consumption/investment patterns of the Ecuadorian business groups. To some extent, this will require reform of the financial and/or labor markets.

⁴. Informal Sector Assessment

2. Issues for project implementation:

While increasing agribusiness and industrial export activity will clearly be socially beneficial, there are likely to be a number of areas of social impact that deserve attention during implementation of the project. These include:

a. The priority of "export potential" over "backward linkages" in the selection criteria of firms receiving project assistance might be considered interference with the equitable distribution of benefits arising from project interventions. To clarify this point, it is necessary to explain how important is the "demonstration effect" of successfully exporting firms in the current policy environment, and to defend this method as the best way to achieve equitable distribution of benefits in the long run. For example, if the project were to prioritize assistance to firms which show attractive backward linkages but who are far from exporting, those workers hired would benefit in the very short run but, without export success, the firms could not continue to offer them employment. The project will make every attempt, however, to target interventions at those firms which are ready to export and likely to create important, quick successes, but whose increased production will have the type of positive employment impact which A.I.D. seeks to support.

b. Some uncertainty exists concerning the nature of the effects of participation in maquila industries on women. In accordance with requirements established by the U.S. Congress, gender disaggregated baseline data is currently being collected in order to be able to address impact issues later, during project implementation.

c. As in any such dynamic process, the adoption on the part of Ecuador of a more open, market-driven economic model will result in difficult adjustment and groups who lose out, namely those who currently benefit from the protectionist regime, including workers and owners of subsidized industries. Project success will indicate changing power and participation in the political system as between its target groups of exporters and other socio-economic groups (such as the public sector bureaucracy and the industrialists who produce for the protected domestic market). This will have implications for public policy. Most likely, for example, new power balances between socio-economic groups will serve to promote the unification of the labor market, which means potential losses for protected labor, but at the same time the departure of the poorest Ecuadorians from the informal sector where sub-minimum wage salaries, vulnerability, and the complete absence of social services and legal protection characterize their participation in the Ecuadorian economy.

ANNEX K 1

TRADE & INVESTMENT PROJECT

US \$ (000)

BUDGET ITEM	FX	TOTAL		COUNTERPART
		AID	TOTAL AID	
EXPORT PROMOTION	4,870.2	880.5	5,750.7	445.0
Technical Assistance (Inst. Contractor)	2,939.6	0.0	2,939.6	0.0
Fedexpor-Technical Assistance	80.0	0.0	80.0	0.0
Fedexpor-Program and Operating Costs	50.6	880.5	931.1	445.0
Fundacion Ecuador-Technical Assistance	1,800.0	0.0	1,800.0	0.0
INVESTMENT PROMOTION	2,054.3	0.0	2,054.3	0.0
Venture planning assist.Ecuad.Firms(IESC)	502.0	0.0	502.0	
-Joint Venture Promotion				
-TA Fundacion Ecuador				
-Foreign Investment Promotion				
-Investor Service Centers				
Investment Services (FE)	1,552.3	0.0	1,552.3	
INSTITUTIONAL STRENGTHENING/POLICY DIALOGUE	140.0	1,825.0	1,965.0	3,333.0
Pre-establishment expenses FE (IESC)	0.0	175.0	175.0	0.0
Furniture & Equipments (FE)	90.0	0.0	90.0	0.0
Financial Sustainability FE (Tech.Assist.)	50.0		50.0	0.0
Operating Expenses (FE)		1,450.0	1,450.0	3,333.0
Policy Dialogue (FE)		200.0	200.0	0.0
EVALUATIONS AND AUDITS	140.0	90.0	230.0	0.0
Environmental Studies		30.0	30.0	
Technical Evaluations	140.0		140.0	
Audit		60.0	60.0	
GRAND TOTAL	7,204.5	2,795.5	10,000.0	3,778.0

TRADE & INVESTMENT PROJECT
 BY YEAR
 US \$ (000)

ANNEX K 2

BUDGET ITEM	1				2				3			
	FX	AID LC	TOTAL AID	COUNTERPART	FX	AID LC	TOTAL AID	COUNTERPART	FX	AID LC	TOTAL AID	COUNTERPART
EXPORT PROMOTION	554.3	498.4	1,052.7	196.0	556.1	382.1	938.2	249.0	939.9	0.0	939.9	0.0
Technical Assistance (Inst. Contractor)	489.9		489.9		489.9		489.9		489.9		489.9	
Fedexpor-Technical Assistance	40.0		40.0		40.0		40.0					
Fedexpor-Program and Operating Costs	24.4	498.4	522.8	196.0	26.2	382.1	408.3	249.0				
Fundacion Ecuador-Technical Assistance									450.0		450.0	
INVESTMENT PROMOTION	277.0	0.0	277.0	0.0	225.0	0.0	225.0	0.0	401.1	0.0	401.1	0.0
Venture planning assist.Ecuad.Firms(IESC)	277.0		277.0		225.0		225.0		0.0			
-Joint Venture Promotion												
-TA Fundacion Ecuador												
-Foreign Investment Promotion												
-Investor Service Centers												
Investment Services (FE)									401.1		401.1	
INSTITUTIONAL STRENGTHENING/POLICY DIALOGUE	90.0	175.0	265.0	0.0	50.0	290.0	340.0	0.0	0.0	340.0	340.0	833.3
Pre-establishment expenses FE (IESC)		175.0	175.0									
Furniture & Equipments (FE)	90.0	0.0	90.0									
Financial Sustainability FE (Tech.Assist.)					50.0		50.0					
Operating Expenses (FE)						250.0	250.0	0.0		300.0	300.0	833.3
Policy Dialogue (FE)						40.0	40.0			40.0	40.0	
EVALUATIONS AND AUDITS	0.0	15.0	15.0	0.0	50.0	15.0	65.0	0.0	0.0	15.0	15.0	0.0
Environmental Studies		5.0	5.0			5.0	5.0			5.0	5.0	
Technical Evaluations					50.0		50.0					
Audit		10.0	10.0			10.0	10.0			10.0	10.0	
GRAND TOTAL	921.3	688.4	1,609.7	196.0	881.1	687.1	1,568.2	249.0	1,341.0	355.0	1,696.0	833.3

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TRADE & INVESTMENT PROJECT
 BY YEAR
 US \$ (000)

ANNEX K 3

BUDGET ITEM	4				5				6			
	FX	AID LC	TOTAL AID	COUNTERPART	FX	AID LC	TOTAL AID	COUNTERPART	FX	AID LC	TOTAL AID	COUNTERPART
EXPORT PROMOTION	939.9	0.0	939.9	0.0	939.9	0.0	939.9	0.0	939.9	0.0	939.9	0.0
Technical Assistance (Inst. Contractor)	489.9		489.9		489.9		489.9		489.9	0.0	489.9	
Fedexpor-Technical Assistance												
Fedexpor-Program and Operating Costs												
Fundacion Ecuador-Technical Assistance	450.0		450.0		450.0		450.0		450.0		450.0	
INVESTMENT PROMOTION	451.2	0.0	451.2	0.0	350.0	0.0	350.0	0.0	350.0	0.0	350.0	0.0
Venture planning assist.Ecuad.Firms(IESC)												
-Joint Venture Promotion												
-TA Fundacion Ecuador												
-Foreign Investment Promotion												
-Investor Service Centers												
Investment Services (FE)	451.2		451.2		350.0		350.0		350.0		350.0	
INSTITUTIONAL STRENGTHENING/POLICY DIALOGUE	0.0	340.0	340.0	833.3	0.0	340.0	340.0	833.3	0.0	340.0	340.0	833.3
Pre-establishment expenses FE (IESC)												
Furniture & Equipments (FE)												
Financial Sustainability FE (Tech.Assist.)												
Operating Expenses (FE)		300.0	300.0	833.3		300.0	300.0	833.3		300.0	300.0	833.3
Policy Dialogue (FE)		40.0	40.0			40.0	40.0			40.0	40.0	
EVALUATIONS AND AUDITS	0.0	15.0	15.0	0.0	0.0	15.0	15.0	0.0	90.0	15.0	105.0	0.0
Environmental Studies		5.0	5.0			5.0	5.0			5.0	5.0	
Technical Evaluations												
Audit		10.0	10.0			10.0	10.0		90.0		90.0	
GRAND TOTAL	1,391.1	355.0	1,746.1	833.3	1,289.9	355.0	1,644.9	833.3	1,379.9	355.0	1,734.9	833.3

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TRADE & INVESTMENT PROJECT
 BY YEAR
 US \$ (000)

ANNEX K 4

BUDGET ITEM	TOTAL		TOTAL AID	COUNTERPART
	FX	LC		
=====				
EXPORT PROMOTION	4,870.2	880.5	5,750.7	445.0

Technical Assistance (Inst. Contractor)	2,939.6	0.0	2,939.6	0.0
Fedexpor-Technical Assistance	80.0	0.0	80.0	0.0
Fedexpor-Program and Operating Costs	50.6	880.5	931.1	445.0
Fundacion Ecuador-Technical Assistance	1,800.0	0.0	1,800.0	0.0

INVESTMENT PROMOTION	2,054.3	0.0	2,054.3	0.0

Venture planning assist.Ecuad.Firms(IESC)	502.0	0.0	502.0	
-Joint Venture Promotion				
-TA fundacion Ecuador				
-Foreign Investment Promoticon				
-Investor Service Centers				

Investment Services (FE)	1,552.3	0.0	1,552.3	

INSTITUTIONAL STRENGTHENING/POLICY DIALOGUE	140.0	1,825.0	1,965.0	3,333.0

Pre-establishment expenses FE (IESC)	0.0	175.0	175.0	0.0
Furniture & Equipments (FE)	90.0	0.0	90.0	0.0
Financial Sustainability FE (Tech.Assist.)	50.0		50.0	0.0
Operating Expenses (FE)		1,450.0	1,450.0	3,333.0
Policy Dialogue (FE)		200.0	200.0	0.0

EVALUATIONS AND AUDITS	140.0	90.0	230.0	0.0

Environmental Studies		30.0	30.0	
Technical Evaluations	140.0		140.0	
Audit		60.0	60.0	

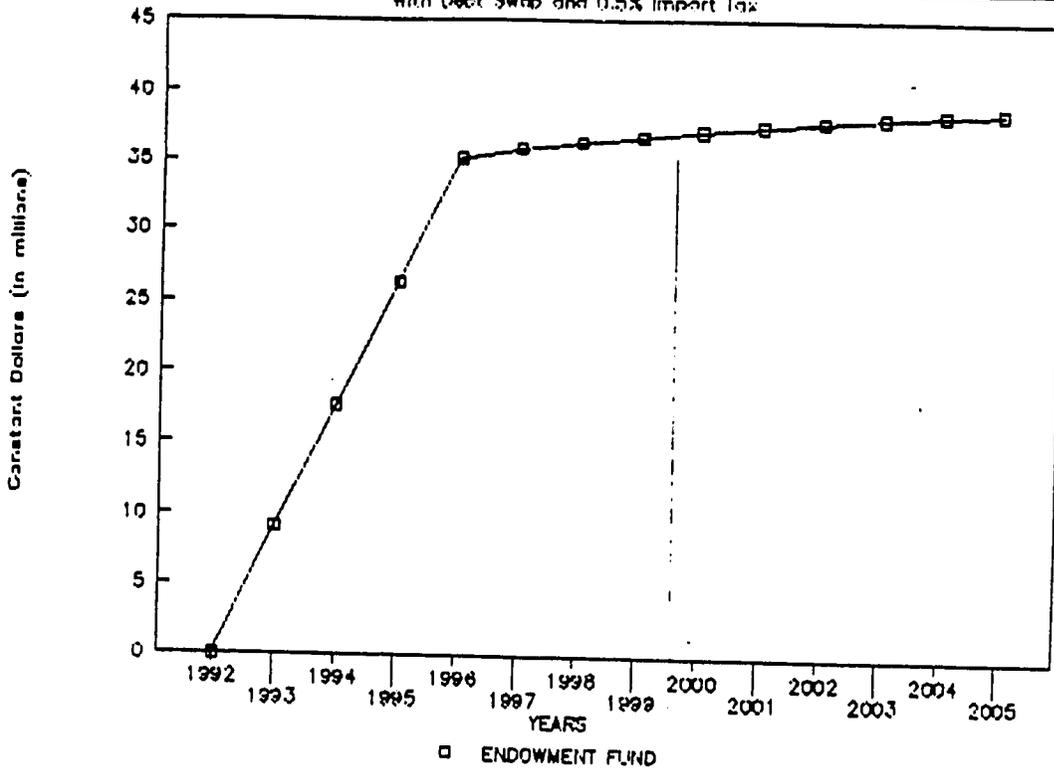
GRAND TOTAL	7,204.5	2,795.5	10,000.0	3,778.0

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FUNDACION ECUADOR

GRAPH No. 1

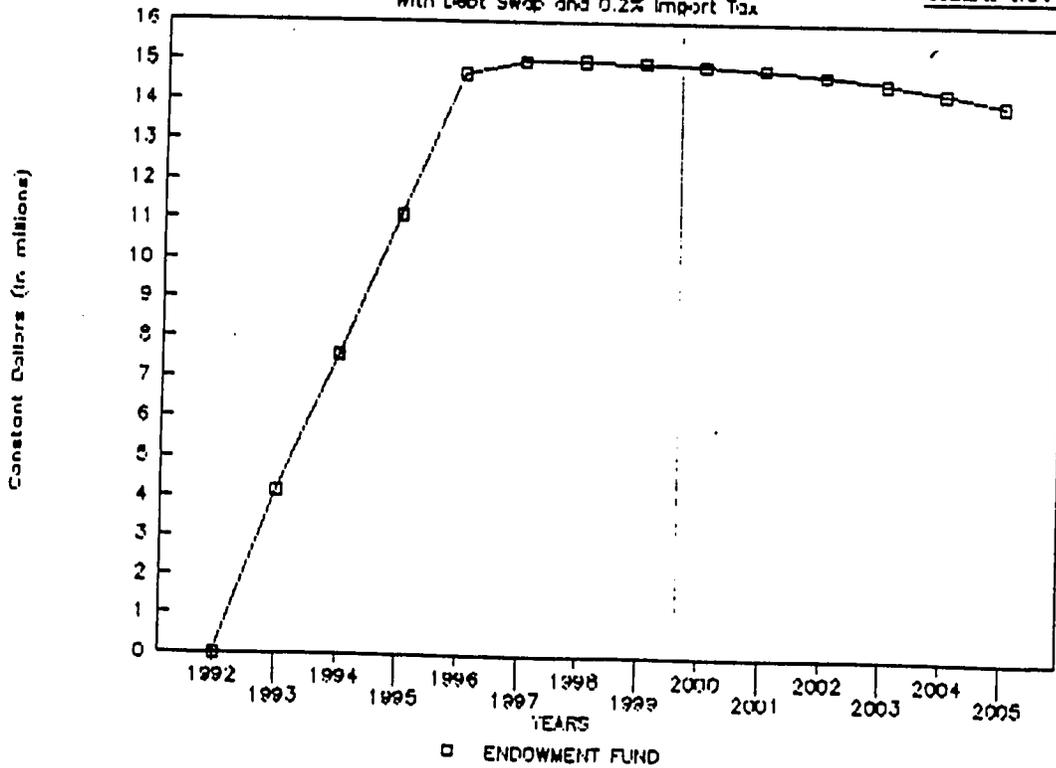
With Debt Swap and 0.5% Import Tax



FUNDACION ECUADOR

GRAPH No. 2

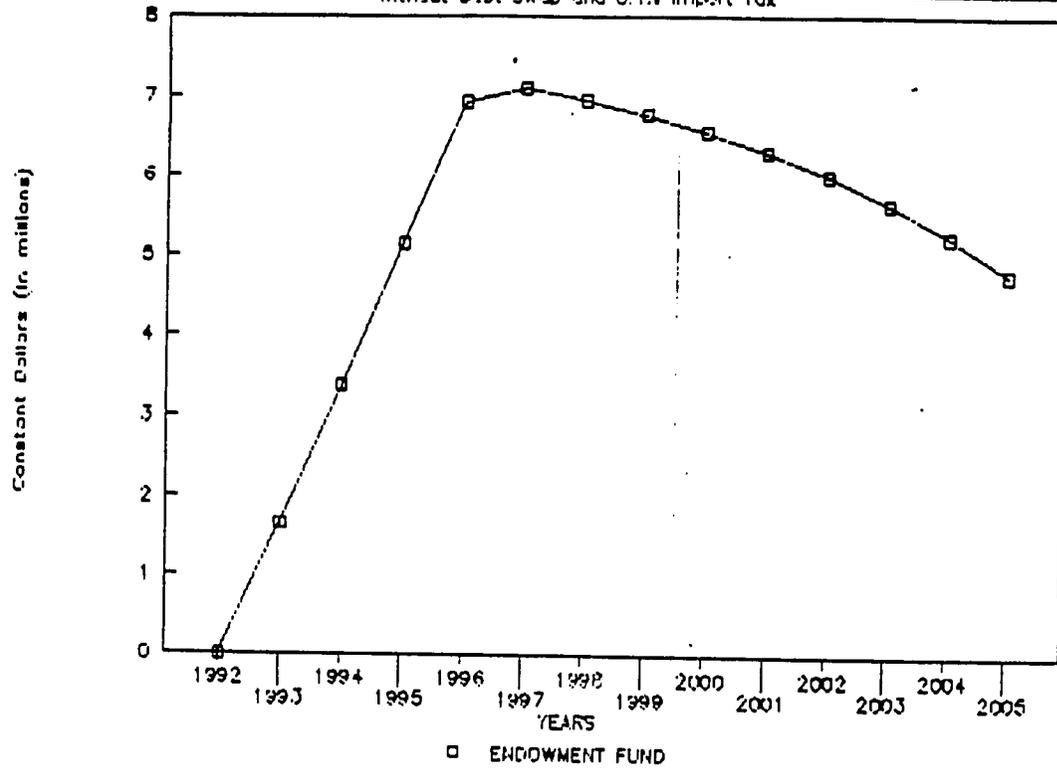
With Debt Swap and 0.2% Import Tax



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FUNDACION ECUADOR
Without Debt Swap and 0.1% Import Tax

GRAPH No. 3



FUNDACION ECUADOR
With Debt Swap and No Import Tax

GRAPH No. 4

